

**JUNE 2002** 

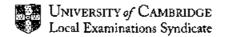
#### **GCE Advanced Subsidiary Level**

#### **MARK SCHEME**

MAXIMUNAMARKE: 40.

**SYLLABUS/COMPONENT:9708/2** 

ECONOMICS (DATA RESPONSE AND ESSAY (CORE))



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#### SECTION A

1ai) Explain the difference between the meaning of 'nominal and 'real' oil prices [2] Nominal = money or current value (1), real = purchasing power or without inflation (1)

### 1aii) Describe the general trends in the nominal price of oil between 1970 and 1999 shown in Fig.1 [2]

Upward 1970 – 1982 (1), downward 1982 – 1999 (1), erratic after 1986 (1). Any two aspects.

## 1aiii) Using Figl, summarise the relationship between real and nominal oil prices over the period 1970 to 1999. [2]

Two interpretations acceptable:

Pre 1985 real prices higher (1), post 1985 nominal prices higher (1) or both move in same direction (1), but to different extent (1).

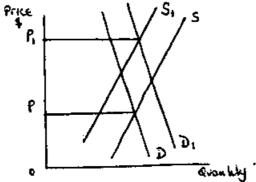
# 1bi) Identify one year in which the nominal price of oil rose sharply and was subsequently maintained at the higher level. [1]

1979 (1) 1973 (1)

1bii) Suggest two problems caused for producers by the variability of oil prices.[2] Unstable incomes (1), planning difficulties (1) or other acceptable problems.

# 1c) Explain with the aid of a diagram how the article accounts for the sharp oil price rise in 1999. [5]

OPEC reduction of supply (1), increase in world demand (1), diagram showing S curve to left (1), D curve to right (1), higher price (1).



1d) Discuss the possible effects in an oil- consuming country if its government imposes an indirect tax on oil.

Effect on price, output and tax revenue linked to consumer, producer, government (4) development e.g. elasticity, tax burden (2)

[6]

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	Section B		
)o) Explain, with	examples, the meaning of private costs and ext	ternal enete [	81
Costs borne by the would include the a third party and c	e agent directly involved e.g. a consumer or firm a cost of purchase of goods or factor services. Exte exist when social cost exceeds private cost. Exam	are private costs ernal costs are fe	. This
pollution and con	gestion.		
L3 Detailed contr	ast linked to social cost or use of diagram	7	- 8
L2 Understanding with examples		4	- 6
1 Basic recognit	ion	1	<b>- 3</b>
b) Discuss the rol	e that cost benefit analysis can play in governo	nent economic I	nolicy
making.			12]
Cost benefit allow	s a wider range of influences to be introduced int	to decision maki	ng
than might be con	sidered in commercial terms. This would allow th	e government to	take
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L3 Discussion of the case for protection and free trade

L2 Explanation of the case for protection
L1 Identification of possible justifications

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#### 4a) Explain why a country might experience a persistent rise in its general price level.

Inflation can result from cost push and demand pull influences, monetary inflation may also be treated as a distinct category. The influences at work may include import costs, wage costs and higher taxes with higher incomes and changing attitudes. Once started an inflationary spiral may develop.

L3 Explanation of the interaction of various causes	7 – 8
L2 Explanation of the causes	4-6
L1 Recognition of the causes	1-3

## b) Discuss why reducing inflation is often the most important task for a government.

Harmful effects on international competitiveness, distribution of income, market efficiency and planning capability may justify statement. Its importance to other government objectives may be explored. However the rate of inflation, its comparative level and the seriousness of other economic problems may indicate alternative emphasis.

L3 Discussion of reducing inflation as the most important task	9 – 12
L2 Explanation of the harmful effects of inflation	5-8
L1 Recognition of harmful effects	1 – 4