

Cambridge  
International  
AS & A Level

**Cambridge International Examinations**  
Cambridge International Subsidiary and Advanced Level

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**ECONOMICS**

**9708/02**

Paper 2 Data Response and Essay

**For Examination from 2016**

SPECIMEN MARK SCHEME

**1 hour 30 minutes**

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**MAXIMUM MARK: 40**

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This document consists of **4** printed pages.

- 1 (a) **With reference to Table 1 compare Malaysia's trade balance in 2011 and 2010.** [2]

In both years there is a surplus (1), but the surplus in 2010 is smaller than in 2011 (1).

- (b) **Analyse, with the aid of diagrams, the impact of an increase in demand for palm oil on the markets for palm oil and palm kernel cake.** [5]

Palm kernel cake is in joint supply as a by-product of palm oil (1). Increased demand for palm oil results in a higher price and quantity (1), corresponding diagram (1), increased supply of palm kernel cake results in lower price and greater quantity (1), corresponding diagram (1)

- (c) **How could the concept of elasticity be used to measure the economic relationship between palm oil and soya oil and what would the measurement show?** [3]

The relationship would be measured using the cross-elasticity of demand (1).  
A fall in the price of soya oil would result in a fall in the demand for palm oil (1).  
The result would be positive showing that the products are substitutes (1).

- (d) **Discuss one demand factor that might explain the change shown in Table 1 in the value of Malaysia's palm oil exports in 2012 compared with 2009.** [4]

Candidates are expected to choose one demand factor such as price, income, the price of other goods, tastes, etc. that might explain the variation in export revenues. This needs to be discussed to score well.

- For explaining how the change in the selected demand factor would be expected to change exports. **Up to two marks.**
- For evaluation of this factor for example 'It depends upon price elasticity' or 'It depends upon income elasticity'. **Up to two marks.**

- (e) **Explain two policies that the Malaysian government might adopt to reduce the problems associated with a falling price of palm oil and suggest which of the two policies you would recommend.** [6]

Many policies might be mentioned. Each needs to be explained in terms of its effects. The candidate will then make some evaluative judgement to suggest the best policy. This will consider issues such as the effectiveness of the policy or the likely impact of the policy on relevant economic indicators. For example, one policy might be to reduce the value of the ringgit. This will make Malaysia's exports of palm oil cheaper. It may not work however if the demand for exports of palm oil are price inelastic. In addition, it may lead to imported inflation.

Policies explained by candidates may or may not be suggested in the text.

- For explaining two policies. **Up to four marks.**
- For judgement based upon evaluation of the policies. **Up to two marks.**

- 2 (a) **With the help of a diagram, explain how a production possibility curve can illustrate the concepts of opportunity cost and economic growth.** [8]

This question tests the grasp of some basic concepts in Economics that can be demonstrated through the production possibility curve.

- For **knowledge and understanding** of the production possibility curve supported by an appropriate diagram. **Up to four marks.**
- For **application** showing how production possibility curves can illustrate both opportunity cost and economic growth. **Up to four marks.**

- (b) **Discuss whether free market economies or centrally planned economies are more likely to make choices that will maximise the benefits for consumers.** [12]

The candidate needs to explain that in a free market economy choices are made through the forces of demand and supply. This is likely to give a different allocation of resources compared to that in a centrally planned economy. The impact depends upon a number of factors in a market driven by market forces and the profit motive. In a centrally planned economy it depends upon decisions taken by planning committees. They may or may not choose to prioritise current consumer welfare.

- For **analysis** of how choices are made to maximise the benefit for consumers in each type of economy. **Up to eight marks.**
- For **evaluative comment** on the 'more likely' aspect of the question. **Up to four marks.**

- 3 (a) **Define the components of aggregate demand and, with the help of a diagram, explain how an increase in spending in an economy might result in inflation.** [8]

- For **knowledge and understanding** of the components of aggregate demand. **Up to four marks.**
- For **application** using an appropriate diagram showing an increase in aggregate demand and the relationship with aggregate supply at a point where inflation would occur. **Up to 4 marks.**

- (b) **If an economy is experiencing inflation, discuss the view that its government should be more concerned about the external effects of inflation than its effects within the domestic economy.** [12]

Candidates need to be able to distinguish between the external and internal effects of inflation and then they should reach an evaluative conclusion based upon an examination of the evidence. Discussion might include whether the economy is relatively open to international trade, whether the economy has a fixed or floating exchange rate, etc.

- For **analysis** of the external and domestic effects of inflation. **Up to eight marks.**
- For **evaluative comment** on the 'more concerned' aspect of the question. **Up to four marks.**

- 4 (a) Explain the meaning of the term 'protection' in the context of international trade and describe two methods of protection used by governments. [8]

Very often candidates describe methods of protectionism without thinking clearly about the meaning of the term. A good answer will go beyond a list of the types of protectionism and will provide a more general explanation perhaps referring to prevention of market forces working freely.

- For **knowledge and understanding** of the meaning of the term 'protection' in the context of international trade illustrated with two examples of methods of protection. **Up to four marks.**
- For **application** that describes how the two methods mentioned work to protect an economy. **Up to four marks.**

- (b) Discuss, with examples, how international trade protection may affect consumers and producers in an economy and to what extent protection can be justified. [12]

Consumers lose through for example reduced choice and higher prices, producers gain through reduced competition and increased profits. Economic theory usually concludes that protectionism can be justified in the case of infant industries. Other arguments are usually dismissed as social or strategic arguments for protectionism.

- For **analysis** of the way in which consumers and producers are affected with valid examples. **Up to eight marks.**
- For **evaluative comment** on the extent to which balance protection can be justified. **Up to four marks.**