www.dynamicpapers.com

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/22**

Paper 2 Data Response and Essay (Core) **May/June 2016**

MARK SCHEME

Maximum Mark: 40

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2016 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is the registered trademark of Cambridge International Examinations.

© UCLES 2016

www.dynamicpapers.com

Data Response

1 (a) What happened to the balance on Turkey's current account between 2012 and 2013? [2]

Recognition of deficit in both years (1 mark) and this has increased or worsened (1 mark)

No calculation needed although the figures can be used to illustrate the growing deficit.

If the candidate produces a calculation that has a negative figure for the balance but there is no clear recognition that this is a deficit, then no marks.

(b) Use a production possibility curve diagram to show the intended outcome of the structural reforms in Turkey. [2]

For a diagram showing a movement of a ppc outward from the origin (Up to 2 marks)

Shift outward of the curve (1 mark)

Appropriate axes that show that suggest that a ppc represents choice in production e.g. consumer or capital goods, guns or butter, good A or good B (1 mark)

The wording of the question means that an accompanying explanation is not required. An explanation could make it clear however that the candidate understands what a ppc represents. So an explanation could be awarded a mark if the candidate has not been awarded the second mark for appropriate axes.

No diagram, no marks

(c) With the help of a demand and supply diagram, show how the expected change in US interest rates was likely to cause the US dollar 'to continue to rise'. [2]

The demand for US$ on the foreign exchange market is likely to increase as foreign investors seek dollars to deposit in US banks as the returns rise. In addition, the supply of dollars might fall as those with investment funds in the US decline to move them abroad because of the higher US interest rates.

For an accurate diagram showing the supply and demand for the US$ in the foreign exchange market and a shift in the demand curve to the right or a shift in the supply of the US$ to the left and the resulting appreciation of the dollar. (1 mark)

For a brief explanation of one underlying cause of an increased demand for or reduced supply of US dollars on the foreign exchange market based upon the higher return on investment funds in the US (1 mark)

No diagram, 1 mark maximum

© Cambridge International Examinations 2016

(d) Consider whether the outcome of the interest rate changes in the US was likely to be 'harmful for Turkey's economy'. [4]

The rise in interest rates in the US and the rise in the US dollar might be harmful for Turkey's economy for a number of reasons. There might be an outflow of investment funds from Turkey to the US creating a deficit on Turkey's Financial Account of the Balance of Payments. In addition, the rise in the US dollar would affect the price of Turkey's exports to and imports from the US affecting the current account. This might create a deficit on the current account. In addition, there might be an impact upon employment and the rate of inflation in Turkey. It could be argued however that the rise in interest rates in the US would have a beneficial effect upon Turkey's economy. The rise in interest rates in the US and the appreciation of the dollar would mean that Turkey's exports to the US are cheaper and Turkey's imports from the US are more expensive. If the Marshall-Lerner condition is satisfied this will lead to an improvement in Turkey's balance of payments on current account and possibly a fall in unemployment in Turkey.

For explaining potential harmful effects on Turkey of the interest rate changes. (Up to 3 marks)

For explaining potential beneficial effects on Turkey of the interest rate changes. (Up to 3 marks)

3 marks maximum

For evaluative comment (on whether the explained effect would in fact be harmful or beneficial. (1 mark)

(e) Explain two factors that determine how the increase in consumer prices between 2013 and 2014 shown in Figure 1 might affect the total value of Turkey's exports. [4]

This question requires an explanation of the factors that determine the outcome, not an explanation of how an increase in consumer prices will affect exports.

A range of factors might be explained. One factor, for example is the price elasticity of demand for Turkey's exports. If the demand is price inelastic then the total value of Turkey's exports will rise. If the demand is price elastic then the total value will fall. The demand is likely to become more elastic in the long run. A second factor is the Turkey's rate of inflation compared to the rate of inflation of Turkey's competitors in international trade. Although Turkey's rate of inflation has increased in 2014 compared to 2013, whether this makes Turkey's goods and services uncompetitive in international trade depends upon the rate of inflation of Turkey's competitors. Other factors include whether there have been off-setting changes in Turkey's exchange rate and whether the rate of inflation has affected both the prices of internationally traded goods or goods that Turkey consumes domestically.

For explanation of any one factor that determines how an increase in consumer prices will affect exports. (Up to 3 marks)

4 marks maximum

© Cambridge International Examinations 2016

(f) Discuss how 'tight fiscal policy' could be expected to help Turkey achieve the first priority of the MTP, and consider how effective this is likely to be. [6]

The term 'tight fiscal policy' refers to policies that aim for a budget surplus or a reduction in the budget deficit through either tax rises and/or government spending cuts. The first priority of the MTP is solving the problem of inflation. A tight fiscal policy will do this through a reduction in spending on consumption and investment that will reduce aggregate demand.

The effectiveness of the policy depends upon factors such as the ability of the Turkish government to implement the policy and whether there are other factors that cause inflation such as cost-push pressures.

For understanding of 'fiscal policy' (1 mark)

For an example of what is meant by a 'tight fiscal policy' e.g. an increase in taxation or a decrease in government expenditure or a budget surplus or reduced budget deficit (1 mark)

For a clear explanation of the way in which a tight fiscal policy might control inflation. (Up to 3 marks)

For evaluative judgement on how effective a tight fiscal policy is likely to be. (Up to 2 marks)

6 marks maximum

© Cambridge International Examinations 2016

Essays

2 (a) **Use examples to illustrate the difference between private goods and public goods and explain why only private goods will be supplied in a free market economy. [8]**

For knowledge and understanding of the characteristics of private goods with examples and application to show why they will be supplied in a free economy. (4)

For knowledge and understanding of the characteristics of public goods with examples and application to show why they will not be supplied in a free economy. (4)

(b) **'The factor enterprise and the free working of the price mechanism always ensure a satisfactory outcome for consumers even when imperfect information exists.' Discuss this view. [12]**

Please note that the new syllabus does not require candidates to have knowledge of the technical framework formerly used to analyse merit and demerit goods. Analysis of these concepts now focuses upon 'imperfect information'. Reference to private and social costs and benefits can be credited here, but is not necessary for full marks.

For analysis showing how the price mechanism and the factor enterprise respond to signals from consumers to allocate resources in line with consumer preferences. (up to 2 marks)

and the impact of imperfect information in terms of merit goods (up to 4 marks)

and demerit goods. (up to 4 marks)

8 maximum

For evaluative comment on whether this will always result in better outcomes. (4)

3 (a) **Explain the meaning of price elasticity of demand and, using examples, outline the factors that would cause the demand for a good to be relatively price elastic. [8]**

For knowledge and understanding of price elasticity of demand and the meaning of 'price elastic'. (4)

For a clear definition of what is meant by price elasticity of demand or an accurate formula (Up to 2 marks)

For elaboration that explains why a coefficient that is greater than one is considered 'elastic' i.e. the % change in quantity is greater than the % change in price. (Up to 2 marks)

For application in terms of the factors that cause a good to be price elastic. (4)

For example, the proportion of income, the availability of substitutes etc. (Up to 3 marks for each factor explained)

4 marks maximum

© Cambridge International Examinations 2016

(b) Discuss why entrepreneurs might want to change the price elasticity demand for their product and consider the extent to which this is achievable. [12]

For analysis explaining the motives for changing the price elasticity of a good. This should include the reason for making a good more elastic (Up to 4 marks)

and more inelastic (Up to 4 marks)

Up to 6 marks maximum

For analysis explaining how the change in elasticity might be achieved (Up to 4 marks)

8 marks maximum

For evaluative comment on whether this is achievable. (4)

4 (a) Using examples, explain the instruments of monetary policy and supply-side policy. [8]

Monetary policy refers to changes in the money supply, interest rates and the exchange rate. It also includes changes to credit regulation. An increase in the money supply and a fall in the rate of interest for example might be used to stimulate the economy and bring unemployment down.

Supply side policy refers to any policy that attempts to increase the aggregate supply of goods and services to an economy. There are many instruments of supply side policy such as reductions in tax rates to increase the supply of factors of production, schemes to improve the training of labour to enhance skills and re-location grants to improve the geographic mobility of labour. There is a wide range of other instruments.

Please note that supply-side policy has been expanded on the new syllabus.

For knowledge and understanding of the instruments of monetary policy (up to 2 marks)

and application with an example of how these instruments might be used in an economy (up to 2 marks)

4 maximum

For knowledge and understanding of the instruments of supply-side policy (up to 2 marks)

and application with an example of how these instruments might be used in an economy (up to 2 marks)

4 maximum

© Cambridge International Examinations 2016

(b) Discuss the advantages and disadvantages of supply-side policy and consider its effectiveness in an economy that is facing a labour shortage. [12]

Supply-side policy works through achieving increases in aggregate supply. The advantages include the fact that non-inflationary growth can be achieved together with improvements in the productivity of the factors of production. The disadvantages include the opportunity cost of the funds needed to improve the supply–side and the fact that many improvements take a long time to take effect.

For <u>analysis</u> showing how supply side policy might be used to solve a labour shortage (up to 6 marks)

For the advantages of supply-side policy (up to 4 marks)
and disadvantages of supply-side policy (up to 4 marks)

6 marks maximum

8 marks maximum for analysis

For <u>evaluative comment</u> on 'effectiveness' in an economy facing a labour shortage. (4)