CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/22**

Paper 2 AS Level Data Response and Essays **February/March 2026**

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.

Cambridge International is publishing the mark schemes for the February/March 2026 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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 descriptions 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.

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.

Annotation	Meaning
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.

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	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-organized, 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)(i)	**With the help of a formula, define the term income elasticity of demand.** YED= (% Change in Quantity Demanded) / (% Change in Income) **(1).** Income elasticity of demand measures the responsiveness of quantity demanded in response to a percentage change in income **(1).** **Guidance –** The definition must establish the **degree of responsiveness** of quantity demanded/or something similar.	**2**
1(a)(ii)	**Using the information in the second paragraph, calculate the income elasticity of demand for fast food for one of the world's largest restaurant companies in the US between 2019 and 2023 <u>and</u> state how an economist would classify fast food in the US based on this calculation.** Correct calculation of a YED value of +0.75 (Allow a value between 0.7 and 0.8.) **(1)** It is a normal good/one (where demand rises with income) As the command word is state, allow a reference to a normal good, a necessity good OR a good with an inelastic YED **(1)**	**2**
1(b)	**Explain what is meant by a demerit good and consider whether it is correct to 'refer to fast food as a demerit good'.** **Max 3 marks** A demerit good is seen as any product that is thought as undesirable /worse for the consumer than they realise **(1)**, and which is overproduced in the free market due to imperfect information **(1).** 'Fast food' would be seen a demerit good because overconsumption/overproduction of such products may cause ill health **(1).** **NB do not expect reference to 3rd party effects / externalities etc., although these may be rewarded.** **Max 1 mark** **Evaluation** Not all 'fast food' is unhealthy – such outlets offer healthy options (1). Many companies are required by law to publish calorific content so consumers will know the cost of regular consumption of 'fast food' (1) May be a source of employment therefore desirable **(1)**	**4**

Question	Answer	Marks
1(c)	**Assess the extent to which introducing an indirect tax on fast food is the best way to reduce its consumption.** **Up to 3 marks for the advantages of introducing an indirect tax.** Increases the price the consumer pays for fast food thereby reduces consumption. Tax receipts can be used to finance improved information on healthy eating. Indirect taxes cannot be evaded as they are included in the price of fast food. The tax might encourage producers to reformulate the ingredients to remove the need to apply the tax. **Up to 3 marks for the disadvantages of introducing an indirect tax.** Indirect taxes are regressive in nature – the impact of such taxes is likely to affect those on low-fixed incomes as it represents a greater proportion of their income. Possible inflationary effects It may be difficult to enforce in those countries/markets where cash is the most common form of payment – e.g. street food. If PED is inelastic then demand will fall proportionally less so the impact may be minimal **If the answer contains analysis of at least one advantage and one disadvantage of introducing an indirect tax, then analysis of an alternative method may be included within the analysis of the disadvantages** **Up to 2 marks for evaluation:** An assessment of the relative advantages and disadvantages of introducing an indirect tax on fast food to reduce its consumption. **Reserve 1 mark for a valid conclusion.**	**6**

Question	Answer	Marks
1(d)	**Assess the extent to which decreasing the consumption of fast food will always increase the level of unemployment for a country such as the US.** **Up to 3 marks for explaining why unemployment may rise/rise significantly.** Falling demand for fast food would reduce the demand for labour in restaurants **(1)** and subsequently increase unemployment. **(1)** Unemployment may also rise in other firms in the supply chain for fast food. **(1)** **Up to 3 marks for explaining why unemployment may not rise/not rise significantly.** If the demand for fast food is price inelastic, demand will fall less proportionally so any increase in unemployment may be minimal / zero **(1)** If XED between unhealthy fast food that attracts the tax and healthier options that do not suggests they are strong substitutes, any increase in unemployment in the unhealthy fast-food sector may be offset by an increase in employment in the healthy fast-food sector **(1)** and result in no increase in overall unemployment **(1)** Firms may look to reformulate the recipe of their products to make them exempt from the tax. Should this be successful, then there is unlikely to be a rise in unemployment **(1)** **Up to 2 marks for evaluation:** For an overall assessment of the analysis of the extent of any possible increases in unemployment. **Reserve 1 mark for a valid conclusion.**	**6**

Section B

Question	Answer	Marks
EITHER		
2(a)	**With the help of a demand and supply diagram, explain how the introduction of an effective maximum price affects the equilibrium in the market for a good <u>and</u> consider the extent to which a maximum price benefits all consumers on the good.** 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 clear understanding that a maximum price is a legal price ceiling that the price cannot rise above **(1).** An accurately labelled diagram showing the maximum price set below the free market/equilibrium price **(1)** with an explanation that the quantity demanded rises/fall in quantity supplied **(1)**. **AO2 Analysis (max 3 marks)** An explanation of that a maximum price set below the free-market equilibrium level will reduce the price that consumers pay **(1).** This will encourage consumers to buy more of the good/service **(1)** resulting in those on lower incomes being able to afford products **(1). HOWEVER,** this may lead to shortages so only those able to buy the reduced supply will benefit **(1)** illegal markets may form and sell at a higher price again excluding some customers **(1). Maximum 2 marks if only 1 side considered.** **AO3 Evaluation (max 2 marks)** That clearly considers the likelihood that all consumers will benefit and reaches a conclusion. **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
2(b)	**Assess the extent to which setting a minimum wage or using transfer payments is the better way to reduce income inequality in an 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** **Analysis of the extent to which a minimum wage might reduce income inequality by examining the following:** The minimum wage increases the wages of the lowest paid. Since those on the highest incomes earn above the minimum wage (and are not affected by it), then the differential between the highest and lowest paid falls. Increasing the incomes of the lowest paid may enable them to pay for training courses/ better education to assist them in gaining higher paid jobs in the future. A minimum wage may mean lowest earners can now afford better accommodation/healthier foods thereby increasing their health enabling them to be able to attend work for longer rather than taking prolonged periods of time from work due to illness. **BUT** The reduction in inequality may be so low it makes little difference to those on lowest incomes. If any increase in the minimum wage is below the rate of average earnings, then income inequality may rise The lower the proportion of the workforce that currently earn below a proposed minimum wage then the less impact the policy will have If all incomes rise at the same rate to preserve differentials, this will not reduce income inequality **Analysis of the extent to which transfer payments might reduce income inequality by examining the following:** By providing transfer payments to the poorest and most vulnerable in society then this may reduce income inequality to those unable to work or in need of assistance. Transfer payments in the form of housing allowances, food coupons or in-work benefits will reduce the financial burdens for low-income families and may result in families being able to afford to access training/education and acquire the skills needed to apply for higher-paid jobs. Transfer payments may be funded by increased direct tax and may be progressive which will assist in income redistribution and reduce inequality.	**12**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td rowspan="3">2(b)</td><td>BUT
The extent to which transfer payments can be used to support the vulnerable is dependent upon both the amount of tax receipts the government receives from taxpayers, and the percentage of the population that would be eligible to receive transfer payments. The higher the proportion is then less individual benefit can be given.
If the transfer payments such as unemployment benefits create a disincentive to work, then unemployment may rise and therefore have minimal/no impact on reducing income inequality.

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

Evaluation that leads to a conclusion which approach is most likely to be effective in reducing income inequality.
If there is no reference implicit or explicit to reducing income inequality, then this is not addressing the question and should not be credited.
A one-sided response cannot gain any marks for evaluation.

Accept all valid responses.</td><td></td></tr>
<tr><td>AO1 Knowledge and understanding and AO2 Analysis</td><td>8</td></tr>
<tr><td>AO3 Evaluation</td><td>4</td></tr>
</table>

Question	Answer	Marks
	OR	
3(a)	**With the help of a diagram(s), explain what is meant by consumer surplus and producer surplus <u>and</u> consider whether a fall in the equilibrium price of a product will always reduce the producer surplus.** 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 clear understanding of consumer surplus i.e., the difference between the price a consumer is willing to pay for a product and the market/equilibrium price **(1)**. For a clear understanding of producer surplus i.e., the difference between the price a producer is willing to accept and the market/equilibrium price **(1)**. **Both** clearly shown on an accurately labelled diagram (s) **(1)** **AO2 Analysis (max 3 marks)** For an accurately labelled supply and demand diagram showing a leftward shift in the demand curve and fall in price **(1)** and an explanation why there would be a fall in the value of the producer surplus **(1).** For an accurately labelled supply and demand diagram showing a rightward shift in the supply curve and fall in price **(1)** and an explanation why there would be a rise in the producer surplus **(1).** An explanation how the magnitude of the change in producer surplus (caused by either a fall in demand **OR** increase in supply) may be affected by PES **OR** PED. **(1)** **Note:** an answer that only explains the impact on producer surplus because of either a demand OR a supply curve shift with NO accurate explanation of the possible impact of PED OR PES can only gain 2 marks MAX. **AO3 Evaluation (max 2 marks)** For a reasoned comparison of the impact on producer surplus caused by a shift in demand AND a shift in supply OR the influence of PED OR PES leading to a reasoned conclusion. **Reserve 1 mark for a justified conclusion.**	**8**
	AO1 Knowledge and understanding	3
	AO2 Analysis	3
	AO3 Evaluation	2

Question	Answer	Marks
3(b)	**Assess whether the allocation of resources in a planned economy can ever be beneficial.** 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 (max 8 marks)** **An analysis of the benefits of resource allocation in a planned economy. This may include:** Enables the government to prevent large scale unemployment, often a feature of market economies. A focus on public welfare as opposed to profit Ensure appropriate provision of public goods Address the problems of over-production of demerit goods/under-production of merit goods as seen in market economies Command economies could produce goods which benefit society and ensure everyone has access to basic necessities. **Analysis should consider the disadvantages of resource allocation in a planned economy. This may include:** A loss of consumer sovereignty as the decision of 'what, how and for who' is taken by the government. The emergence of shortages and the potential for illegal markets for essential goods to exist if the prices set by the authorities results in demand for such goods rising at a faster rate than supply. The removal of the profit motive may result in a loss of innovation and entrepreneurial spirit. The absence of competition and individual ownership can lead to reduced motivation among producers. Production is carried out according to government instructions, potentially slowing down progress. Different types of economic systems may be discussed but are not relevant to this particular question. **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
3(b)	**AO3 Evaluation (max 4 marks)** Consideration of the whether resource allocation in a planned economy can **ever** be beneficial. Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	
	AO1 Knowledge and understanding and AO2 Analysis	8
	AO3 Evaluation	4

Section C

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td colspan="3">EITHER</td></tr>
<tr><td rowspan="4">4(a)</td><td>With the help of a diagram(s), explain the difference between cost-push inflation and demand-pull inflation <u>and</u> consider whether inflation is always a concern for governments.

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)
Demand pull inflation is caused by increases in AD not matched by equivalent increases in AS (1); Cost push inflation is inflation caused by increases in the costs of production (1). An accurate AD/AS diagram showing both demand-pull and cost push inflation. This can be shown on two separate diagrams (1).

AO2 Analysis (max 3 marks)
Analysis may explain how inflation can create uncertainty and discourage investment/long-run economic growth (1) This can make exports less price competitive/imports more price competitive (1) which will worsen the current account balance/increase unemployment/reduce government tax receipts. (1) However, inflation may not be a concern e.g., it may provide incentives for businesses, governments may target a low rate of inflation etc. 2 marks maximum for only considering why governments may or may not be concerned.

Any problems with inflation must clearly demonstrate why governments may/may not be concerned.

AO3 Evaluation (max 2 marks)
For an assessment of the reasons why and the reasons why governments may not be concerned about inflation leading to a conclusion Note: reserve one mark for a valid 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
4(b)	**Assess whether expansionary monetary policy is the best method to correct deflation and restore price stability.** 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** **Analysis of the extent to which expansionary monetary policy might correct deflation. This may include the following:** Reducing interest rates to stimulate consumption/investment whilst depreciating the exchange rate to increase aggregate demand. Increasing the money supply. Widening credit regulations **BUT** Existing borrowers who have fixed interest repayments will be unaffected by reductions in interest rates High levels of job insecurity/low consumer confidence may still deter consumers If there is a price inelastic demand for imports, then the increased value of imports may dampen any increase in other components of AD. **Analysis should also compare monetary policy with an alternative such as fiscal policy. Responses may include:** Reductions in income tax to stimulate increases in consumption in response to rising disposable income. Increase government spending to offset the reduction and ensure that firms continue to produce and create upwards pressure on prices. **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** Consideration of the effectiveness of expansionary monetary policy to correct deflation compared with at least one other appropriate policy. A justified conclusion showing which policy is most likely to be effective in correcting deflation.	**12**

Question	Answer	Marks
4(b)	Accept all valid responses. **A one-sided response cannot gain any marks for evaluation.**	
	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">5(a)</td><td>With the help of a diagram(s), explain <u>two</u> causes of an appreciation of an exchange rate <u>and</u> consider whether an appreciation of a country’s exchange rate is likely to reduce its real output.

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 an accurate explanation of what is meant by an appreciation of the exchange rate (1). An increase in the demand for the currency – shown on a fully accurate diagram showing an appreciation of the exchange rate (1). A decrease in the supply of the currency – shown on a fully accurate diagram showing an appreciation of the exchange rate (1).

AO2 Analysis (max 3 marks)
An appreciation of the exchange rate will increase the price of exports and/or reduce the price of imports (1) which will decrease the value of exports and/or increase the value of imports resulting in a fall/reduction in aggregate demand and reduce domestic real output (1). The analysis should also contain a discussion as to why real output will not fall i.e. due to PED / size of net trade as a proportion of AD (1). 2 marks maximum for only considering whether real output will fall or not.

AO3 Evaluation (max 2 marks)
For an assessment leading to a justified conclusion whether an appreciation of a country’s exchange rate is likely to reduce its real output.

Note: the second mark is reserved for a justified conclusion.

Please use a text box to show the mark split e.g., 3,2,1.</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
5(b)	**Assess the extent to which either raising import tariffs or imposing import quotas is the better tool for protecting an economy from unfair competition.** 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** **Analysis of the extent to which the introduction of a tariff protects an economy by examining the following (the response may include a diagram although this is not a requirement):** The tariff (tax on imports to protect domestic producers from cheaper imports) increases the price of imports and improves the relative competitiveness of domestic producers. Increases producer surplus / profits for domestic firms and can act as a source of revenue for governments through additional taxes both from the tariffs and possible additional profits for domestic firms if sales increase as a result. Protects infant industries from international competition until they can become mature, stable and are able to be competitive. **BUT** There is a loss of consumer surplus as consumers are now paying higher prices than before the tariff was imposed. Exporting firms may be hit by retaliatory tariffs. Increases in production costs for those firms that has a price inelastic demand for importing raw materials. Potential for cost-push inflationary pressure Tariffs are more unknown because it depends on the elasticity of demand and how consumers and suppliers react to the tariff. **Analysis of the extent to which the introduction of an import quota protects an economy by examining the following (the response may include a diagram although this is not a requirement):** The import quota can protect domestic producers by placing a limit on the total quantity of imports that can be brought into a county in a given time period. Should domestic demand exceed the import quota then this must be purchased from within the domestic economy – thereby supporting domestic producers who also benefit from an increase in producer surplus. Import quotas allow the country to be certain on the maximum number of imports coming in.	**12**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td rowspan="3">5(b)</td><td>BUT
There is a loss of consumer surplus as they will face higher prices from domestic firms once the quota has been reached.
A quota generates no revenue for the government.
Exporting firms may be hit be retaliatory import quotas.
The potential for corruption with those within government allocating the import licenses at potential risk of bribery.
Import quotas tend to cause a bigger fall in economic welfare because the government do not gain the tax revenue, that would be achieved with a tariff.
The impact on import prices is uncertain if imports are less than the quota limit.

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 (max 4 marks)

For an assessment leading to a justified conclusion of the extent to which either raising import tariffs or imposing import quotas is the better tool for protecting an economy from unfair competition.

Note: the second mark is reserved for a justified conclusion.

Accept all valid responses.

A one-sided response cannot gain any marks for evaluation.

Please use a text box to show the levels applied and mark split e.g., L3 6 L1 2.

Accept all valid responses</td><td></td></tr>
<tr><td>AO1 Knowledge and understanding and AO2 Analysis</td><td>8</td></tr>
<tr><td>AO3 Evaluation</td><td>4</td></tr>
</table>