



Cambridge International AS & A Level

ECONOMICS**9708/22**

Paper 2 AS Level Data Response and Essays

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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 **19** 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.

Guidance on using levels-based mark schemes.

Marking of work should be positive, rewarding achievement where possible, but clearly differentiating across the whole range of marks, where appropriate.

The marker should look at the work and then make a judgement about which level statement is the best fit. In practice, work does not always match one level statement precisely so a judgement may need to be made between two or more level statements.

Once a best-fit level statement has been identified, use the following guidance to decide on a specific mark:

- If the candidate's work **convincingly** meets the level statement, award the highest mark.
- If the candidate's work **adequately** meets the level statement, award the most appropriate mark in the middle of the range (where middle marks are available).
- If the candidate's work **just** meets the level statement, award the lowest mark.

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 are 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 are 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 Data response

| Question | Answer | Marks |
|---|--|----------|
| Follow the point-based marking guidance at the top of this mark scheme. | | |
| 1(a) | <p>Using Fig. 1.1, compare the US inflation rate between July and December 2020 with that between January and June 2021.</p> <ul style="list-style-type: none"> • During the period between July 2020 and December 2020, the trend has been slowly upward / relatively stable / had minor fluctuations / from 1.0% to 1.4% (1) • From January 2021 to June 2021 the trend has been more rapidly upward / from 1.4% to 5.4%. (1) <p>Note: 2nd mark should only be awarded if there is some KU that the rate of change is greater in the second period.</p> <p>Guidance: The trend in the two periods needs to be compared, not every change from one month to the next.</p> | 2 |
| 1(b) | <p>Using the information provided, explain what is meant by ‘the US government’s economic stimulus package’.</p> <ul style="list-style-type: none"> • An economic stimulus package is an example of expansionary fiscal policy / demand management policy / the aim of which is to increase aggregate demand (1) • The package involved the spending by the US government of an additional US\$6 trillion in 2020–2021/this involved a deficit budget balance of minus 12.7% of GDP in mid-2021. (1) <p>Guidance: Accurate reference to the data is required for the second mark.</p> | 2 |

| Question | Answer | Marks |
|----------|---|-------|
| 1(c) | <p>Consider the extent to which an increase in interest rates could reduce the rate of inflation in the US.</p> <ul style="list-style-type: none"> • An increase in interest rates will increase the cost of borrowing / or increase the incentive to save / or lead to an increase in the exchange rate (1) • This is likely to lead to a fall in C and I / X-M because of the fall in spending /reduction in exports / rise in imports (1) • Appreciation of the exchange rate may reduce the extent of import cost-push inflation (1) • Overall fall in AD is likely to lead to a fall in the rate of inflation (1) <p>Max 3 marks</p> <p>Evaluation</p> <ul style="list-style-type: none"> • The demand for borrowing funds may not be interest elastic/consumer and business confidence may remain high (1) • The contribution to a reduction in the rate of inflation will largely depend on the degree to which it is demand-pull inflation. (1) • There are other factors contributing to the rise in inflation from the cost side, such as the increase in the cost of shipping goods. (1) <p>Max 1 mark</p> | 4 |
| 1(d) | <p>With the help of an AD/AS diagram, assess whether the rising inflation rate in the US has been caused by changes to the demand side or changes to the supply side of the economy.</p> <p>Up to 4 marks for explanation/analysis:</p> <ul style="list-style-type: none"> • AD/AS diagram: Correct labelling of vertical axis (price level) and horizontal axis (real GDP/real output). (1) Movement of AD curve to the right and AS curve to the left, showing a rise in the price level. (1) (Up to 2 marks for the diagram) • Explanation/analysis of how the rise in inflation may be caused by an increase in aggregate demand (1) and a decrease in aggregate supply (1). This should be correctly applied to the data. (Up to 2 marks) <p>Up to 2 marks for evaluation:</p> <ul style="list-style-type: none"> • Relevant evaluation which considers both AD and AS and weighs up the factors involved in each. (1) • A justified conclusion on the extent to which inflation in the US has been caused by changes to the demand side or changes to the supply side of the economy. Note: this may include the comment that it is clearly a combination of both factors (1) but there is insufficient information within the data to fully answer which has had the greatest impact (1) • Note: no marks are available for evaluation if ONLY AD OR AS are discussed | 6 |

| Question | Answer | Marks |
|----------|---|-------|
| 1(e) | <p>Assess the possible consequences of a rising rate of inflation for a country such as the US.</p> <p>Up to 4 marks for explanation/analysis:</p> <ul style="list-style-type: none"> • Possible negative consequences explained, such as the uncompetitiveness of exports leading to a worsening of the current account of the balance of payments, shoe leather costs arising from searching for better returns, menu costs arising from continually changing prices, planning difficulties arising from the uncertainty caused by inflation and a redistribution of income, e.g., those on fixed incomes will lose out. (Up to 2 marks) • Possible positive consequences explained, such as an increase in borrowing arising from debt being less in real terms, an increase in the profits of firms, possibly leading to more workers being employed, and an increase in the value of assets, such as property. (Up to 2 marks) <p>Max 4 marks</p> <p>Up to 2 marks for evaluation:</p> <ul style="list-style-type: none"> • Relevant evaluation such as in relation to the extent of the increase in inflation and whether it is higher than other countries, the price elasticity of demand for exports, whether the increase in prices is higher than the increase in the costs of production faced by firms and whether the rise in inflation is anticipated or not. • A justified conclusion on the possible consequences, both negative and positive of a higher rate of inflation for a country such as the US. | 6 |

| Question | Answer | Marks |
|---------------|--|----------|
| EITHER | | |
| 2(a) | <p>Explain the functions of price in resource allocation and consider the importance of these functions in relation to the potential effectiveness of a market economy.</p> <p>Follow the point-based marking guidance at the top of this mark scheme and award:</p> <ul style="list-style-type: none"> • up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis • up to 2 marks for AO3 Evaluation. <p>AO1 Knowledge and understanding (max 3 marks)</p> <p>A clear knowledge and understanding of at least two functions of price in resource allocation:</p> <ul style="list-style-type: none"> • rationing (1) • signalling (transmission of preferences) (1) • incentivising (1) <p>Two functions well explained can gain 3 marks; 1 function explained can achieve a maximum of 1 mark.</p> <p>AO2 Analysis (max 3 marks)</p> <p>An analysis of the importance of rationing (1), signalling (transmission of preferences) (1) and incentivising (1) to the operation of a market economy. Note: this must be in the context of a market economy.</p> <p>AO3 Evaluation (max 2 marks)</p> <p>Offers a valid judgement on the importance of at least two functions in relation to the potential effectiveness of a market economy (1) to reach a justified conclusion. (1)</p> | 8 |
| | AO1 Knowledge and understanding | 3 |
| | AO2 Analysis | 3 |
| | AO3 Evaluation | 2 |

| Question | Answer | Marks |
|----------|--|-----------|
| 2(b) | <p>Assess whether all market economies should become mixed economies.</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</p> <ul style="list-style-type: none"> • NO: Explanations of why market economies should remain as they are e.g., because there is no (or minimal) government intervention, decisions are taken on the basis of demand and supply, competition is encouraged and so production is more efficient, and consumers and producers act on their own self-interest. • YES: Explanations of why market economies should become mixed economies e.g., because in a market economy there is non-provision of public goods, the under-consumption of merit goods, the over-consumption of demerit goods and the existence of markets where prices are too low, too high, or too unstable. <p>A one-sided response can only gain a maximum of Level 2.</p> <p>AO3 Evaluation</p> <p>Evaluation of whether all market economies should become mixed economies leading to a justified conclusion.</p> <p>Points to consider may include whether governments should provide public goods, merit goods, reduce the provision of demerit goods, intervene in the price mechanism etc.</p> <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 |

| Question | Answer | Marks |
|-----------|--|-------|
| OR | | |
| 3(a) | <p>Explain the possible economic reasons for inequality of income and consider whether inequality of income can benefit an 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)</p> <p>A clear knowledge and understanding of at least two possible economic reasons for inequality of income, such as whether a person is in employment or unemployed (1), the skills, qualifications and experience of different workers in various occupations and economic sectors (1), whether workers are employed in the public sector or the private sector (1), whether they are employed full-time or part-time (1), the provision of transfer payments (1) and the level and type of taxation. (1) N.B. the question does not stipulate how many reasons should be referred to so two reasons well explained can gain up to 3 marks. 1 reason explained can achieve a maximum of 1 mark.</p> <p>Max 3 marks</p> <p>AO2 Analysis (max 3 marks)</p> <p>The focus of this analysis must be on whether income inequality generates benefits to an economy or not.</p> <p>Points may include:</p> <ul style="list-style-type: none"> • Incentivising workers leading to higher levels of productivity • Encourages enterprise • Encourages workers to retrain/reskill • Demotivates those on the lowest incomes and an increase in crime • Increased government spending on transfer payments leading to an opportunity cost <p>Max 3 marks</p> <p>AO3 Evaluation (max 2 marks) Offers a valid judgement on the extent to which inequality of income can benefit an economy (1) to reach a conclusion. (1)</p> | 8 |
| | AO1 Knowledge and understanding | 3 |
| | AO2 Analysis | 3 |
| | AO3 Evaluation | 2 |

| Question | Answer | Marks |
|----------|---|-------|
| 3(b) | <p>With the help of a diagram, assess whether the introduction of a minimum price in a market can be justified.</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</p> <p>Diagram of a minimum price in a market, correctly labelled with an equilibrium price and an equilibrium quantity and showing the existence of a minimum price above what would be the case with no government intervention.</p> <p>Explanation of the potential advantages and benefits of a minimum price, such as making the prices of demerit goods more expensive to discourage consumption and protecting the incomes of producers in that market.</p> <p>Explanation of the potential disadvantages and limitations of a minimum price, such as the creation of excess supply and the greater likelihood of producers becoming less efficient, and of why the introduction of a minimum price might be ineffective.</p> <p>Note: Omission of a diagram/inaccurate diagram can only achieve a maximum of Level 2.</p> <p>A one-sided response can only gain a maximum of Level 2.</p> <p>AO3 Evaluation</p> <ul style="list-style-type: none"> • Evaluation of the potential effectiveness of the introduction of a minimum price in a market. • Evaluation may contain an assessment of alternative policies but may only be rewarded if the advantages and disadvantages of minimum pricing policy have been discussed. • In conclusion, whether the introduction of a minimum price in a market can be justified. <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 |

| Question | Answer | Marks |
|---------------|---|-------|
| EITHER | | |
| 4(a) | <p>Explain the circular flow of income in a closed economy and consider the extent to which the circular flow of income changes as an economy becomes an open 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)</p> <p>A clear knowledge and understanding that the circular flow of income in a closed economy involves households, firms, and the government (1) and has injections of I and G and leakages/withdrawals of S and T (1), so that equilibrium income is where $I + G = S + T$ (1).</p> <p>AO2 Analysis (max 3 marks)</p> <p>An analysis of how the circular flow of income changes as an economy becomes an open economy, with the introduction of participation in the international economy (1) through the injection of X and the leakage/withdrawal of M (1), so that equilibrium income (is) (now becomes) where $I + G + X = S + T + M$ (1).</p> <p>AO3 Evaluation (max 2 marks)</p> <p>Offers a valid judgement on the extent to which the circular flow of income changes as an economy becomes an open economy depending on the importance of international net trade (1) to reach a conclusion. (1)</p> | 8 |
| | AO1 Knowledge and understanding | 3 |
| | AO2 Analysis | 3 |
| | AO3 Evaluation | 2 |

| Question | Answer | Marks |
|-----------|--|-------|
| 4(b) | <p>Assess whether the consequences of economic growth for an economy are always positive.</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</p> <ul style="list-style-type: none"> The positive consequences of economic growth: an improvement in the standard of living, a reduction in the rate of unemployment, an increase in incomes, an increase in the level of aggregate demand, a possible reduction in income inequality, higher tax revenues which a government could spend on improving public services (such as education and healthcare), and an increase in business confidence leading to greater investment. The negative consequences of economic growth: a possible depletion of non-renewable natural resources and damage to the environment, such as through various types of pollution, an unequal sharing of the benefits of economic growth among a population leading to an increase in income inequality and a possible reduction in the quality of life of people through longer working hours and a reduction in the amount of leisure time, plus a shift towards more capital-intensive production. Answers may also refer to the dangers of inflationary pressure. <p>A one-sided response can only gain a maximum of Level 2.</p> <p>AO3 Evaluation</p> <p>Points to consider may include:</p> <ul style="list-style-type: none"> The degree to which the potential benefits of economic growth are equally shared among a population. The extent to which any shift towards more capital-intensive production affects the level of unemployment Whether long-term economic growth brings about a short-term cost as resources are used to produce capital goods rather than consumer goods The extent to which the economic growth is sustainable Which leads to a justified conclusion on whether the consequences of economic growth for an economy are always positive <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 |
| OR | | |

| Question | Answer | Marks |
|----------|---|-------|
| 5(a) | <p>With the help of a diagram, explain what is meant by an appreciation of a floating exchange rate and consider whether a country can only benefit from the appreciation of its currency.</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) A clear knowledge and understanding of the meaning of an appreciation of an exchange rate in a floating exchange rate system i.e., the exchange rate rises according to supply and demand of the currency (1). A diagram showing an appreciation of a currency: correct labelling of the axes (the vertical axis needs to be labelled either in terms of two currencies or as exchange rate) (1) and a rise in the value of a currency by a rightward shift of the demand curve and/or a leftward shift of the supply curve with the new equilibrium price shown together with an explanation of a possible cause of either shift (1).</p> <p>AO2 Analysis (max 3 marks) An analysis of the potential advantages of an appreciation, such as a reduction in the prices of imports, both of finished goods and of raw materials and component parts, reducing inflationary pressures in an economy. An analysis of the potential disadvantages of an appreciation, such as an increase in the price of exports making them less competitive.</p> <p>Note: maximum mark of 2 if only advantages or disadvantages discussed.</p> <p>AO3 Evaluation (max 2 marks) Offers a valid judgement on whether the potential advantages of an appreciation of an exchange rate always outweigh the potential disadvantages (1) to reach a conclusion. (1) N.B the significance of elasticities and the MLC may be rewarded but must not be expected as they are A2 topics.</p> | 8 |
| | AO1 Knowledge and understanding | 3 |
| | AO2 Analysis | 3 |
| | AO3 Evaluation | 2 |

| Question | Answer | Marks |
|----------|--|-------|
| 5(b) | <p>Assess whether supply-side policies are the most effective way to correct a deficit on the current account of the balance of payments of an economy.</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: AO1 Knowledge and understanding and AO2 Analysis</p> <p>Successful supply-side policies will cause a rightward shift in the long-run AS curve, reflecting more efficient production. This would make a country's products more competitive in international markets and so there is likely to be an increase in net exports, correcting a deficit in the current account. Supply-side policies could include improvements in training and education, making labour markets more flexible, reductions in the powers of trade unions, an increase in competition and a reduction in rules and regulations.</p> <p>Potential disadvantages of supply-side policies are that they are essentially a long-run solution and so may take a relatively long period of time to have an impact, such as improvements in training and education. Some of the policies could be quite expensive and so would involve the government in considerable expenditure, money which could have spent elsewhere (giving rise to the issue of opportunity cost).</p> <p>Guidance: There are a number of alternative approaches to answering this question. At the simplest level, analysis and evaluation may focus on an assessment of the effectiveness of supply side policies only. Furthermore, this may be expanded to include a direct comparison with the effectiveness of alternative policies such as fiscal, monetary or protectionist policies. In addition, such an assessment may simply be part of evaluation. However, if supply side policies are ignored or receive scant attention then only a Level 2 mark may be awarded.</p> <p>A one-sided response can only gain a maximum of Level 2.</p> <p>AO3 Evaluation Points to consider may include: the cause of the deficit, the cost and ease of introducing various policies, the possible unintended consequences of introducing policies etc. leading to a justified conclusion as to whether supply-side policies would be the most effective way to correct a deficit in the current account of the balance of payments of an economy.</p> <p>Accept all valid responses.</p> <p>A one-sided response cannot gain any marks for evaluation.</p> | 12 |

| Question | Answer | Marks |
|-----------------|--|--------------|
| 5(b) | AO1 Knowledge and Understanding and AO2 Analysis | 8 |
| | AO1 Knowledge and understanding and AO2 Analysis | |
| | AO3 Evaluation | 4 |