



Mock Exam M2

ECONOMICS

9708

Paper 2 Data Response and Essay

MARK SCHEME

Maximum Mark: 40

Published

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Section A

Answer 1

- 1 (a) What happened to the balance on Turkey's current account between 2012 and 2013? [2]

Recognition of deficit in both years (1 mark) and this has increased or worsened (1 mark)

No calculation needed although the figures can be used to illustrate the growing deficit.

If the candidate produces a calculation that has a negative figure for the balance but there is no clear recognition that this is a deficit, then no marks.

- (b) Use a production possibility curve diagram to show the intended outcome of the structural reforms in Turkey. [2]

For a diagram showing a movement of a ppc outward from the origin (Up to 2 marks)

Shift outward of the curve (1 mark)

Appropriate axes that show that suggest that a ppc represents choice in production e.g. consumer or capital goods, guns or butter, good A or good B (1 mark)

The wording of the question means that an accompanying explanation is not required. An explanation could make it clear however that the candidate understands what a ppc represents. So an explanation could be awarded a mark if the candidate has not been awarded the second mark for appropriate axes.

No diagram, no marks

- (c) With the help of a demand and supply diagram, show how the expected change in US interest rates was likely to cause the US dollar 'to continue to rise'. [2]

The demand for US\$ on the foreign exchange market is likely to increase as foreign investors seek dollars to deposit in US banks as the returns rise. In addition, the supply of dollars might fall as those with investment funds in the US decline to move them abroad because of the higher US interest rates.

For an accurate diagram showing the supply and demand for the US\$ in the foreign exchange market and a shift in the demand curve to the right or a shift in the supply of the US\$ to the left and the resulting appreciation of the dollar. (1 mark)

For a brief explanation of one underlying cause of an increased demand for or reduced supply of US dollars on the foreign exchange market based upon the higher return on investment funds in the US (1 mark)

No diagram, 1 mark maximum

- (d) Consider whether the outcome of the interest rate changes in the US was likely to be 'harmful for Turkey's economy'. [4]**

The rise in interest rates in the US and the rise in the US dollar might be harmful for Turkey's economy for a number of reasons. There might be an outflow of investment funds from Turkey to the US creating a deficit on Turkey's Financial Account of the Balance of Payments. In addition, the rise in the US dollar would affect the price of Turkey's exports to and imports from the US affecting the current account. This might create a deficit on the current account. In addition, there might be an impact upon employment and the rate of inflation in Turkey. It could be argued however that the rise in interest rates in the US would have a beneficial effect upon Turkey's economy. The rise in interest rates in the US and the appreciation of the dollar would mean that Turkey's exports to the US are cheaper and Turkey's imports from the US are more expensive. If the Marshall-Lerner condition is satisfied this will lead to an improvement in Turkey's balance of payments on current account and possibly a fall in unemployment in Turkey.

For explaining potential harmful effects on Turkey of the interest rate changes.

(Up to 3 marks)

For explaining potential beneficial effects on Turkey of the interest rate changes.

(Up to 3 marks)

3 marks maximum

For evaluative comment (on whether the explained effect would in fact be harmful or beneficial.

(1 mark)

- (e) Explain two factors that determine how the increase in consumer prices between 2013 and 2014 shown in Figure 1 might affect the total value of Turkey's exports. [4]**

This question requires an explanation of the factors that determine the outcome, not an explanation of how an increase in consumer prices will affect exports.

A range of factors might be explained. One factor, for example is the price elasticity of demand for Turkey's exports. If the demand is price inelastic then the total value of Turkey's exports will rise. If the demand is price elastic then the total value will fall. The demand is likely to become more elastic in the long run. A second factor is the Turkey's rate of inflation compared to the rate of inflation of Turkey's competitors in international trade. Although Turkey's rate of inflation has increased in 2014 compared to 2013, whether this makes Turkey's goods and services uncompetitive in international trade depends upon the rate of inflation of Turkey's competitors. Other factors include whether there have been off-setting changes in Turkey's exchange rate and whether the rate of inflation has affected both the prices of internationally traded goods or goods that Turkey consumes domestically.

For explanation of any one factor that determines how an increase in consumer prices will affect exports.

(Up to 3 marks)

4 marks maximum

- (f) Discuss how 'tight fiscal policy' could be expected to help Turkey achieve the first priority of the MTP, and consider how effective this is likely to be. [6]**

The term 'tight fiscal policy' refers to policies that aim for a budget surplus or a reduction in the budget deficit through either tax rises and/or government spending cuts. The first priority of the MTP is solving the problem of inflation. A tight fiscal policy will do this through a reduction in spending on consumption and investment that will reduce aggregate demand.

The effectiveness of the policy depends upon factors such as the ability of the Turkish government to implement the policy and whether there are other factors that cause inflation such as cost-push pressures.

For understanding of 'fiscal policy'

(1 mark)

For an example of what is meant by a 'tight fiscal policy' e.g. an increase in taxation or a decrease in government expenditure or a budget surplus or reduced budget deficit (1 mark)

For a clear explanation of the way in which a tight fiscal policy might control inflation.

(Up to 3 marks)

For evaluative judgement on how effective a tight fiscal policy is likely to be. (Up to 2 marks)

6 marks maximum

Section B

Answer 2 (a & b)

Answer	Marks	Guidance
<p>Up to 4 marks for knowledge and understanding:</p> <p>Of the meaning of an indirect tax (1 mark)</p> <p>For a clear understanding of a price-elastic demand (1 mark)</p> <p>For a clear understanding of price-inelastic demand (1 mark)</p> <p>For a clear understanding of the meaning of the incidence of taxation (1 mark)</p> <p>Up to 4 marks for application using a diagram:</p> <ul style="list-style-type: none"> ∞ to show that if a good is price elastic the incidence of an indirect tax will fall mainly on the producer (2 marks) ∞ and if it is price inelastic the incidence it will fall mainly on the consumer (2 marks) 	8	<p>An indirect tax will shift the supply curve to the left. This will raise the price of the product. The incidence depends upon price elasticity. If the demand is inelastic, the consumer bears most of the incidence. If the demand is elastic most of the incidence falls upon the producer.</p> <p>The candidate is NOT required to define elastic or inelastic. They need to demonstrate that they understand the concepts through their application in answer to the question.</p>
<p>For analysis that explains:</p> <ul style="list-style-type: none"> ∞ How maximum prices operate when imposed below equilibrium. (Up to 2 marks) ∞ The difficulties that arise when maximum prices operate during a period of high inflation. (Up to 6 marks) <p>(8 marks maximum)</p> <p>For evaluation:</p> <ul style="list-style-type: none"> ∞ commenting on whether difficulties can be overcome (Up to 3 marks) ∞ and for reaching a conclusion on the likelihood that this will be successful. (1 mark) <p>(4 marks maximum)</p>	12	<p>The difficulty in imposing maximum prices below equilibrium is that shortages will occur. These shortages will become more pronounced as inflation occurs unless the maximum prices are continually moved upwards.</p> <p>Other difficulties include the administrative costs and the extent to which the price legislation can be policed.</p> <p>The problems could be overcome, e.g. with rationing, but whether this will be successful depends upon a number of factors.</p>

Answer 3 (a & b)

Answer	Marks	Guidance
<p>For Knowledge and Understanding (and Application)</p> <p>Using an accurately labelled PPC showing movement from a point on the curve to a point within the curve (2 marks) to explain that this represents a rise in unemployment (2 marks). (Up to 4 marks)</p> <p>For Knowledge and Understanding (and Application)</p> <p>Using an accurately labelled PPC showing a shift outward of the curve (2 marks) to explain that this represents a rise in the working population (2 marks). (Up to 4 marks)</p> <p>8 marks maximum</p>	8	<p>A rise in unemployment can be shown as a movement from a point on the curve to a point within the curve.</p> <p>An increase in the working population will cause a shift outwards in the curve.</p>

<p>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.</p> <p>Analysis: The issues of transition:</p> <ul style="list-style-type: none"> ∞ Inflation ∞ Output ∞ Employment/Unemployment ∞ Industrial unrest ∞ International trade ∞ Welfare ∞ Specialised support markets and services <p style="text-align: right;">Allow up to 4 marks for each issue analysed (AN: up to 8 marks)</p> <p>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</p> <p style="text-align: right;">Up to 3 marks plus 1 mark for a conclusion. (EV: up to 4 marks)</p>	<p>12 The issues of transition:</p> <ul style="list-style-type: none"> ∞ 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
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Section C

Answer 4 (a & b)

Answer	Marks	Guidance
<p>For Knowledge and Understanding: A brief description of the four components is required. 1 mark for each component.</p> <p style="text-align: right;">(Up to 4 marks)</p> <p>For Application: Showing how for example inflation in an economy or changes in comparative advantage could cause a deficit. Allow any valid cause.</p> <p style="text-align: right;">(Up to 4 marks for any possible cause explained)</p> <p>4 marks maximum</p>	8	<p>Candidates need to provide a brief explanation of each component of the current account. There are four components. Balance of goods, services, income (primary) and transfers (secondary). There are a number of possible causes of a deficit. These include inflation in an economy at a rate that exceeds the rate of inflation amongst competitors, shifts in comparative advantage. A decline in the demand for an economy's exports and in some countries remittances might have an influence. The erection of trade barriers might also cause a deficit.</p>

(b) Discuss the advantages and disadvantages of supply-side policy and consider its effectiveness in an economy that is facing a labour shortage. [12]

Supply-side policy works through achieving increases in aggregate supply. The advantages include the fact that non-inflationary growth can be achieved together with improvements in the productivity of the factors of production. The disadvantages include the opportunity cost of the funds needed to improve the supply-side and the fact that many improvements take a long time to take effect.

For analysis showing how supply side policy might be used to solve a labour shortage (up to 6 marks)

For the advantages of supply-side policy (up to 4 marks)
and disadvantages of supply-side policy (up to 4 marks)

6 marks maximum

8 marks maximum for analysis

For evaluative comment on 'effectiveness' in an economy facing a labour shortage. (4)

Question 5 (a & b)

- 5 (a) Explanation of economic growth in terms of increases in output per head over a time period, and comment on the causes of growth. Increases in the factor labour might help, but so would other factor increases especially advances in technology – which might replace labour.

L4 For a sound explanation of the analysis and a clear understanding of the principles involved [9–12]

L3 For a competent comment but with a limited development of the analysis. [7–8]

L2 For a correct explanation of a limited part of the analysis – perhaps concentrating on one factor of production. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

Answer	Marks
<p>Analyse the causes of unemployment and explain which cause could be most significant for your country.</p> <p><i>Structural, frictional, seasonal, cyclical/demand deficient unemployment. Equilibrium/disequilibrium unemployment.</i></p> <p>L4 (9–12 marks) For a good analysis of 2 causes of unemployment and reference to a specific country.</p> <p>L3 (7–8 marks) For a good analysis of 1 cause of unemployment and an explanation of other cause(s) of unemployment.</p> <p>L2 (5–6 marks) For a good description of 2 causes of unemployment</p> <p>L1 (1–4 marks) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.</p>	12