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ECONOMICS **9708/22**

Paper 2 Data Response and Essay **October/November 2017**

MARK SCHEME

Maximum Mark: 40

Published

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Question	Answer	Marks	Guidance
1(a)	2010 to June 2013 **(1 mark)** June 2015 to December 2015 **(1 mark)**	**2**	Allow benefit of doubt to those candidates who identify the dates when prices have fallen e.g. June 2013 even if it is not clear that they understand that prices have fallen over a period.
1(b)	For identification of a relevant category of spending **(1 mark)** and for an accompanying explanation that oil is a component of this category of spending and this has contributed to the falling prices of the chosen category shown in the data. **(1 mark)**	**2**	The two categories of spending that could be used are 'Fuel, Light and Water Charges' and 'Transport and Communication'. Reference to either could gain the marks available if explained. Both have oil as components and 'tumbling oil prices' have reduced both categories of spending and contributed to downward pressure on prices.
1(c)	For identifying 'Food' as the category that has the greatest impact upon real incomes **(1 mark)** because this category has the highest weight attached **(1 mark)** and together with the price change **(1 mark)** will lead to a decrease real incomes **(1 mark)** **(4 maximum)** Allow credit for the argument that 'Fuel, Light and Water' shows the biggest fall in price **(1 mark)** and that this will increase real incomes **(1 mark).** **(2 maximum)**	**4**	'Real income' is money income adjusted for price changes. It expresses how many goods and services that a given money income can buy. The impact of price changes on real income is determined by two factors. One is the year on year price change and the other is the weight attached to each category of spending. In terms of the data, "Fuel etc' has the greatest price change, but its weight is much less than 'Food'. 'Food' has the highest year on year price increase and it also has the highest weight attached. When the extent of the price change and the weight attached to the categories of spending are examined it is clear that food price changes have the greatest impact upon real incomes. In order to score full marks it is necessary to provide a full explanation of the reason that this category of spending has the highest impact upon real incomes.

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Question	Answer	Marks	Guidance
1(d)	For an example of what is meant by expansionary monetary policy. One example of expansionary monetary policy is acceptable, for example a cut in interest rates. **(1 mark)** For an **explanation** of how expansionary monetary policy is expected to increase the components of aggregate demand. **Up to 2 marks** (2 max) for **each** component of aggregate demand **(Up to 3 marks)** For evaluative comment upon why expansionary monetary policy may not increase prices **(1 mark)** and with valid reference to the Japanese economy **(1 mark)**. Credit aggregate demand and supply diagrams showing the shift in aggregate demand that illustrate the extent of the price rise. **(Up to 2 marks)**	**6**	Expansionary monetary policy is action taken to increase the money supply, reduce the rate of interest or improve access to credit facilities. It is intended to increase consumption and investment expenditure. In addition, it will lead to a fall in an economy's exchange rate, which will increase net exports. Whether an expansionary monetary policy will cause inflation depends firstly upon how sensitive each category of spending is to the change in monetary aggregates and secondly whether the increased spending can be matched by an increase in aggregate supply. This depends upon the relationship between aggregate demand and aggregate supply. In terms of Japan, whether prices will increase depends upon factors referred to in the data. E.g. weak wage growth, bad weather and low confidence amongst consumers.

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Question	Answer	Marks	Guidance
1(e)	For **explaining** who would lose from a higher rate of inflation **(Up to 4 marks)** For **explaining** who would gain from a higher rate of inflation **(Up to 4 marks)** A list of those who would lose **(1 max)** and those who would gain **(1 max) 2 maximum.** **(5 marks maximum)** **Reserve 1 mark for a conclusion**	**6**	Some would gain and some would lose from a rise in the rate of inflation. For example, those on fixed incomes would lose as would creditors if the rate of interest charged was below the rate of inflation. Businesses would suffer menu costs and consumers would face shoe-leather costs. Exporters would lose competitiveness if the higher rate of inflation exceeds that of competitors in overseas markets. Domestic producers would lose if the higher rate of inflation resulted in a rise in cheaper imports. Those who would gain might include those who are in strong trade unions, creditors, and producers who would enjoy increased profits as prices rise. So from this perspective some would gain and some would lose from a rise in inflation in the Japanese economy. Some might argue however that all would benefit from a healthier Japanese economy with a higher, but still manageable rate of inflation.

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Question	Answer	Marks	Guidance
2(a)	For **Knowledge and Understanding:** For an understanding of what income elasticity measures without a formula or with an inaccurate formula **(1 mark)** For an accurate formula **(2 marks)** **2 marks maximum** For **Application (and knowledge and understanding):** For stating that a normal/luxury good has a positive coefficient **(1 mark)** and explaining why this occurs with reference to the change in income and change in quantity demand. **(1 mark)** **(Up to 2 marks)** For stating that an inferior good has a negative coefficient **(1 mark)** and explaining why this occurs with reference to the change in income and the change in quantity demand. **(1 mark)** **(Up to 2 marks)** For explaining why a necessary good has a low, positive coefficient **or** why a luxury good has a high positive coefficient with reference to the % change in income and % change in quantity demand. **(Up to 2 marks)**	**8**	In order to score well here candidates need a good understanding of the concept of income elasticity of demand. They then need to apply the concept to distinguish between normal, necessary and inferior goods.

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Question	Answer	Marks	Guidance
2(b)	For **Analysis:** That explains how an understanding of price elasticity might benefit producers which might include reference to the strengths and/or weaknesses of this measure. **(Up to 4 marks)** That explains how an understanding of income elasticity might benefit producers which might include reference to the strengths and/or weaknesses of this measure. **(Up to 4 marks)** **8 marks maximum** Credit reference to the production of agricultural goods, but this is not essential for full marks. For **Evaluation:** That exercises some judgement in considering which type of elasticity would be most beneficial for a producer. This must make use of the analysis that is offered. There must be a conclusion for full marks. **4 marks maximum**	**12**	Both price elasticity and income elasticity would be useful for the producer of agricultural goods. Price elasticity would inform a producer of the impact of price changes upon total revenue. Income elasticity would inform the producer of the appropriate goods to produce as incomes change. For example, if incomes are falling the producer might plant agricultural products with negative elasticity. Evaluative comment might comment on the fact that price elasticity would have a more immediate effect whereas income elasticity is of more long-term benefit to producers because it takes time for the new crops to be harvested.

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Question	Answer	Marks	Guidance
3(a)	For **Knowledge and Understanding and Application of a movement along a PPC:** For an accurately labelled diagram **(1 mark)** that shows a movement along a PPC curve representing a change in the composition of output **(1 mark)**. **(Up to 2 marks)** And explaining that this might be **caused** by government direction in a centrally planned economy or through the operation of market forces in a free market economy. **(Up to 2 marks)** **4 marks maximum** For **Knowledge and Understanding and Application of a shift in a PPC** For an accurately labelled diagram that shows a shift in a PPC curve **(1 mark)** and that this means that more (or less) of both goods can be produced **(1 mark)** **(Up to 2 marks)** And explaining that this could be **caused** by a change in the quantity and/or quality of resources or a change in technology. **(Up to 2 marks)** **4 marks maximum**	**8**	Candidates need to provide appropriate diagrams that show the difference between the two changes. They then need to explain that a shift in the curve could be caused by a change in the factors available to an economy or a change in technology. The movement along the curve represents a change in the composition of goods produced. The decision to change this composition could be a result of market forces or through government policy.

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Question	Answer	Marks	Guidance
3(b)	**For Analysis:** That explains how resources are allocated in centrally –planned economies including the strengths and weaknesses of this system. **(Up to 4 marks)** That explains how resources are allocated in free market economies including the strengths and weaknesses of this system. **(Up to 4 marks)** **8 marks maximum** **For Evaluation:** That exercises some judgement in considering which type of economy would have more benefit. This must make use of the analysis that is offered. There must be a conclusion for full marks. **4 marks maximum**	**12**	In a centrally planned economy the price mechanism does not exist. Central and regional planning committees allocate resources. In free market economies resources are allocated by the market mechanism with a very limited role for the government. The weaknesses of each system often lead to the conclusion that the mixed economy is most beneficial.

Question	Answer	Marks	Guidance
4(a)	For **Knowledge and Understanding:** A brief description of the four components is required. 1 mark for each component. **(Up to 4 marks)** For **Application:** Showing how for example inflation in an economy or changes in comparative advantage could cause a deficit. Allow any valid cause. **(Up to 4 marks for any possible cause explained)** **4 marks maximum**	**8**	Candidates need to provide a brief explanation of each component of the current account. There are four components. Balance of goods, services, income (primary) and transfers (secondary). There are a number of possible causes of a deficit. These include inflation in an economy at a rate that exceeds the rate of inflation amongst competitors, shifts in comparative advantage. A decline in the demand for an economy's exports and in some countries remittances might have an influence. The erection of trade barriers might also cause a deficit.

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Question	Answer	Marks	Guidance
4(b)	For **Analysis:** Explaining how expenditure-reducing policies operate to remove a deficit which might include reference to the strengths and weaknesses of this approach. **(Up to 4 marks)** Explaining how expenditure-switching policies operate to remove a deficit which might include reference to the strengths and weaknesses of this approach**.** **(Up to 4 marks)** **8 marks maximum** **For Evaluation:** That exercises some judgement in considering which method is preferable. This must make use of the analysis that is offered. There must be a conclusion for full marks. **4 marks maximum**	**12**	Expenditure reducing policies reduce total spending in an economy. This means that spending on imports will fall. In addition, producers will divert resources to exports if the home market is depressed. Such policies can be exercised through fiscal or monetary policy. These policies can be effective but result in a reduction in employment and output in the economy. Expenditure switching policies shift spending from overseas to domestic products. Methods include tariffs, quotas, export subsides and competitive devaluation. These policies distort market forces and might provoke retaliation and a trade war.

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