Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/21**

Paper 2 **May/June 2019**

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.

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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.

Question	Answer	Marks	Guidance
1(a)	**Describe, using Fig. 1.1, how the value of the yuan against the US dollar has changed between 2014 and 2017.** There has been a depreciation/fall in value. **(1 mark**) The depreciation was from about 6.0 yuan per US dollar at the beginning of 2014 to about 6.9 yuan per US dollar in 2017. This is a change of 0.9/6.0 = 15%. **(1 mark)**	**2**	Accept an answer between 14% and 16%.
1(b)	**The US President threatened to increase protectionism of the US economy.** **Explain, using a diagram, how one of the methods of protectionism mentioned in the article can work.** **TARIFF** For an explanation of how a tariff can work, stressing that it is a tax/duty on imported goods. **(2 marks)** For a diagram of a tariff. **(2 marks)** (1 mark for PQDS, 1 mark for showing distinction between supply without tariff and supply with tariff). OR **QUOTA** For an explanation of how an import quota can work, stressing that it relates to a limit in terms of the value of imported goods, or the volume of imported goods, or the market share of imported goods **(2 marks)** For a diagram of an import quota. **(2 marks)** (1 mark for PQDS, 1 mark for showing vertical quota line).	**4**	

Question	Answer	Marks	Guidance
1(c)	**Explain two effects of the fall in China's current account surplus for China's economy.** For example: If there is a decline in the demand for exports, resources could be diverted to produce goods for domestic consumption. There could be a reduction in inflationary pressure if there is a fall in aggregate demand. If the fall in the surplus is due to an increase in imports, it could lead to a higher standard of living. A lower demand for exports could lead to an increase in unemployment. There could be a decrease in GDP and economic growth. **(Up to 2 marks for each effect)** **4 marks maximum**	4	A disadvantage of having a persistent current account surplus is that one country's surplus is another country's deficit. The country with the deficit may decide to introduce protectionist methods, potentially damaging the extent of international trade.
1(d)	**Explain two likely reasons why China has opted for a managed float exchange rate system.** For example: The government will still have some influence. The central bank will be able to influence exchange rate by intervention, e.g. buying/selling currencies or by changes in interest rates. Extent of float will be within certain limits. The government will be able to influence an economy through demand management. A managed float will allow an economy to have the best of both worlds (floating/fixed). **(Up to 2 marks for each reason)** **4 marks maximum**	4	A free floating exchange rate system will be self-adjusting, but freely floating exchange rates tend to be rather volatile and unstable. A pegged (fixed) exchange rate system will provide stability and therefore confidence, but the maintenance of this exchange rate could require extensive support through the use of reserves. Some reserves will be needed (US $2 trillion in the case of China), but given that there is limited floating, not as much reserves as in the case of a pegged (fixed) exchange rate system; there is greater stability than in a freely floating system, but not as much as in a pegged (fixed) exchange rate system.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>1(e)</td><td>Discuss who would be the winners and the losers from a ‘trade war’ between the US and China.

Consideration of who would be the winners from a protectionist ‘trade war’ between the US and China. (Up to 3 marks)

Consideration of who would be the losers from a protectionist ‘trade war’ between the US and China. (Up to 3 marks)

5 marks maximum

Reserve 1 mark for a conclusion/evaluative judgement</td><td>6</td><td>The case for a protectionist ‘trade war’:
Infant/sunrise industry argument
Declining/sunset industry argument
Strategic industry argument
Anti-dumping argument
Revenue-raising argument (through tariffs)
To help in the removal/decrease of a BOP deficit

The case against a protectionist ‘trade war’/in favour of free trade:
A higher level of output
Countries can consume outside of their PPCs
Greater efficiency of production</td></tr>
<tr><td>2(a)</td><td>Explain, with the help of diagrams, how (i) constant and (ii) increasing opportunity costs determine the shape of an economy’s production possibility curve.

Knowledge and Understanding:
Explanation of opportunity (1 mark)
Explanation of production possibility curve (1 mark)
(KU: up to 2 marks)

Application:
Explanation of the distinction between constant and increasing opportunity costs:
constant opportunity costs involves a movement from one point on the PPC to another with an equal sacrifice of resources; this will be shown by a straight line PPC Up to 3 marks
increasing opportunity costs involves a movement from one point on the PPC to another where ever increasing amounts of one good will need to be sacrificed to produce more of the other; this will be shown by a curved PPC Up to 3 marks

(APP: Up to 6 marks)</td><td>8</td><td>Constant opportunity costs will lead to a straight line PPC being drawn, whereas increasing opportunity costs will lead to a curved PPC being drawn.</td></tr>
</table>

Question	Answer	Marks	Guidance
2(b)	**Discuss what the most significant issues of transition are that a country will face as it moves from a planned economy to a mixed economy.** **Analysis:** The issues of transition: Inflation Output Employment/Unemployment Industrial unrest International trade Welfare Specialised support markets and services **Allow up to 4 marks for each issue analysed** **(AN: up to 8 marks)** **Evaluation:** For exercising some judgement on the extent to which the issues of transition will make a change from a planned economy to a mixed economy extremely difficult for a country to achieve **Up to 3 marks plus 1 mark for a conclusion.** **(EV: up to 4 marks)**	**12**	The issues of transition: In a planned economy, the state can play a key role in keeping prices stable, but in a mixed economy at least some of the prices are determined by the forces of demand and supply, so there is more price instability and possibly inflation In a planned economy, the state can support relatively inefficient firms and industries, but in a mixed economy, these firms and industries, if inefficient, may not survive and so there may be a fall in output Private sector firms will aim to maximise profits, but this could lead to them laying off some workers, increasing the level of unemployment There may be a greater likelihood of industrial unrest in a mixed economy than in a planned economy Possibly new international trading relationships will need to be established In a planned economy, the state can provide welfare support for everybody; in a mixed economy, there may be a reduction in the level of welfare provision The specialised markets and services that will be required, e.g. banking and legal services, may take a long time to become sufficiently established

Question	Answer	Marks	Guidance
3(a)	**Explain, with the help of a diagram, the disadvantages to consumers of introducing a maximum price in a market for an essential food item.** **Knowledge and Understanding:** **1 mark** for correct diagram: Vertical axis correctly labelled: P/Price; Horizontal axis correctly labelled: Q/Quantity Equilibrium price shown. **1 mark** for maximum price shown below the equilibrium price. **(KU: up to 2 marks)** **Application:** Application to a situation of excess demand. **Up to 2 marks** Explanation of two possible disadvantages to consumers, such as: queuing, black market, rationing or seller preferences. **Up to 2 marks each** **(APP: up to 6 marks)**	**8**	Disadvantages to consumers: A maximum price will lead to a situation of excess demand in the market This could lead to a queue or waiting list A secondary, informal or black market could emerge with prices well above the maximum price

Question	Answer	Marks	Guidance
3(b)	**Discuss whether the advantages of privatising an industry will always outweigh the disadvantages.** **Analysis:** **Up to 4 marks** for analysis of advantages of privatisation **Up to 4 marks** for analysis of disadvantages of privatisation **(AN: up to 8 marks)** **Evaluation:** For exercising some judgement on whether the privatising of an industry will always have a positive effect. This could include a consideration of a positive effect for whom – firms, government, workers and consumers. **Up to 3 marks plus 1 mark for a conclusion** **(EV: up to 4 marks)**	**12**	Advantages of privatising an industry: Efficiency will be improved because of aim of profit maximisation Greater competition gives an incentive to be more productive May increase the number of shareholders, encouraging enterprise culture Greater efficiency could lead to lower prices for customers Disadvantages of privatising an industry: Strive for efficiency could lead to higher unemployment There may not be greater competition; could be a natural monopoly Aim of satisfying shareholders may mean that prices are not reduced

Question	Answer	Marks	Guidance
4(a)	**Explain, with the help of a diagram(s), how changes in aggregate demand and aggregate supply can cause inflation in an economy.** **Knowledge and Understanding:** **1 mark** for diagram showing change in aggregate demand. **1 mark** for diagram showing change in aggregate supply. **(KU: up to 2 marks)** **Application:** **Up to 3 marks** for an explanation in relation to changes in AD and the cause of inflation in an economy. **Up to 3 marks** for an explanation in relation to changes in AS and the cause of inflation in an economy. **(APP: up to 6 marks)**	**8**	Demand-pull inflation: reflationary policies by a government increased consumer spending, e.g. as a result of greater consumer confidence Cost-push inflation: wage increases to employees which are not linked to higher productivity an increase in the cost of imported raw materials, e.g. because of a fall in the value of a currency an increase in input prices, e.g. because of the monopoly power of suppliers or higher energy prices
4(b)	**Discuss whether deflation is more of a problem in an economy than inflation.** **Analysis:** **Up to 4 marks** for analysis of the problems of inflation. **Up to 4 marks** for analysis of the problems of deflation. **(AN: up to 8 marks)** **Evaluation:** For exercising some judgement on whether deflation is more of a problem in an economy than inflation . **Up to 3 marks plus 1 mark for a conclusion** **(EV: up to 4 marks)**	**12**	Problems of inflation: redistribution of income investment planning difficulties for firms uncompetitiveness of exports (depending on relative inflation rates in different countries) menu costs shoe leather costs Problems of deflation: fall in economic activity/output rise in unemployment