Cambridge International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 AS Level Data Response and Essays **May/June 2026**

MARK SCHEME

Maximum Mark: 60

Published

This mark scheme contains the instructions and marking guidance that our examiners used to mark candidate responses for this component.

Before they start marking, examiners complete a standardisation process. They review a range of candidate responses and discuss the mark scheme in detail to agree which answers can and cannot be accepted. Examiners award marks where it is clear that candidate responses have met the requirements of the mark scheme. These requirements may vary between different components or different versions of the same component, depending on the exact requirements of the question and the candidate responses seen during the standardisation process.

Sometimes, our mark schemes may allow marks to be awarded to responses which contain elements that are factually incorrect or for content not covered by the syllabus. We do this in response to the demands of a specific question to support candidates and make sure that our assessments are fair. However, these allowances should not be used as a guide for teaching and learning.

We cannot discuss the mark scheme with schools, and we recommend that schools read the mark scheme together with the assessment material and the Principal Examiner Report for Teachers.

General marking principles

All examiners must apply these marking principles when marking candidate responses.

1	Examiners must award marks for each response in line with: • the specific **content** defined in the mark scheme • the specific **skills** defined in the mark scheme or in the level descriptions • the **standard of response** required as exemplified by the standardisation scripts.
2	Examiners must award **whole marks** (not half marks, or other fractions).
3	Examiners must award marks **positively**. This means that: • marks are not deducted for errors or omissions • marks are awarded for correct/valid answers as defined in the mark scheme and also for **other valid answers** which go beyond the scope of the syllabus and mark scheme referring to your team leader as appropriate • the quality of spelling, punctuation and grammar are judged **only** when the mark scheme indicates that these features are **specifically assessed** in the question. However, the meaning of all responses must be unambiguous.
4	Examiners must **consistently** apply the requirements of the mark scheme and any rules for what to do when candidates have not followed instructions correctly.
5	Examiners must use the **full range of marks** defined in the mark scheme, unless limited by the quality of the candidate responses seen.
6	Examiners must award marks according to the mark scheme and **must not** award marks with grade thresholds or grade descriptions in mind.

Social Sciences-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.

Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotations

Annotation	Meaning
✓	Correct point
✗	Incorrect point
?	Unclear response
^	Key information missing from response
K	Indicates knowledge and understanding of the concepts and issues relating to the question.
AN	Indicates where the answer has demonstrated analysis.
APP	Indicates appropriate reference to the information provided
E	Expansion of point already made in response
EVAL	Indicates where the answer has demonstrated evaluation
EE	Indicates where the answer has demonstrated particularly strong/justified evaluation
L1	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 1 in the Mark Scheme, Table A
L2	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 2 in the Mark Scheme, Table A
L3	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 3 in the Mark Scheme, Table A
BOD	Used when the benefit of the doubt is given in order to reward a response.
NAQ	Used when the answer or parts of the answer do not answer the question asked.

SEEN	Indicates that the page or content has been seen by examiner, but no credit given.
TV	Used when parts of the answer are considered to be too vague to be given credit.

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	• 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	• 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	• 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	• 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	• 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)	**Using the data in Table 1.1, calculate the price elasticity of demand (PED) for nickel between 2022 and the forecast for 2024.** For an answer between 1.9 and 2.3 **(2)** For an answer that shows the correct formula i.e., % change in QD/ % change in P OR correct figures 17.2 (±.0.2) / 8.2 (± 0.2) **without** the correct answer **(1)** **Guidance:** % change in demand is 17.2% and % change in price is 8.2% (N.B., these figures are not required. The coefficient (i.e. the 'minus' sign is not necessary).	**2**
1(b)	**State what this estimate suggests about the PED for nickel and why this estimate might be considered 'highly unusual'.** It shows that the PED value is elastic **(1)** Nickel is an essential item, and the value of PED would be expected to be inelastic (not elastic) **(1)** **Guidance:** answers that refer to the fact that the percentage change in demand is greater than the percentage change in price can be accepted for the first mark, even if not specifically described as elastic. BUT do not accept answers that simply state the PED value is, for example, high or simply repeats the numbers without explicitly referring to the relative magnitudes. **For the second mark,** the answer must refer to the essential nature of nickel <u>and</u> the fact that the value would be expected to be inelastic / % change in demand less than % change in price.	**2**

Question	Answer	Marks
1(c)	**With the help of a demand and supply diagram, explain the effect of a subsidy on the production of nickel in Australia and consider whether the impact will always be as expected.** For a fully accurate/clearly labelled diagram showing a shift to the right of the supply curve **and** the fall in the price of nickel and an increase in the quantity traded **(1).** For an explanation that this may be caused by a fall in the cost of production because of the subsidy **(1).** Which will incentivise further production / increase quantity supplied / reduce the price of nickel / increase exports of nickel from Australia **(1)** **For some evaluation as to whether this will always be the outcome (1 max)** • E.g., producers may use the subsidy to increase profits so prices may not fall or output increase. If PES for nickel is inelastic then production may not increase as expected. If Australian nickel is still more expensive than other countries, exports may not increase. Other costs may rise and offset the effect of the subsidy.	**4**

Question	Answer	Marks
1(d)	**'The Australian government plans a large increase in its spending.'** **Assess the possible effects of a large increase in government spending by the government on the Australian economy.** **Up to 4 marks MAX for analysis** **Up to 3 marks for analysis of the possible positive effects on the Australian economy e.g.:** • Higher government spending increases aggregate demand/shifts the AD curve to the right **(1)** raising real output and reducing unemployment. **(1)** • Expansionary fiscal policy can move the economy towards equilibrium with higher national income. **(1)** • Increased demand may encourage firms to expand output, supporting economic growth (**1)** • A large increase in government spending may lead to an increase in productivity e.g., through education and training and subsidies. **(1)** This may lead to e.g., greater international competitiveness and increased exports etc. **(1)** **(1 mark per relevant explained point / up to 2 for a point developed through a chain of reasoning)** **Up to 3 marks for analysis of the possible negative effects on the Australian economy e.g.:** • A rise in aggregate demand can cause inflation. **(1)** • Higher government spending may increase the budget deficit. **(1)** • This may lead to an increase in general taxation reducing the incentive to work / businesses to invest **(1)** • Higher national income may increase imports, which can worsen the current account of the balance of payments **(1)** **Guidance**: • Do not accept opportunity cost as a counterpoint – the question is clearly asking about the large increase in government spending and not what it is being spent on. For example, the case study does state the additional spending is intended to help other industries as well without specifying which. • Do not accept interest-free loans as a form of government spending. **(1 mark per relevant explained point / up to 2 for a point developed through a chain of reasoning)** **Evaluation:** Up to 2 marks for a relevant assessment of **both** positive and negative effects. **Reserve 1 mark for a justified conclusion clearly in the context of the Australian economy.**	**6**

Question	Answer	Marks
1(e)	**Assess whether the principle of comparative advantage should be the only factor to consider when the Australian government decides whether to support the production of nickel.** **Up to 4 marks MAX for analysis** **Up to 3 marks for analysis of the benefits of applying the principles of comparative advantage for example:** • Comparative advantage shows whether Australia can produce nickel at a lower opportunity cost than other countries **(1)** helping determine if production is efficient **(1)** which can lead to economic growth **(1)** • Specialisation based on comparative advantage can increase total world output / make better use of scarce resources **(1)** • If Australia has a comparative advantage, supporting nickel production may improve export performance and strengthen the current account **(1)** again leading to economic growth **(1)** **(1 mark per relevant explained point / up to 2 for a point developed through a chain of reasoning)** **Up to 3 marks for analysis of the possible negative impact for example:** • Even if Australia lacks comparative advantage, the government may support nickel production for protectionist/strategic reasons such as safeguarding employment in the industry**. (1)** • It may lead to overspecialisation **(1)** which means that other industries are overlooked or the country becomes reliant on other countries for imports **(1).** • Changes in world prices or exchange rates can alter the terms of trade, affecting whether nickel production remains beneficial meaning comparative advantage is less important **(1)** • Supporting nickel production may worsen the current account if inputs are imported or if government support increases spending without improving competitiveness, making comparative advantage less important **(1).** • Even if Australia has comparative advantage, the opportunity cost of providing subsidies, the depletion of natural resources etc., will mean that supporting the nickel industry may not be the best solution **(1).** **Reward any valid suggestions.** **(1 mark per relevant explained point / up to 2 for a point developed through a chain of reasoning).** **Evaluation:** Up to 2 marks for an evaluation of positive **and** negative effects**.** This must consist of a balanced judgement of the benefits and drawbacks of applying the principle of comparative advantage to the decision. **Reserve 1 mark for a justified conclusion clearly in the context of the Australian economy.**	**6**

Section B

Question	Answer	Marks
EITHER		
2(a)	**Explain, using examples, the difference between a public good and a merit good and consider the extent to which an increase in the provision of information on the benefits of a merit good is the best way to increase its consumption** 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. **AO1 Knowledge and Understanding (max 3 marks)** A public good has the characteristics of non-excludability and non-rivalry together with an accurate explanation of both/**OR** explains that these characteristics lead to the free-rider problem which will mean that they are unlikely to be supplied by the market economy as a price cannot be charged **(1).** An explanation that a merit good has the characteristics of rivalry and excludability (however these do not need to be fully explained if the characteristics of public goods have already been established)/ **OR** explains that these characteristics mean that merit goods can be supplied by the market economy because a price can be charged. (explaining how this differs from public goods) **(1).** Accurate examples of both e.g., streetlights and healthcare **(1)** **Guidance**: • Do not accept reference to merit goods being underprovided due to the lack of information as this does not explain the difference between public goods and merit good. • Roads, and other quasi-public goods should **not** be accepted as public goods. **AO2 Analysis (max 3 marks)** Merit goods are under consumed due to information failure / lack of awareness of their benefits **(1).** Therefore, one method of increasing their consumption/demand is for a government to increase the provision of information about their benefits **(1).** **However,** they may still be under-provided (leading to an increase in price leading to problems of affordability) so at least one alternative method should be explained e.g., governments may subsidise them or directly provide them or make use of maximum prices to increase demand / consumption (**1).** **AO3 Evaluation (max 2 marks)** **For a valid evaluation** that provision of information is the best way to increase consumption **Note: the second mark is reserved for a justified conclusion.**	**8**

Question	Answer	Marks
2(a)	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
2(b)	**Assess the extent to which the nature of public goods means that they can only ever be provided in a mixed economy.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** For example: • A mixed economy consists of a market economy with government intervention whereas a market economy has no government intervention/a command economy is one that is fully controlled by the government. • Public goods are non-rival and non-excludable, meaning private firms cannot charge consumers, so they are unlikely to be provided in a market economy. • The free-rider problem prevents private producers from covering costs, making government provision necessary to ensure public goods are available. • A mixed economy allows the government to use taxation to finance public goods, ensuring they are provided at the level society needs. **However** • In lower-income economies, governments may lack the revenue to provide many public goods so provision may depend on international aid. • Voluntary contributions or private organisations e.g., those that are socially motivated can supply certain public-good-type services without government involvement, meaning provision is not limited to a mixed economy. • In a command economy, the government could provide all public goods without any private sector role, showing that a mixed economy is not the only possible system. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies/concepts/arguments etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.	**12**

Question	Answer	Marks
2(b)	**AO3 Evaluation** That considers the extent to which public goods can only be produced in a mixed economy and arrives at a reasoned **and** justified conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td colspan="3">OR</td></tr>
<tr><td rowspan="4">3(a)</td><td>Explain, with the help of a diagram, what is meant by market equilibrium <u>and</u> consider the extent to which changes in the level of consumer income will change the market price for a particular product.

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.

AO1 Knowledge and Understanding (max 3 marks)

• For a fully accurate/correctly labeled diagram clearly showing the equilibrium point and equilibrium price and quantity traded. (1)
• An explanation that it represents the point where the quantity supplied is equal to the quantity demanded/where quantity demanded intersects quantity supplied. (1)
• And there is no tendency to change. (1)

AO2 Analysis (max 3 marks)
• For an explanation that the extent to which the price will change will depend upon the YED (1).
• For an explanation that if the good is a normal good then an increase/decrease in income will lead to an increase/decrease in the demand resulting in an increase/decrease in the price of the good (1).
• For an explanation that if the good is an inferior good then an increase/decrease in income will lead to a fall/rise in demand resulting in a fall/rise in the price of the good (1).

AO3 Evaluation (max 2 marks)
For an evaluation that the change in the market price will depend on whether it is a normal or inferior good and whether incomes rise or fall N.B. the second mark is reserved for a justified conclusion.</td><td>8</td></tr>
<tr><td>AO1 Knowledge and understanding</td><td>3</td></tr>
<tr><td>AO2 Analysis</td><td>3</td></tr>
<tr><td>AO3 Evaluation</td><td>2</td></tr>
</table>

Question	Answer	Marks
3(b)	**Assess the extent to which government intervention to control prices in a market can cause changes in <u>both</u> the amount of quantity demanded and quantity supplied of a product in that market.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** Answers may focus on any of the following policies to control prices, for example: • Maximum and minimum prices • Indirect taxes and subsidies • Buffer stock schemes The discussion must focus on how such interventions cause changes in both the quantity demanded and quantity supplied of a product in that market. For example, • A maximum price set below equilibrium creates excess demand, increasing quantity demanded while reducing quantity supplied. • A minimum price set above equilibrium creates excess supply, increasing quantity supplied while reducing quantity demanded. • Price controls prevent the market from reaching equilibrium, so both quantity demanded and quantity supplied adjust to the new, distorted price. However. • If the controlled price is set at or near the equilibrium price, quantities demanded and supplied may not change significantly. • Government intervention may include measures such as subsidies or buffer stocks that offset the impact of price controls, limiting changes in quantities. • Indirect taxes may reduce both the quantity demanded and quantity supplied e.g., of demerit goods. • In markets with very inelastic demand or supply, price controls may have only a small effect on the actual quantities demanded or supplied. **Note: answers that only focus on a discussion of the impact on demand OR supply/ focus only on why changes in demand and supply may occur OR why changes in demand and supply may not occur cannot gain more than mid L2 marks.**	**12**

Question	Answer	Marks
3(b)	**Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies/concepts/arguments etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly assesses the extent to which such policies can change both the demand and supply for a product **and** reaches a reasoned and justified conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

Question	Answer	Marks
EITHER		
4(a)	**Explain why economic growth is usually measured using real GDP rather than nominal GDP <u>and</u> consider the extent to which an economy can only achieve economic growth by an increase in the quantity of its resources.** 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. **AO1 Knowledge and Understanding (max 3 marks)** It makes it easier to allow for valid comparisons of growth e.g. between different years. **(1)** Nominal economic growth / changes in GDP or GDP at current prices measures changes in terms of the prices operating in the year in which output is produced. **(1)** Real economic growth / changes in real GDP or GDP at constant prices measures changes in terms of prices adjusted for inflation (using the GDP deflator). **(1)** **AO2 Analysis (max 3 marks)** An increase in the quantity of resources may be the result of e.g.; more labour due to increased immigration and may increase production/economic growth. **(1)** An increase in the quality of resources may be the result of an improvement in technology which should then increase productivity/economic growth. **(1)** A discussion that e.g., suggests that resources are finite or cannot be relied upon in terms of their efficiency to provide economic growth and therefore the quality of resources is perhaps more important. **(1)** **AO3 Evaluation (max 2 marks)** For an assessment of the extent to which an economy can rely on the quantity of resources to provide economic growth. **Note: the second mark is reserved for a justified conclusion.**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
4(b)	**Assess the extent to which the benefits of economic growth will always outweigh the costs for <u>all</u> economies.** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** An **explanation** of the benefits of economic growth e.g.: • More goods and services are available, which may raise living standards. • A possible increase in levels of employment due to the increase in GDP. This may include a reduction in cyclical unemployment. • A possible increase in tax revenue to allow for government spending e.g., on transfer payments, on merit goods and public goods etc. • A possible increase in a country's prestige and power. An **explanation** of the costs of economic growth e.g.: • It may be necessary to forego consumer spending for capital spending and therefore in the short run, living standards may not improve. • It may cause unemployment if technology replaces jobs. • It may be inflationary if AD exceeds AS • It may cause the current account to be in deficit if it leads to an increase in imports • It may cause pollution/ damage to the environment and a rapid depletion of resources. **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question. **Level 3 responses** will consider alternative policies/concepts/arguments etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly assesses the costs and benefits of economic growth to arrive at a reasoned and justified conclusion whether it benefits all economies. This may include an assessment that it benefits developing economies more e.g., due to the need to bring more people out of poverty. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	**12**

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

Question	Answer	Marks
OR		
5(a)	**With the help of a diagram, explain the circular flow of income in an open economy with government intervention <u>and</u> consider the extent to which the level of income in this economy may change following its transition to a closed economy** 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. **AO1 Knowledge and Understanding (max 3 marks)** • A diagram showing consumer spending on goods and services to firms and income paid in return (as wages, interest, profit, and rent). **(1)** • That shows/explains a leakage i.e., money that is withdrawn from the circular flow of income and in an open economy will consist of savings and taxes and imports **(1)** • That shows/explains an injection i.e., money that is added to the circular flow of income and in an open economy will consist of investment and government spending and exports **(1)** **Guidance:** The minimum requirement for the diagram is that it shows or explains income moving from firms to households and household expenditure moving from households to firms. Relevant leakages and injections can also be shown on the diagram OR in a separate explanation but must be clearly identified as such. **AO2 Analysis (max 3 marks)** • A transition to a closed economy will close it down to international trade and therefore reduce leakage caused by imports **AND/OR** (but also) any additional injection caused by exports. **(1)** • Changes in the level of national income arise from the total amount of leakages not being equal to the total amount of injections. Total injections exceed total leakages, the level of national income rises and vice versa. **(1)** • Therefore, if the expenditure on exports had previously exceeded the expenditure on imports, the level of national income may fall and vice versa. **(1)** **AO3 Evaluation (max 2 marks)** For an assessment as to the extent to which the level of national income may change is dependent on the changes in the level of injections and leakages because of the removal of international trade. **N.B. the second mark is reserved for a justified conclusion.**	**8**

Question	Answer	Marks
5(a)	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
5(b)	**Assess the extent to which a government can use fiscal policy to influence leakages from and injections into the circular flow of income to achieve any two of its macroeconomic objectives** Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** This may include knowledge and understanding that: • The main government macroeconomic objectives are price stability, low unemployment and economic growth. • What is meant by leakages and injections • What is meant by fiscal policy • Analysis of how fiscal policy can be used to influence leakages to influence **two** of these objectives together with the weaknesses of the policy. **For example:** • Import tariffs may be used to reduce leakages caused by imports and promote economic growth through an increase in X–M, but this may increase prices due to higher raw material costs. Taxation may be reduced to reduce leakages and promote economic growth through spending, but extra income may be saved, and this will mean economic growth is minimised. • Analysis of how fiscal policy can be used to influence injections to influence **two** of these objectives together with the weaknesses of the policy. **For example:** • The government may increase its own spending to inject more money into the economy to boost employment, but this may lead to price instability because of demand-pull inflation and minimise any reduction in unemployment. However, this may lead to a budget deficit and this may make it difficult to influence leakages and injections in the future meaning macroeconomic objectives may not be met. **Note: analysis of alternative policies such as supply side policy or monetary policy is not required.** **Answers that do not analyse the effect on at least 2 macroeconomic objectives or consider the strengths and weaknesses of fiscal policy in each case are unlikely to gain more than level 2 marks.** **Level 1 responses** will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question. **Level 2 responses** may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.	**12**

Question	Answer	Marks
5(b)	**Level 3 responses** will consider alternative policies/concepts/arguments etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question. **AO3 Evaluation** That clearly assesses the extent to which fiscal policy can be used to influence leakages from **AND** injections into the circular flow of income to help a government achieve two of its macroeconomic objectives and arrives at a reasoned and justified conclusion. **A one-sided response cannot gain any marks for evaluation.** Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4