

# Specimen Paper Answers – Paper 2

## Cambridge International AS & A Level Economics 9708

For examination from 2023



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# Contents

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Introduction.....	4
Details of the assessment.....	5
Question 1.....	6
Question 3.....	11
Question 4.....	15

## Introduction

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These specimen answers have been produced by Cambridge ahead of the examination in 2023 to exemplify standards for those teaching Cambridge International AS & A Level Economics 9708. We have selected questions from Specimen Paper 2, Questions 1, 3 and 4.

The marks given are for guidance only and are accompanied by a brief commentary explaining the strengths and weaknesses of the answers. Comments are given to indicate where and why marks were awarded, and how additional marks could be obtained. There is also a list of common mistakes and guidance for candidates for each question.

The specimen materials are available to download from the [School Support Hub](#).

**2023 Specimen Paper 02**

**2023 Specimen Paper Mark Scheme 02**

Past exam resources and other teaching and learning resources are available from the [School Support Hub](#).

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## Details of the assessment

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### Paper 2 AS Level Data Response and Essays

Written paper, 2 hours, 60 marks

Section A has **one** compulsory data response question (20 marks).

Section B has two questions focusing mainly on microeconomics; candidates answer **one** question (20 marks).

Section C has two questions focusing mainly on macroeconomics; candidates answer **one** question (20 marks).

There are two parts to each question in Sections B and C. All questions are based on AS Level subject content.

Externally assessed

67% of the AS Level

33% of the A Level

### 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.

### Assessment objectives as a percentage of Paper 2

AO1 Knowledge and understanding	33%
AO2 Analysis	37%
AO3 Evaluation	30%

## Question 1

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(a) Using the data in Table 1.1, compare Vietnam's balance of trade in goods and services between 2009 and 2011 with that from 2015 to 2017. [2]

### Specimen answer

*Vietnam's balance of trade in goods and services between 2009 and 2011 was in deficit whereas between 2015 and 2017 it was in surplus. Between 2009 and 2011 the deficit was decreasing whereas between 2015 and 2017 the surplus was increasing.*

**Mark awarded = 2 out of 2**

### Examiner comment

Clear comparisons have been made in relation to Vietnam's balance of trade in goods and services between 2009-2011 and between 2015-2017, not only in terms of whether there was a deficit or a surplus, but also in terms of whether the deficit or surplus was decreasing or increasing. The answer is clear in using the correct terminology in terms of either a deficit or a surplus.

### Common errors and general guidance for candidates

Candidates often repeat the data from one year to the next without actually doing anything with the data. The question explicitly requires the candidate to use the data to arrive at an answer. Also, candidates often fail to understand what is required when the command word is 'compare'. For example, they provide two statements and then leave it to the examiner to make the comparison. However, what is required is that the candidate makes the comparison clear themselves, as can be seen in the specimen answer with the use of the word 'whereas'.

b) (i) Explain the relationship you would expect between the annual change in the balance of trade in goods and services and the annual change in real GDP growth. [2]

### Specimen answer

*It would be expected that the relationship between the annual change in the balance of trade in goods and services and the annual change in real GDP growth would be a positive one. This is because net exports (for example, exports – imports) are a component of Aggregate Demand (AD) (along with consumption, investment and government spending) and so if the annual change in the balance of trade in goods and services showed a rising surplus, as seen in Vietnam between 2015 and 2017, possibly due to rising exports, it would be expected that this would lead to faster economic growth, as seen through the increase in real GDP growth (the term 'real' indicates that this is after taking the impact of inflation into account).*

**Mark awarded = 2 out of 2**

### Examiner comment

The type of relationship that would be expected is made clear and there is also a good attempt to actually explain the relationship rather than just describe it.

### Common errors and general guidance for candidates

Candidates often describe a relationship in a rather confused way, when all that is required is a clear answer in terms of pointing out that the relationship in this situation is a positive one. Also, candidates often describe a relationship rather than explaining it, despite the use of the command word 'explain' in this question.

(b)(ii) Consider the extent to which this relationship is evident in the data in Table 1.1. [2]

### Specimen answer

*The relationship is not very obvious in the data in the Table. There is some evidence that the highest growth rates produce the largest surpluses, as in 2017 when the growth rate of 6.8 % is the highest during the period from 2009 to 2017 (2018 needs to be excluded because information about the balance of trade in goods and services is not available for that year) and the surplus in the balance of trade in goods and services is the largest. However, the evidence is not always conclusive, because the surplus in 2012 was much higher than in 2015 and yet the growth rate in 2015 was higher than in 2012. In fact, for a number of the years covered in the Table, it seems to be the case that there is a time lag between one year and another. For example, the growth rate of 6.7 % in 2015 seems to be responsible for bringing about a significant increase in the trade surplus in the following year of 2016.*

**Mark awarded = 2 out of 2**

### Examiner comment

The answer is very clear in pointing out that the relationship is not that obvious in the Table. It addresses the reference to 'extent' in the question by including reference to years when it is obvious and also to years when it is not so obvious. The candidate makes a good point in suggesting that the relationship does seem to be quite strong if the existence of a time lag from one year to the next is taken into account.

### Common errors and general guidance for candidates

Candidates sometimes do not use the data that is included to support their answers, despite the fact that Section A is data response.

(c) Using the information provided, explain **one** supply-side reason why Vietnam has experienced 'spectacular economic growth'. [2]

### Specimen answer

The article 'Vietnam's Economic Miracle' refers to the fact that Vietnam has experienced 'spectacular economic growth'. This high rate of growth could have come from either or both the demand side or the supply side. One supply side reason given in the information provided is that Vietnam has invested in its physical capital in the form of infrastructure. This could have included improvements in transport and communication. One specific example included in the information is the provision of cheap access to the internet. This would have contributed to a reduction in the costs of production of firms, helping to give Vietnamese producers a stronger comparative advantage when compared to other countries with less efficient and more expensive means of transport and communication.

**Mark awarded = 2 out of 2**

### Examiner comment

The candidate has provided an appropriate supply-side reason in terms of investment in physical capital through improvements in the infrastructure and has explained this in relation to a lowering of costs of advantage which could lead to an increase in output as the country benefits from its comparative advantage.

### Common errors and general guidance for candidates

Candidates sometimes answer a question in Section A with no reference to what is included in the data, despite the fact that questions explicitly require candidates to use the information provided, as is the case with this question.

(d) Assess the likely macroeconomic effects of pressure on the exchange rate of the Vietnamese dong arising from Vietnam's increased exports. [6]

### Specimen answer

The data refers to an increase in the potential for Vietnam to trade with other countries, resulting from moves towards trade liberalisation involving the removal of tariffs and other tools of protection, and the data also refers to rising export revenue. If there is an increase in the demand for Vietnamese exports, there will be an increase in demand for the Vietnamese currency, the dong, to pay for these exports and this is likely to lead to an appreciation of the currency. If the dong becomes more highly valued, this will make it more expensive to buy Vietnamese exports and if demand is elastic, this could discourage exporting. The effect of this could be a reduction in output and employment.



However, a currency appreciation would lead to cheaper imports, and this could reduce the level of inflation in Vietnam, although it could also contribute to a worsening of the country's trade position if the demand for imports is price elastic. The data refers to the fact that trade liberalisation would increase the potential for Vietnam to trade with other countries, but such liberalisation will also increase the potential for other countries to trade with Vietnam and the removal of tariffs and other tools of protection could lead to a significant increase in imports. If Vietnam experiences persistent deficits in its balance of trade, this could lead to a depreciation, rather than an appreciation, of its currency which would have the advantage of making its exports more price competitive in international markets.

**Mark awarded = 5 out of 6**

### Examiner comment

The candidate has provided a useful analysis of the effects of Vietnam's increased exports on its exchange rate and has offered a relevant evaluation which has weighed up the factors on both sides. However, in such a question, a conclusion is required, and the candidate has failed to include one in the answer.

### Common errors and general guidance for candidates

In an 'assess' or 'discuss' question, there is usually a mark reserved for a conclusion where a candidate comes to a judgement as to the relative strengths and weaknesses of a particular policy or approach. If no conclusion is included, as is the case here, no mark can be awarded.

(e) Assess whether Vietnam's 'economic miracle' is likely to persist over the next few years. [6]

### Specimen answer

Vietnam's economic miracle could be expected to persist over the next few years for a number of possible reasons. It may well continue to benefit from the increased protectionism in trade between China and the US, especially if it continues to produce goods that are substitutes to those being produced in China. Also, Vietnam has a rapidly growing population and this is likely to contribute to higher levels of consumption. If export revenue continues to rise, consumption and net exports, along with increased expenditure by firms and the government, will help to stimulate aggregate demand and this is likely to mean that the rapid increase in its real GDP will continue.

However, there are possible reasons why Vietnam's economic miracle may not persist over the next few years. Vietnam's economy is heavily dependent on its exports and in 2017, its exports constituted over 90% of its GDP. This makes Vietnam particularly vulnerable to downturns, such as a recession, in the global economy, as has happened recently, and in the economies of its main trading partners. Also, Vietnam is a member of organisations, such as

ASEAN (the Association of Southeast Asian Nations) and the TPP (the Trans-Pacific Partnership), which have encouraged its member countries to trade freely with each other, and so Vietnam may experience an upsurge in imports into its economy. Vietnam has signed a free trade agreement with the US and yet the US has threatened that it may impose import tariffs on manufactured goods from Vietnam, which could have a significant impact on Vietnamese exports of such products to the US. If any of these possibilities reduced Vietnamese exports, there would be a negative impact on economic growth in Vietnam, making it less likely that its economic miracle would persist over the next few years.

It is therefore impossible to state whether Vietnam's economic miracle is likely to persist over the next few years. Its population is likely to continue to grow rapidly and this is likely to significantly increase aggregate demand and ultimately agricultural supply. However, Vietnam's heavy dependence on exports is a significant risk and makes Vietnam particularly vulnerable to a recession in the world economy. Vietnam has benefited from the location of a number of multinational companies there, but if the economic miracle looks as if it is not likely to persist, many of these companies could decide to move elsewhere which is likely to have a significant negative effect on Vietnam's economy.

**Mark awarded = 6 out of 6**

### Examiner comment

The candidate has provided a detailed discussion of whether Vietnam's 'economic miracle' is likely to persist over the next few years. The response is evenly balanced, considering arguments why the miracle may and may not persist. There is an attempt to offer evaluation throughout the answer and the final paragraph is a good attempt to consider both points of view.

### Common errors and general guidance for candidates

In a 'discuss' question, it is expected that the candidate will provide a well-balanced answer that looks at both points of view, but sometimes a candidate will support one side of an argument and not even consider other possible approaches or points of view. To gain a high mark, it is important that all possible perspectives and viewpoints are considered.

**Total marks awarded = 19 out of 20**

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## Question 3

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(a) With the help of a formula, explain the meaning of price elasticity of supply **and** consider which factors are most important in determining whether the price elasticity of supply for a good is likely to be relatively elastic or relatively inelastic. [8]

### Specimen answer

The price elasticity of supply measures the responsiveness of the quantity supplied of a good to a change in its price. The formula for the calculation of the price elasticity of supply of a good is the percentage change in quantity supplied divided by the percentage change in price. If the figure is greater than 1, this means that the proportionate change in quantity supplied is greater than the proportionate change in price, and so the price elasticity of supply is relatively elastic. If the figure is below 1, this means that the proportionate change in quantity supplied is less than the proportionate change in price, and so the price elasticity of supply is relatively inelastic.

There are a number of factors that can make price elasticity of supply elastic or inelastic. Firstly, the number of producers: the more producers there are in an industry, the easier it will be for the industry to increase output in response to a price increase and so price elasticity of supply will be relatively elastic. Secondly, if spare capacity exists in an industry, price elasticity of supply will be more elastic because the easier it will be to increase output if price goes up. Thirdly, if it more difficult to store stocks, a firm will not find it easy to respond quickly to a price increase and supply is likely to be relatively inelastic. Fourthly, the time period is an important factor: supply is likely to be more elastic in the long run and less elastic in the short run. Fifthly, the mobility of factors of production is an important influence on the price elasticity of supply: the more mobile the factors of production, the more likely supply will be relatively elastic. Finally, the length of the production period is an important factor: the quicker a good is to produce, the easier it will be to respond to a change in price, which is why the supply of manufactured goods is usually more elastic than the supply of agricultural goods.

All these factors will be important in determining whether the price elasticity of supply for a good is relatively elastic or relatively inelastic, but some are likely to be more important than others, especially in relation to different goods. In conclusion, the two most important factors are likely to be the time period and the number of producers as these will have a significant effect on the ability of an industry to respond to an increase in price for a good.

**Mark awarded = 8 out of 8**

### Examiner comment

The answer gains all three marks for AO1 (Knowledge and Understanding) because it states clearly what the price elasticity of supply measures (one mark), it gives the correct formula for price elasticity of supply (one mark) and it makes a clear distinction between relatively elastic and relatively inelastic (one mark).

The answer gains all three marks for AO2 (Analysis) because it provides an analysis of a minimum of three factors (the answer actually analyses six possible factors) which can make price elasticity of supply either relatively elastic or relatively inelastic.

The answer gains both marks for AO3 (Evaluation) because it offers a valid judgement on the relative importance of the different factors that can influence the price elasticity of supply of a product (one mark) to reach a conclusion (one mark).

### Common errors and general guidance for candidates

- Candidates sometimes fail to provide the appropriate formula, even when a question explicitly asks for a formula. Also, candidates sometimes fail to provide the correct formula. One common mistake is to put price at the top and quantity at the bottom rather than the other way round.
- Another common mistake is to leave out the reference to percentage change in relation to both quantity and price.
- Candidates often provide information about the different possible factors that can have an impact on the price elasticity of supply for a good without determining which are likely to be the most important, even when a question explicitly asks for this.
- Candidates also sometimes draw a series of unexplained diagrams which add nothing to the answer as they have not been specifically applied to the question; if diagrams are included in an answer, they must be clearly linked to the specific question asked.

(b) Assess the likely success of any **two** government policies to make the price elasticity of supply of all agricultural products more elastic. [12]

### Specimen answer

*I have already referred to the fact that the price elasticity of supply of agricultural products is likely to be relatively more inelastic than manufactured products in (a). However, a government could decide to introduce some policies to make the price elasticity of supply of all agricultural products more elastic.*

*One such policy would be to improve infrastructure in the agricultural sector, such as in relation to improvements in warehousing and refrigeration. If such improvements could be made, they would have the advantage of making it easier to store stocks when harvests were good and then these stocks could be released on to the market when harvests were not so good. This improvement to the ability of producers to store stocks would make the supply more price elastic. However, such a policy would have the disadvantage that they would involve the government in relatively large expenditure which could have been spent in other areas of the economy, for example there would be an opportunity cost involved in such*

expenditure. Another possible disadvantage is that producers might not have the necessary space that would be needed.

A second possible policy would be for the government to improve the training of agricultural workers. This would be likely to make agricultural workers more efficient and to improve their levels of productivity. If agricultural workers were better trained in different aspects of the industry, it would help to make them more mobile, and this increase in factor mobility would mean that they could be moved from one part of the industry to another with greater ease and this would help to make supply more elastic. However, as with the first policy, this would involve the government in a great deal of expenditure in helping to finance this training. There is also the possibility that such training would take quite a long period of time and so, although the policy might be effective in the long run, it would have less of an impact in the short run.

In conclusion, each of these policies would be likely to be relatively effective in making the supply of all agricultural products more elastic. However, each would involve considerable expense for the government. The first policy is likely to be more effective in the short term and medium term because it would not take too long to improve the warehousing and refrigeration provision, whereas the second policy would be likely to take a longer period of time. The second policy is likely to be effective for all agricultural products, whereas the first policy is likely to be effective for most agricultural products, but it may be relatively more difficult to store and refrigerate some products than others. Therefore, of the two policies discussed, the first policy is likely to be more successful than the second policy, especially in the short term, even though it is possible that some agricultural products could be more difficult to store and refrigerate than others.

**Mark awarded = 11 out of 12**

### Examiner comment

The answer achieves Level 3 for AO1 (Knowledge and Understanding) and AO2 (Analysis). A detailed knowledge and understanding of how two government policies could influence the price elasticity of supply of agricultural products is demonstrated. There is also a detailed analysis of the advantages and disadvantages of each of the two policies and a clear explanation of why each of the measures might be less effective than expected. The answer gains all eight marks for AO1 and AO2.

The answer achieves Level 2 for AO3 (Evaluation). It develops evaluative comments rather than simply stating or listing relevant points and the advantages and disadvantages of each policy are considered before reaching a reasoned conclusion. The answer gained three of the four available comments as it was felt that there was scope to have developed the evaluation more fully in places, such as in relation to which particular agricultural products might be more difficult to store and/or refrigerate and why this might be the case.

### Common errors and general guidance for candidates

- Candidates often focus on just the advantages or the disadvantages of a policy (or policies), or if they do discuss both, the answer is often unbalanced with much more written on one side than the other.
- In terms of evaluation, candidates often think that it is sufficient to consider the advantages and disadvantages of different policies without attempting to weigh up the strength of the different advantages and disadvantages before reaching a reasoned, logical and coherent conclusion or judgement.
- Candidates sometimes discuss a range of government policies, even when a question specifically requires just two policies, as in this question.

**Total marks awarded = 19 out of 20**

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## Question 4

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(a) Compare the causes of structural unemployment and cyclical unemployment **and** consider which of these types of unemployment is likely to be more harmful to an economy. [8]

### Specimen answer

(a) Two important but different causes of unemployment are structural unemployment and cyclical unemployment. Structural unemployment refers to a situation when people lose their jobs in declining industries, for example as a result of a change in the structure of an economy. Cyclical unemployment refers to a situation when people lose their jobs because of a lack of aggregate demand in an economy; it is called cyclical because it is related to a downturn in the trade cycle. It affects the whole economy across a wide range of industries. The key difference between the two causes of unemployment is that structural unemployment is related to particular industries, whereas cyclical unemployment is related to developments in the whole economy.

Structural unemployment can arise for a number of different reasons. One reason could be because of the decline of certain industries and workers lacking the appropriate skills to change jobs from declining industries to expanding industries. This will be especially likely when there is a high level of labour immobility in terms of both occupational and geographical mobility of labour. Another reason for structural unemployment is the existence of technological change where capital gradually replaces labour.

Cyclical unemployment can also arise for a number of different reasons. One reason is a fall in aggregate demand in an economy; for this reason, cyclical unemployment is sometimes called demand-deficient unemployment. Another reason would be a situation when an economy was experiencing a downturn over two successive quarters, a period of six months; this is known as a recession and occurs when there is negative growth in real GDP over six months.

Although both types of unemployment are likely to be harmful to an economy, it is generally believed that cyclical unemployment is likely to be more harmful because it affects the whole economy and many different industries. It is therefore likely to be responsible for more jobs lost through structural unemployment.

**Mark awarded = 8 out of 8**

### Examiner comment

The answer gains all three marks for AO1 (Knowledge and Understanding) because it demonstrates a clear understanding of what is meant by structural unemployment (one mark), a clear understanding of what is meant by cyclical unemployment (one mark) and a clear recognition of the difference between the two causes of unemployment (one mark).

The answer gains all three marks for AO2 (Analysis) because there are explanations of two reasons why each form of unemployment might arise in an economy (one mark for each reason, up to a maximum of three marks).

The answer gains both marks for AO3 (Evaluation) because it offers a valid judgement as to which type of unemployment is likely to be more serious for an economy (one mark) to reach a conclusion (one mark).

### Common errors and general guidance for candidates

- In this type of question, candidates often describe two causes or two policies, but do not explicitly compare them, even when the command word is 'compare'.
- Also, candidates tend to write about different types of unemployment without making it clear which type is likely to be more serious, and therefore more harmful, for an economy.
- It is also the case that candidates do not always provide a conclusion, even though this would be expected of any evaluation.

(b) Assess whether expansionary monetary policy is likely to be successful in reducing **all** types of unemployment. [12]

### Specimen answer

*(b) Monetary policy refers to one type of government policy to achieve macroeconomic objectives by intervention in an economy in different ways. Expansionary monetary policy refers to the situation where policies are undertaken to increase the level of aggregate demand in an economy. There are three tools of monetary policy that would be appropriate to an increase in aggregate demand: an increase in the money supply, a reduction in the rate of interest or a loosening of credit credentials.*

*An increase in the money supply will be carried out by the central bank of an economy. The central bank will try to influence bank lending by commercial banks, and this will bring about an increase in the money supply. Such an increase in the money supply, through increased bank lending, is likely to reduce unemployment in an economy. A strength of this measure is that its impact is likely to be noticed in a relatively short period of time. However, a potential weakness of such a measure is that it will depend on the relationship between the central bank and the commercial banks in an economy and it may not always be easy for a central bank to force the commercial banks to operate in a certain way.*

*A reduction in the rate of interest is a second possible measure. A strength of this measure is that any change of interest can have an immediate impact as people and institutions are encouraged to borrow more as the cost of borrowing is cheaper. The increase in borrowing is likely to be followed by an increase in spending and this could lead to a reduction in unemployment. However, a potential weakness of such a measure is that it may not always*



have a significant impact on decisions to borrow money, the interest elasticity of demand being relatively inelastic.

A third tool of monetary policy is how central banks can vary credit regulations on lending by commercial banks to their customers. When there is a need to increase aggregate demand to reduce unemployment, an easing of credit regulations should boost spending by consumers and firms, creating more jobs. A criticism of this policy is that it is short term and can lead to periods of 'Stop and Go' that are not conducive to economic growth.

Some economists include the exchange rate as a tool of monetary policy. It must be stressed that this is only valid when dealing with a fixed exchange rate system. A devaluation of the exchange rate will usually increase aggregate demand and employment. This is because the devaluation will lead to a fall in export prices and an increase in import prices relative to an economy's competitors. These changes will boost aggregate demand and reduce unemployment.

The impact of all three measures is likely to be effective in reducing the level of cyclical unemployment in an economy because expansionary monetary policy should lead to an increase in aggregate demand. However, these measures are likely to be less successful in reducing other types of unemployment. For example, frictional unemployment occurs when people are moving from one job to another and there is always likely to be some form of frictional unemployment in an economy, however successful expansionary monetary policy is in increasing aggregate demand. Structural unemployment may still exist as there are always likely to be some declining industries in an economy whatever the level of aggregate demand. Technological change is a key feature of modern economies and as the impact of technological progress affects an economy, and there is a move from capital to labour, some workers are likely to continue to lose their jobs. Finally, even if expansionary monetary policy has increased the level of aggregate demand in an economy, some seasonal unemployment may continue to exist at certain times of the year, such as in the tourist industry.

Therefore, in conclusion, expansionary monetary policy is likely to be successful in reducing unemployment, especially cyclical unemployment, but will not necessarily be as successful in reducing other types of unemployment, such as frictional, structural, technological and seasonal unemployment.

**Mark awarded = 11 out of 12**

### Examiner comment

The answer achieves Level 3 for AO1 (Knowledge and Understanding) and AO2 (Analysis). A detailed knowledge and understanding of the meaning of expansionary monetary policy and of the tools of monetary policy appropriate to an expansionary monetary policy is demonstrated. There is also a detailed analysis of the strengths and weaknesses of each of the three measures in reducing unemployment. The answer gains all eight marks for AO1 and AO2.

The answer achieves Level 2 for AO3 (Evaluation). It develops evaluative comments rather than simply stating or listing relevant points and the strengths and weaknesses of each monetary policy measure are considered before reaching a reasoned conclusion. The answer gained three of the four available comments as it was felt that there was scope to have developed the evaluation more fully in places, such as in relation to particular examples of frictional, structural, technological and seasonal unemployment that would not be affected by the expansionary monetary policy.

### Common errors and general guidance for candidates

- Candidates sometimes discuss monetary policy in general without making it clear whether the policy is expansionary or contractionary, despite the explicit reference to expansionary monetary policy in this question.
- Candidates also sometimes fail to appreciate the reference to the degree of success in reducing all types of unemployment, e.g., they don't point out that expansionary monetary policy might be more successful in reducing some types of unemployment than others.

**Total mark awarded = 19 out of 20**

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