Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

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

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 International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

Question	Answer	Marks	Guidance
1(a)(i)	For explaining that a high rate of inflation will reduce the competitiveness of Argentine goods and services **(1 mark)** and the impact of this on the current account of the balance of payments **(1 mark)** leading to an excess supply of peso in the foreign exchange market **(1 mark)** and as a result the peso would fall. Allow credit to those candidates who look at the high rate of inflation on capital flows: the high rate of inflation leads to an outflow of capital **(1 mark),** this leads to an outflow on the financial account **(1 mark)** leading to an excess supply of peso in the foreign exchange market **(1 mark)** and as a result the peso would fall.	**3**	A high rate of inflation in Argentina will reduce the competitiveness of Argentina's goods. Export prices will rise and import prices will fall leading to a decrease in the demand for the Argentine peso and a rise in its supply, leading to downward pressure on the peso in the foreign exchange market.
1(a)(ii)	For a diagram showing excess supply of Argentine peso at the official rate and an increase in demand from government purchase of the surplus. **(1 mark)** for showing the imposition of the official rate above the equilibrium **(1 mark)** for showing the excess supply that this would create **(Up to 2 marks)** For an accompanying explanation that the government purchases the surplus using its foreign exchange reserves **(1 mark)** and as a result the reserves fall **(1 mark).** **(Up to 2 marks)**	**4**	The extract makes it clear that there is an excess supply of pesos in the foreign exchange market. If the Argentine government has a fixed exchange rate policy it needs to purchase surplus pesos and use its foreign exchange reserves.
1(b)	For explaining that there is a shortage of dollars at the official price as a result of demand exceeding supply; the value of the dollar is below equilibrium. In the free market, the price would rise. **(1 mark)** For explaining that the price of the dollar is not allowed to rise in the official market because the price is fixed. **(1 mark)** For explaining that the price will, however, rise in the black (illegal) market. **(1 mark)**	**3**	Fixing the price of the peso means that there is a shortage of dollars in the market. This should drive up the price, but this is not permitted. As a result dollars trade at an unofficial price that is above the official price. This is a black (illegal) market.

Question	Answer	Marks	Guidance
1(c)	For an explanation of the factors that will determine whether inflation will be curbed; this will depend on the extent to which consumption (C) and investment (I) expenditure is sensitive to the change in the interest rate. **(Up to 3 marks)** For an explanation of the factors that will determine whether funds will be attracted into Argentina. **(Up to 3 marks)** **4 marks maximum**	**4**	Whether the rise in the interest rate will curb inflation depends upon whether the components of aggregate demand are sensitive to the higher interest rate. This is an aspect of contractionary monetary policy. Whether funds will be attracted depends upon whether the fears of international investors are allayed. It also depends upon the difference between the Argentine rate and rates in other countries.
1(d)	For an explanation of the advantages of a fixed rate (the disadvantages of a freely floating rate). **(Up to 4 marks)** For an explanation of the disadvantages of a fixed rate (the advantages of a freely floating rate). **(Up to 4 marks)** **5 marks maximum** For a concluding comment on whether on balance a floating rate is better for Argentina. **(1 mark)** **6 marks maximum**	**6**	The advantage of a fixed rate is that it gives confidence to those engaged in international trade. It provides a more stable trading environment. The disadvantage is that trade deficits are not removed automatically. They have to be dealt with by government policy and this may be at the cost of other policy objectives. A freely floating rate has the advantage of a self-adjusting mechanism, but it also has disadvantages.

Question	Answer	Marks	Guidance
2(a)	**For Knowledge and Understanding** For an accurate formula. **(Up to 2 marks)** If a candidate gets the formula wrong, but demonstrates knowledge and understanding of what PES measures, they can get 1 mark. **(1 mark)** For an understanding of the difference between relatively elastic and relatively inelastic**.** **(Up to 2 marks)** **4 marks maximum** **For Application** Showing the influence of each factor. **(Up to 2 marks per factor explained)** **4 marks maximum**	**8**	If a candidate states that elastic is more than 1 and inelastic is less than 1, they can only get 1 mark maximum. For the second mark, they need to explain why these numbers come about, i.e. the relative percentage change is different in each case. Factors that will influence the price elasticity of supply are the availability of stocks whether there are spare factors of production the time period and the nature of the product.
2(b)	**For Analysis:** Explaining the policies that might be adopted to increase the elasticity of supply of an agricultural product. **(Allow up to 4 marks for each policy explained)** **8 marks maximum** **For Evaluation** For exercising some judgement on whether the attempts to increase the elasticity of supply of an agricultural product are likely to be successful. A conclusion must be included. **(Up to 4 marks)** **4 marks maximum**	**12**	Candidates need to consider the factors introduced in part **(a)** and explain how governments can influence them. For example, the government might increase the elasticity of supply of an agricultural product by alleviating labour shortages. They might make provision for stocks to be held that can be drawn upon if prices rise. Reward valid references to supply side policies. Whether these policies are successful depends upon the funds available for training or for accumulating stocks. In the case of some policies, attempts to increase the elasticity could be prevented by a bad harvest. Reward candidates who consider the short run/long run distinction.

Question	Answer	Marks	Guidance
3(a)	**For Knowledge and Understanding** Of the meaning of equilibrium in the market for a good. **(Up to 2 marks)** Of the meaning of disequilibrium in the market for a good. **(Up to 2 marks)** **4 marks maximum** **For Application** With an accurately drawn and accurately labelled diagram **(1 mark)** showing a shift to the left of the supply curve **(1 mark)** and an accompanying explanation of why equilibrium price will rise because there is excess demand at the original equilibrium price **(1 mark)** and equilibrium quantity will fall **(1 mark)** **4 marks maximum**	**8**	Equilibrium exists when there is no tendency to change. In the market for a good this will occur when demand equals supply. Disequilibrium occurs when supply and demand are not equal and price and quantity will be changing. If there is a fall in supply, demand will exceed supply and market forces will force price upwards.

Question	Answer	Marks	Guidance
3(b)	**For Analysis** For an explanation of the impact of an indirect tax upon consumers with due reference to consumer surplus **(Up to 3 marks)** the government with due reference to tax receipts **(Up to 3 marks)** and producers with due reference to producer surplus **(Up to 3 marks)** **8 marks maximum** **For Evaluation** For exercising some judgement on whether the overall effect will be beneficial. A conclusion must be included. **(Up to 4 marks)** **4 marks maximum**	**12**	If an indirect tax is imposed the supply curve of the product will shift to the left. Consumers will have to pay a higher price and may be tempted to enter the black market. The consumer surplus will be reduced. In addition, there will be a change in the tax revenue received by the government. The extent and direction of this change will depend upon the price elasticity of demand of the product. Producers will have to charge higher prices and will face a fall in the quantity sold. The producer surplus will reduce. Whether the arrangement will be overall beneficial depends upon a number of factors such as the nature of the product taxed and how the revenue raised is used. Although a diagram is not asked for in the question, candidates may include one to support their answer. As in **(a)**, it will involve a shift to the left of the supply curve.

Question	Answer	Marks	Guidance
4(a)	**For Knowledge and Understanding (and Application)** Using an accurately labelled PPC showing movement from a point on the curve to a point within the curve **(2 marks)** to explain that this represents a rise in unemployment **(2 marks).** **(Up to 4 marks)** **For Knowledge and Understanding (and Application)** Using an accurately labelled PPC showing a shift outward of the curve **(2 marks)** to explain that this represents a rise in the working population **(2 marks).** **(Up to 4 marks)** **8 marks maximum**	**8**	A rise in unemployment can be shown as a movement from a point on the curve to a point within the curve. An increase in the working population will cause a shift outwards in the curve.
4(b)	**For Analysis** Explaining the causes of an increase in aggregate demand. **(Up to 4 marks for each cause analysed).** To gain full marks, it is necessary for a candidate to analyse at least two causes of an increase in aggregate demand. Credit use of diagrams. **8 marks maximum** **For Evaluation** For exercising some judgement on whether inflation will always occur. A conclusion must be included. **(Up to 4 marks)** **4 marks maximum**	**12**	Candidates need to explain the components of aggregate demand and what might cause each of them to increase causing the aggregate demand to increase. They then need to explain that the impact of an increase depends upon where the aggregate demand and aggregate supply intersect. Some might suggest that an increase in demand will not always cause inflation if aggregate supply increases.