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ECONOMICS

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Paper 2 Data Response and Essay

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MARK SCHEME

Maximum Mark: 60

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 International will not enter into discussions about these mark schemes.

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This document consists of **21** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

- a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
- b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
- c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require n reasons (e.g. State two reasons ...).
- d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
- e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
- f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
- g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Assessment objectives**AO1 Knowledge and understanding**

- Show knowledge of syllabus content, recalling facts, formulae and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical and diagrammatic forms.

AO2 Analysis

- Examine economic issues and relationships, using relevant economic concepts, theories and information.
- Select, interpret and organise economic information in written, numerical and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

AO3 Evaluation

- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions and decisions, based on the arguments.

Table A: AO1 Knowledge and understanding and AO2 Analysis

Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2(b), 3(b), 4(b) and 5(b)**.

Level	Description	Marks
3	<ul style="list-style-type: none"> A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. Responses are well-organised, well-focused and presented in a logical and coherent manner. 	6–8
2	<ul style="list-style-type: none"> Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. The response addresses the general theme of the question and the relevant economic issues, with limited development. Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. Responses are generally logical and coherent but are sometimes lacking in focus or organisation. 	3–5
1	<ul style="list-style-type: none"> A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. The response has little relevance to the question. Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. Responses show limited organisation of economic ideas. 	1–2
0	No creditable response.	0

Table B: AO3 Evaluation

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2(b), 3(b), 4(b) and 5(b)**.

Level	Description	Marks
2	<ul style="list-style-type: none"> Provides a justified conclusion or judgement that addresses the specific requirements of the question. Makes developed, reasoned and well-supported evaluative comment(s). 	3–4
1	<ul style="list-style-type: none"> Provides a vague or general conclusion or judgement in relation to the question. Makes simple evaluative comment(s) with no development and little supporting evidence. 	1–2
0	No creditable response.	0

Section A

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)	<p>Compare the government budget balance of Nigeria in 2016 with the government budget balance in 2020</p> <p>Between 2016 and 2020 the budget deficit (1) increased (1)</p> <p>Guidance:</p> <ul style="list-style-type: none"> • Must refer to the fact that the budget is in deficit both years • Do not accept e.g. 'became worse' 	2
1(b)	<p>Using a production possibility curve (PPC) diagram, demonstrate the impact of the rising level of unemployment on the Nigerian economy</p> <ul style="list-style-type: none"> • For a fully accurately labelled PPC diagram i.e., axes labelled as 2 products and curve touching both (1) • Showing a movement to the left within the curve or from the curve to a position within the curve (1) 	2
1(c)	<p>Consider the extent to which the removal of fuel subsidies in Nigeria would lead to an increase in inflation.</p> <ul style="list-style-type: none"> • For an explanation of why the removal of subsidies is likely to lead to an increase in the price of fuel e.g., by increasing the cost of producing and / or supplying fuel or by shifting the supply curve to the left to its original position. (1) • For an explanation of why this is likely to lead to an increase in inflation / a rise in the price level e.g., fuel will have a high weighting in the measurement of inflation / PED is likely to be inelastic/ it is an important cost of production that affects the price of many other products / it may lead to cost-push inflation. (1) • For an explanation of why this may lead to continuing inflation e.g., as price rises, wage demands fuel further inflation / may lead to an increase in the price level for a much wider range of products. (1) <p>For some evaluation of the overall impact e.g., the inflationary impact may be offset by the fact that: (1)</p> <ul style="list-style-type: none"> • there is a reduction in other costs/prices OR • PED may in fact be elastic leading to a fall in demand and therefore prices rise but at a lower rate OR • It also may depend on the size of the original subsidy. <p>Accept any other valid reason why the inflationary impact may be offset.</p>	4

Question	Answer	Marks
1(d)	<p>Assess whether using supply-side policy is the best way to diversify the Nigerian economy away from its dependence on oil and natural gas exports.</p> <p>Up to 4 marks for the explanation/analysis: of any valid supply-side policy to diversify the economy which may include:</p> <ul style="list-style-type: none"> • Training and education • Government support to business e.g., assistance in setting up • Improved infrastructure • Research and development • Deregulation. <p>For an explanation of the strengths and weaknesses with no explicit or clear implicit reference to how the chosen policy(ies) may help diversify the Nigerian economy away from its dependence on oil and natural gas exports then (maximum 1 mark overall)</p> <p>For analysis that clearly explains the strengths of the chosen policy(ies) in helping to diversify the Nigerian economy away from its dependence on oil and natural gas exports. (Up to 2 marks)</p> <p>For analysis that clearly explains the weaknesses of the chosen policy(ies) in helping to diversify the Nigerian economy away from its dependence on oil and natural gas exports. (Up to 2 marks)</p> <p>Up to 2 marks for evaluation:</p> <ul style="list-style-type: none"> • Which must (weigh up) assess the analysis of the relative strengths / advantages and weaknesses / disadvantages of the policy/ policies in diversifying the Nigerian economy away from an overdependence on oil and natural gas exports. • Supply-side policy may also be judged against an alternative policy e.g., protection of infant industries. • Reaches an overall and justified conclusion as to whether supply-side policy is the best way in the context of the Nigerian economy (reserve 1 mark) 	6

Question	Answer	Marks
1(e)	<p>Assess whether adjusting the collection of direct tax or indirect tax is likely to be more effective in increasing the tax revenue collected by the Nigerian government.</p> <p>Up to 4 marks for the explanation/analysis:</p> <ul style="list-style-type: none"> For a simple assessment of the strengths and weaknesses of different methods of collecting direct and indirect tax with no explicit link to their effectiveness in increasing the tax revenue collected by the Nigerian government then (maximum of 1 mark overall) One method of adjusting direct tax may be to introduce a more progressive income tax. Analysis should consider the advantages and disadvantages of this in raising more domestic tax revenue. (Up to 3 marks maximum; but 1 mark maximum if only advantages or disadvantages are analysed.) One method of adjusting indirect tax may be to further increase the rate of VAT higher than the rate of 7.5% mentioned in extract 2. Analysis should consider the advantages and disadvantages of doing this in raising more domestic tax revenue. (Up to 3 marks maximum; but 1 mark maximum if only advantages or disadvantages are analysed.) <p>A maximum of 3 marks if only one type of tax is analysed.</p> <p>Issues to consider for both the above may include:</p> <ul style="list-style-type: none"> Fairness and equality The amount that may be raised Costs of ensuring compliance etc. <p>Up to 2 marks for evaluation:</p> <ul style="list-style-type: none"> Which must compare and weigh up the likely effectiveness of both types of tax in raising tax revenue with consideration of the problems faced by the Nigerian government in increasing the amount of tax revenue raised. Reaches an overall conclusion as to which type of tax is likely to be the most effective. 	6

Section B

Question	Answer	Marks
EITHER		
2(a)	<p>With the help of a diagram(s), explain what is meant by consumer surplus and producer surplus and consider whether a rise in the price of a product because of higher costs of production is likely to always reduce the consumer surplus.</p> <p>Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.</p> <p>AO1 Knowledge and Understanding (max 3 marks) For a clear understanding of consumer surplus i.e., the difference between the price a consumer is willing to pay for a product and its market price (1). For a clear understanding of producer surplus i.e., the difference between the price a producer is willing to accept and what is actually paid (1). Both clearly shown on an accurately labelled diagram (s) (1)</p> <p>AO2 Analysis (max 3 marks) An accurately labelled diagram(s) showing a shift to the left in the supply curve (1) which explains and shows the extent of the change in consumer surplus for a product with an elastic price elasticity of demand (1) compared to a product with an inelastic price elasticity of demand (1)</p> <p>AO3 Evaluation (max 2 marks) Following suitable analysis of PED, it can be concluded that the overall impact is that consumer surplus will always fall (1) with a conclusion that the extent of the fall is dependent on the value of the price elasticity of demand (1).</p>	8
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
2(b)	<p>A government wishes to keep the price of an essential food, such as rice, affordable to help low-income households.</p> <p>Assess whether a policy of fixing the maximum price for an essential food is likely to be more effective than a policy of making transfer payments to low-income households.</p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 8 marks. AO3 out of 4 marks.</p> <p>Indicative content Responses may include:</p> <p>AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)</p> <p>The advantages and disadvantages of using a maximum pricing policy may include:</p> <ul style="list-style-type: none"> • If the price is set below the equilibrium price and quantity, then it will make e.g., rice more affordable. • This will help low-income consumers and improve their living standards and improve their health BUT • It will create a shortage and informal markets may arise. • Governments may have to increase their spending to enforce the legislation. • Rich and poor households gain equally. <p>Transfer payments may include:</p> <ul style="list-style-type: none"> • Unemployment benefits • Pensions • Food vouchers etc. <p>The advantages and disadvantages include:</p> <ul style="list-style-type: none"> • They can be targeted at those most in need. • They can be targeted at the purchase of basic foodstuffs BUT • May be costly and have an opportunity cost. • The policies may not be used for their intended purposes (even vouchers may be sold in illegal markets) <p>A one-sided response can only gain a maximum of Level 2.</p> <p>AO3 Evaluation (max 4 marks)</p> <ul style="list-style-type: none"> • Consideration of the relative effectiveness of a maximum pricing policy compared with the use of transfer payments. • Consider the impact on low-income consumers of basic foodstuffs • In conclusion, which policy is most likely to be effective in helping low-income consumers. <p>Accept all valid responses.</p> <p>A one-sided response cannot gain any marks for evaluation.</p>	12

Question	Answer	Marks
2(b)	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
3(a)	<p>With the help of a diagram(s), explain what is meant by equilibrium in a market, and consider the extent to which the equilibrium price and equilibrium quantity are likely to change for a product following an increase in the wages for labour across the whole economy.</p> <p>Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.</p> <p>AO1 Knowledge and Understanding (max 3 marks) The equilibrium point is where the quantity demanded equals the quantity supplied (1) and there is no tendency to change in a market (1) with an accurately labelled diagram showing the equilibrium price and equilibrium quantity (1)</p> <p>AO2 Analysis (max 3 marks)</p> <p>Note: there are two possible approaches to answering this question. If both the approach focused on demand-side (inferior and normal goods) and the supply-side approach are attempted, then only the best response should be marked including marks for evaluation.</p> <p>EITHER: The demand curve will be expected to shift in this situation. Whether it shifts to the left or to the right will depend on the nature of the product and will shift to the left if it is an inferior good or to the right if it is a normal good. This should be the basis of the discussion.</p> <p>For an accurately labelled diagram demonstrating at least one of the appropriate shift(s) in the demand curve i.e., to the right and / or the left (1) that clearly shows the change in the equilibrium price and the equilibrium quantity for both a normal and inferior good (1) and is accompanied by a clear explanation of both shifts (1)</p> <p>If only one shift (normal or inferior goods) is explained, then a maximum of 2 marks.</p> <p>Note: it is acceptable to use the same diagram for both knowledge and understanding and analysis</p> <p>OR: The supply curve will be expected to shift to the left in this situation.</p> <p>For a fully accurately labelled diagram that is clearly micro based and focused on the impact on a single product (1) that is used to clearly explain the resulting change in the price depending on whether demand is price elastic or price inelastic (1) and quantity supplied (depending on whether supply is price elastic or price inelastic/use of buffer stocks/ effect of improved productivity) (1)</p>	8

Question	Answer	Marks
3(a)	AO3 Evaluation (max 2 marks) EITHER: The extent of the change will be determined by whether the good is a normal good or an inferior good / the value of PED / the value of YED / the value of PES / the size of the actual change in income. A discussion focused on the extent of change (1) followed by a justified conclusion (1) OR: The extent of the change will depend on the importance of wage costs to an individual firm / the significance of PES (1) A discussion focused on the extent of change followed by a justified conclusion (1)	
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
3(b)	<p>Entrepreneurs are vital in a modern economy to achieve long run economic growth.</p> <p>Assess whether encouraging entrepreneurship or increasing another of the factors of production will be a more effective way to achieve long run economic growth.</p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 8 marks. AO3 out of 4 marks.</p> <p>Indicative content</p> <p>Responses may include:</p> <p>AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)</p> <p>The advantages of encouraging entrepreneurship include:</p> <ul style="list-style-type: none"> • The fact that entrepreneurs are the ones who organise the other three factors of production to produce output in an economy. • They are the ones who take risks and in return receive profit which is the motivation to be successful and so stimulate economic growth. • The fact that entrepreneurs must be creative and innovative to succeed and therefore should have the skills to anticipate current and future needs to be successful and therefore increase the productive potential of an economy and thus stimulate long run economic growth e.g., as measured by a shift to the right of the PPC. • Modern economies are dynamic, ever changing and the need to respond quickly to changes is one that can be met by successful entrepreneurs. <p>BUT</p> <ul style="list-style-type: none"> • There may be a cost in training and educating future entrepreneurs. • The rate of success of a policy to increase entrepreneurship may be low • The success depends on other factors such as the availability of government subsidies etc. which have an opportunity cost as well as the availability and quality of the other factors of production, • Because of high risks, entrepreneurs may seek short run gain which may not encourage long run economic growth and may in fact make it less likely e.g., due to rapid depletion of scarce resources. <p>These should be compared with the likely importance and the advantage(s) and disadvantage(s) of increasing one other factor of production i.e., land OR labour OR capital. This may include an assessment of the availability of other factors of production.</p> <p>A one-sided response can only gain a maximum of Level 2.</p>	12

Question	Answer	Marks
3(b)	AO3 Evaluation (max 4 marks) <ul style="list-style-type: none"> Consideration of the likely importance of increasing entrepreneurship compared to increasing one other factor of production to increase long run economic growth in a modern economy. In conclusion, which factor of production is likely to be the most important. <p>Accept all valid responses.</p> <p>A one-sided response cannot gain any marks for evaluation.</p>	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

Question	Answer	Marks
EITHER		
4(a)	<p>Two countries each produce two products and wish to trade with each other.</p> <p>Explain the difference between the principles of absolute advantage and comparative advantage and consider whether the principle of comparative advantage is always the more important influence when each country is deciding whether to trade with each other.</p> <p>Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.</p> <p>AO1 Knowledge and Understanding (max 3 marks) Absolute advantage is a situation where, for a given set of resources, one country can produce more of a certain product than another country (1) comparative advantage exists where one country can produce a certain product at a lower opportunity cost than another country (1) plus a simple explanation that one country may have an absolute advantage in both products but the other country may have a lower opportunity cost in producing one of the products (1)</p> <p>AO2 Analysis (max 3 marks) The analysis should consider the advantages and disadvantages of using the principle of comparative advantage in deciding whether to trade or not. Maximum of 2 marks for an analysis that only considers the advantages and a maximum of 2 marks for an analysis that only considers the disadvantages.</p> <p>Points to consider include (N.B. this list is not exhaustive so allow any reasoned points):</p> <ul style="list-style-type: none"> • The benefits of specialisation leading to a more efficient allocation of resources • An increase in world output • An increase in employment and living standards BUT • May exhaust finite natural resources due to over specialisation. • Strategic industry argument • Exchange rate may not lie between the opportunity cost ratios. <p>Guidance:</p> <p>For AO1 and AO2, it is not expected that tables / numeric examples are used. However, they are acceptable provided they are appropriately explained.</p>	8

Question	Answer	Marks
4(a)	AO3 Evaluation (max 2 marks) For an answer that clearly compares the advantages and disadvantages of the principle of comparative advantage (1) and uses the analysis to reach a reasoned conclusion as to whether it is always the most important factor to consider (1)	
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
4(b)	<p>Assess whether protectionism is the best way to correct a deficit in the current account of the balance of payments.</p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 8 marks. AO3 out of 4 marks.</p> <p>Indicative content</p> <p>Responses may include:</p> <p>AO1 Knowledge and understanding and AO2 Analysis (max 8 marks)</p> <p>Protectionism can include the use of:</p> <ul style="list-style-type: none"> • Tariffs • Embargoes • Export subsidies etc. <p>Analysis should consider the advantages and disadvantages of such a policy e.g.</p> <ul style="list-style-type: none"> • Possible retaliation • Possible long-term reliance on such measures that may reduce future competitiveness etc. <p>Analysis should also compare this policy with the advantages and disadvantages of another policy e.g., supply side policy, fiscal or monetary policy which may include:</p> <ul style="list-style-type: none"> • Training and education to improve productivity. • Investment in better infrastructure • Incentives to entrepreneurs etc. • Expenditure dampening. • Encouragement of a depreciation in the exchange rate. <p>A one-sided response can only gain a maximum of Level 2.</p> <p>AO3 Evaluation (max 4 marks)</p> <ul style="list-style-type: none"> • Consideration of the relative effectiveness of the policies in correcting a deficit in the current account of the balance of payments. • A justified conclusion showing which policy is most likely to be successful in correcting a deficit in the current account of the balance of payments. <p>Accept all valid responses.</p> <p>A one-sided response cannot gain any marks for evaluation.</p>	12
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Question	Answer	Marks
OR		
5(a)	<p>Explain the difference between cost-push and demand-pull inflation and consider which is more likely to occur if there is a depreciation in the exchange rate of a country with few natural resources.</p> <p>Follow the point-based marking guidance at the top of this mark scheme and award: up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.</p> <p>AO1 Knowledge and Understanding (max 3 marks) Cost push inflation is inflation caused by increases in the costs of production (1). Demand pull inflation is caused by increases in AD not matched by equivalent increases in AS (1). A clear explanation of the differences between the two (1)</p> <p>AO2 Analysis (max 3 marks) A depreciation in the exchange rate will lead to a fall in the price of exports for the trading partner and a rise in the price of imports for the country in question. This should be analysed with reference to the impact on the different types of inflation.</p> <p>Maximum of 2 marks if only demand-pull inflation is considered and should focus on the impact of the fall in price of exports and the rise in the price of imports and the possible impact on the X -M component of AD and therefore the impact on AD overall. Reference may be made to the PED of exports and the PED of imports.</p> <p>Maximum of 2 marks if only cost push inflation is considered. Reference must be made to the importance of imports (1) and the fact that this country has few natural resources which probably means they must be imported for the 2nd mark.</p> <p>AO3 Evaluation (max 2 marks) For an answer that clearly considers the fact that this country has few natural resources (1) to come to a justified conclusion as to which type of inflation is most likely to be the outcome for a country with few natural resources (1)</p>	8
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
5(b)	<p>Assess whether monetary policy is the only way to control a high rate of inflation.</p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 8 marks. AO3 out of 4 marks.</p> <p>Indicative content</p> <p>Responses may include:</p> <p>AO1 Knowledge and understanding and AO2 Analysis (max 8 marks) Explain the advantages and disadvantages of using monetary policy to control high rates of inflation to analyse its effectiveness. Points to consider may include:</p> <ul style="list-style-type: none"> • The use of interest rates to dampen AD. • Reductions in money supply to dampen AD. • The use of credit regulations to influence bank lending BUT • There is also a time lag between implementing interest rate policy and it taking effect. • Other factors other than interest rates may affect consumer spending and offset the impact of a rise in interest rates e.g., consumer confidence, expectations etc. <p>Monetary policy should be compared with the advantages and disadvantages of at least one other appropriate policy e.g., supply side and/or fiscal policy</p> <p>A one-sided response can only gain a maximum of Level 2.</p> <p>AO3 Evaluation (max 4 marks)</p> <ul style="list-style-type: none"> • Consideration of the relative effectiveness monetary policy to control high rates of inflation compared with at least one other appropriate policy. • Although it is not necessary within the analysis / question, reference may be made to the relative effectiveness of these policies in controlling the different types of inflation. • A justified conclusion showing which policy is most likely to be effective in controlling high rates of inflation. <p>A one-sided response cannot gain any marks for evaluation.</p> <p>Accept all valid responses.</p>	12
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4