

CIE Economics A-level

Paper 4

Mark Scheme Pack

2008–2014

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Level

MARK SCHEME for the October/November 2008 question paper

9708 ECONOMICS

9708/04

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2008 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



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Section A

- 1 (a) Explanation which mentions increase in real GDP, or increase in national income, productive capacity with brief comment. Could mention difference between actual and potential growth [3]
- (b) 2 way link – developed use developing countries resources, but also give aid. Both are supposed to help both types of economy. Use of resources brings income to developing nation and production and growth to developed nation. Aid encourages development and as a result products may be available for developed nation to import. Need not refer to extract to get full marks. [5]
- (c) No real proof from the chart.
 - no absolute figures
 - no definition of poverty
 - unsure about %s on chart
 - no comparative figures to substantiate the word 'still'
 - however may be true as % distribution on chart is quite uneven.
 Need a conclusion even if it is that the evidence is indecisive.
 Give credit if candidate mentions both sides of argument [5]
- (d) The conclusion is not necessarily correct. Growth in developed country may have decreased poverty as well as in the developing country. There is still poverty in both types of economy but may have been worse without growth. No evidence, only a bald statement, about widening differences. The information about \$2 a day does give some weight to the argument but we do not know comparative costs of living. Look for reasoned argument with a conclusion. Could mention changes in the idea of what constitutes poverty.
 No use of evidence/information: max 3 [7]

Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

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Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to level 4 in individual question notes).

- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
- 21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.
Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.
Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

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- 2** Candidates first need to consider whether economic analysis does presume what is stated. It usually does presume consumers are rational. Candidates should then discuss the role of advertising. Advertising might not mean a decrease in rationality. It might through better information make informed choices more likely. An overall conclusion is essential.
- L4 For an explanation of the terms in the statement, a clear analysis of the link between them, a discussion of the possible outcomes with a reasoned conclusion. [18–25]
- L3 For a competent explanation which does not fully analyse the terms or clearly see the progression, or lack of progression in the argument. There will be some discussion but the evaluation will not be fully developed or extensive. [14–17]
- L2 For an accurate though undeveloped explanation of some of the terms with some attempt at seeing the links between them but with very limited evaluation and no real conclusion. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]
- 3 (a)** Comment on derivation of LRAC, economies of scale, effect on costs and therefore, on best productive output.
- L4 For a sound explanation with clear understanding of the principles involved and a clear link to profit-maximising presented. [8–10]
- L3 For a competent explanation but with limited development of the link to profit maximising. [6–7]
- L2 For a general explanation probably in descriptive form of economies of scale. [4–5]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–3]
- (b)** Two parts to the answer. Do firms want to maximise profits, do they do so by equating mc and mr? First part involves discussion of alternative theories of the firm. The second involves a discussion of the practicality of using $mc=mr$.
- L4 For a reasoned discussion and clearly structured answer with conclusion on both parts. [12–15]
- L3 For a full discussion, probably of the first part, but little mention of the second part. [9–11]
- L2 For a limited but acceptable attempt to describe some alternative policies, little on the practicality and no conclusion. [6–8]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–5]

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- 4 (a)** Government may be involved to provide unprofitable service or to prevent high profits although the service is provided, or to control practices that might be thought to be unsafe or detrimental to the consumer. No need to relate to India.
- L4 For a sound explanation with clear understanding of the principle involved . [8–10]
- L3 For a competent explanation but with limited development. [6–7]
- L2 For a general explanation probably in descriptive form. [4–5]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–3]
- (b)** Efficiency needs to be defined. Discussion of efficiency and whether government involvement necessarily implies productive or allocative efficiency. There is a chance that allocative efficiency might be more likely, but it is problematic to calculate it. If unprofitable services are provided it is quite unlikely that productive efficiency will be achieved.
- L4 For a reasoned discussion and clearly structured answer with conclusion on both types of efficiency. [12–15]
- L3 For a full discussion possibly of one type of efficiency with only a limited attempt at a conclusion. [9–11]
- L2 For a limited but acceptable attempt which may not define efficiency, omit one type of efficiency, not have a conclusion, and not have any development of analysis. [6–8]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–5]
- 5** Candidates need to consider whether the theory does presume only that there is a perfect market and that a stable equilibrium will be achieved. (Theory allows for imperfections and does not prescribe a stable equilibrium in the imperfect market with trade unions.) Candidates then need to consider whether the conclusion in the statement is accurate.
- L4 For an explanation of the terms in the statement, a clear analysis of the link between them, a discussion of the imperfectly competitive case with a reasoned conclusion. [18–25]
- L3 For a competent explanation which does not fully analyse the terms or clearly see the progression, or lack of progression in the argument. There will be some discussion but the evaluation will not be fully developed or extensive. [14–17]
- L2 For an accurate though undeveloped explanation of some of the terms, probably mentioning imperfect competition but not dealing with the exact equilibrium, with very limited evaluation and no real conclusion. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]

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6 (a) Explanation of the various types of unemployment.

L4 For a clear explanation with accurate development of at least four types of unemployment, cyclical, structural, frictional, seasonal, real-wage (classical), voluntary or well developed 3 types. [9–12]

L3 For a clear explanation of at least three types or more than three with undeveloped explanation. [7–8]

L2 For a limited attempt with little development. [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]

(b) Discussion of the different aims of government policy, both macro and micro could be mentioned, with a comment on their relative importance.

L4 For a sound discussion with good explanation of the aims and a clear understanding of the relative choices with a conclusion. [9–13]

L3 For a competent comment but with limited attempt at a comment on the relative importance. [7–8]

L2 For a correct explanation but with no attempt at a consideration of the relative importance. [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]

7 (a) Explanation on the m.e.c./m.e.i. against the rate of interest, consideration of longer term outlook, discussion on the importance of the rate of interest.

L4 For a sound explanation with clear understanding of the principles involved. [8–10]

L3 For a competent explanation but with limited development. [6–7]

L2 For a general explanation probably in descriptive form. [4–5]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–3]

(b) The link between investment and national income through the multiplier process should be explained. Candidates should discuss the role of private investment and consider its relative importance in terms of other elements of aggregate demand in the determination of national income. Allow for an answer which discusses political stability, natural resources, size of labour force, unrest and war.

L4 For a reasoned discussion and clearly structured answer with links explained and the multiplier analysis or the alternative approach developed. [12–15]

L3 For a full discussion of the different parts but without a clear link or without a good development of the multiplier or the alternative approach and only a limited attempt at a conclusion. [9–11]

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- L2 For a limited but acceptable attempt which may not consider all the elements, not have a conclusion, and not have any development of analysis. [6–8]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–5]

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Paper 41 (Data Response and Essays – Supplement),
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Section A

- 1 (a) Explanation of increase in production in manufacturing and reduction in significance of agriculture with consequent effect on GDP. [2]
- (b) The forests will be lost, people will lose their existing homes, the wildlife will suffer, the rivers will be contaminated, there will be air pollution and acid-rain, not everyone will be employed in the factory but the farm land will be destroyed. These changes could be given a monetary value and the effect on the whole economy given an economic cost. [5]
- (c) They will not be dependent on rain so there will be constant work, they are likely to become more skilled – there is college training, the product produced is worth more so their value is higher. So, if they get a job their income is likely to be higher. But they have been displaced from their home and their community. The factory is not labour intensive and not everyone who has been displaced will be employed; supply of labour is high which will could depress wages. The overall balance will vary according to the individual concerned. One side only maximum 3. [5]
- (d) Evidence for: 48% poverty, low literacy, high debts, disease, hunger, floods. Against this there has been some industrialisation, improved employment, use of natural resources, steel production, increased incomes. Need better figures of comparative living standards before and after development in the area, comparisons with other states, other information which is usually included in standard of living comparisons involving social and economic indicators. [8]

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Mark 18–25 (Linked to level 4 in individual question notes)

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

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Total mark 15	1–5	6–8	9–11	12–15

2 *Explanation of meaning of efficient allocation and explanation of the analysis which ensures an efficient optimum may be reached. Distinction between productive and allocative efficiency. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency.*

L4 For a thorough explanation and a reasoned discussion dealing with both aspects of efficiency and possible reasons for government intervention. [18–25]

L3 For a competent explanation of terms with accurate but limited discussion. [14–17]

L2 For a correct but undeveloped explanation with some attempt at analysis but only brief discussion. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant. [1–9]

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3 (a) *Explanation of economies of scale suggesting which of the economies might be significant in a public utility industry.*

L4 For a sound explanation of each the different economies and a clear link to the industry mentioned. [9–12]

L3 For a competent explanation of economies of scale but with limited application. [7–8]

L2 For a correct but limited explanation and little or no application. [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]

(b) *Discussion of the meaning of contestable markets and a consideration of what competition might be likely in the market for gas. Substitute alternative energy sources should be mentioned.*

L4 For a reasoned and well argued discussion with accurate development of the analysis and a good application. [9–13]

L3 For a clear but undeveloped discussion but one which still tries to make an application. [7–8]

L2 For a limited attempt to consider the theory but with little application. [5–6]

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

4 *Discussion of determinants of wage rates using either demand and supply or marginal revenue productivity. In the past we have not used the full range of marks for a demand and supply approach only with no mention of marginal revenue productivity. This question does refer to public and private sectors so the influence of government in determining wage rates could be mentioned although the actual question does not ask for a comparison.*

L4 For a thorough explanation of the analysis of wage determination with a clear link to the explanation of low wages with discussion of institutional factors and government policy. [18–25]
(14–17 for demand and supply only with institutional factors and government policy.)

L3 For a competent explanation but with limited discussion and application. [14–17]
(10–13 for demand and supply.)

L2 For a correct but undeveloped explanation with only brief application. [10–13]
(6–9 for demand and supply.)

L1 For an answer which contains inaccuracies and only a few correct points. [1–9]
(1–5 for demand and supply only.)

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- 5 (a) *Explanation of the link between interest and growth which is usually through lower rates causing increased investment or spending and subsequent multiplier effects on the national income.*
- L4 For a sound explanation of the meaning of growth and of the link between interest and growth and explicit reference to the contradiction. [9–12]
- L3 For a competent explanation of growth but with a limited attempt to see the contradiction implied or a sound explanation with no attempt to see the contradiction. [7–8]
- L2 For a correct but weak explanation of growth. [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]
- (b) *Discussion of the benefits of economic growth in terms of income, employment, standards of living but a consideration of the drawbacks in terms of externalities, short-term v. long-term use of resources, distribution of income and opportunity costs involved.*
- L4 For a reasoned and well argued discussion with accurate development of the analysis and a reasoned conclusion. [9–13]
- L3 For a clear but undeveloped discussion but one which still tries to make a conclusion. [7–8]
- L2 For a limited attempt to consider the theory but with no conclusion. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. [1–4]
- 6 *Question requires both a comment on the measurement of GNP – difficulties in collecting data, of unofficial economy, of double counting etc. – as well as a comment on the interpretation of the figures and the use to which they might be put when forming policy. Candidates should consider whether GNP figures can take some account of crime, pollution and health. Some of the alternative approaches which use GNP may include reference to part of the concerns stated. Candidates could also consider whether there is a link between GNP and crime or pollution or health.*
- L4 For a thorough explanation of the difficulties of measuring GNP, an analysis of how GNP might be effectively used and a discussion of the link with the issues mentioned. Conclusion should refer to the proposition in the stimulus. [18–25]
- L3 For a competent explanation which does not fully analyse the difficulties of calculating or using GNP but makes some attempt at evaluation and tries to link the discussion to the issues raised. A brief conclusion will be stated. [14–17]
- L2 For an accurate though undeveloped explanation with some attempt at analysis but no real attempt to link to the issues stated. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant [1–9]

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7 (a) *Explanation of the characteristic differences between a developing country and a developed country.*

L4 For a sound explanation and explicit comparison of the characteristics giving a good range of indicators both economic and social. [9–12]

L3 For a competent explanation but with a limited development, or a fuller development of only a few characteristics but still with an explicit comparison. [7–8]

L2 For a correct but weak explanation of the characteristics and little development. No explicit comparison given and reader is left to draw conclusions. [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]

(b) *Discussion of economic problems facing developed countries and a consideration of whether they are similar. Candidates could mention possible unemployment, possible pollution, possible inflation, possible over-crowding, negative externalities, exploitation of resources with lack of consideration for the long term.*

L4 For a reasoned and well argued discussion with accurate development of the discussion and a reasoned conclusion. [9–13]

L3 For a clear but undeveloped discussion but one which still tries to make a conclusion. [7–8]

L2 For a limited attempt to consider the theory but with no conclusion. [5–6]

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9708/42

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Section A

- 1 (a) (i) Explanation of relation between marginal utility, the price of good(s) and consumer satisfaction. [4]
- (ii) Consumers believe drinking bottled water has become fashionable. Maybe this is not irrational even though there is no evidence of maximising satisfaction as there is no real comparison with the value (satisfaction) of tap water against bottled water. Consumers may believe bottled water is better and gives them more satisfaction. [4]
- (b) It could lead to decreased employment, decreased incomes, trade balance improved by decreased imports. Increased revenue depending on elasticity of demand. There may be fewer external costs and less spent on dealing with the empty bottles. [5]
- (c) Some of the article is emotive rather than factual – vanity, advertising, implies fashionable goods are necessarily wasteful, 'free money' statement, notion that money saved would all go to developing countries, appears to emphasise current environmental issues. The use of phrases 'would be better for everyone', 'morally unacceptable', 'environmentalists believe... unnecessary... emissions'.
- Less emotive and more factual are the statements about the relative costs of water, level of imports, long distance water is carried for import, excessive profits, the lack of any positive statement about the value of the water industry by the minister. [7]

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Mark 10–13 (Linked to Level 2 in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14–17 (Linked to Level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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18–25 (Linked to Level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

	1	2	3	4
Total mark 10	1–3	4–5	6–7	8–10
Total mark 12	1–4	5–6	7–8	9–12
Total mark 13	1–4+	5–6+	7–8+	9–13
Total mark 15	1–5	6–8	9–11	12–15

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- 2 (a)** *Explanation of possible effect of growth in size on output and costs – the difference between the changes in total and the changes in average cost. Explanation of economies of scale and possible diseconomies of scale and possible resulting effect on profits. A conclusion.*
- L4 For a clear explanation of average costs, a full explanation of different types of economies and possible diseconomies of large size. Good structure to the answer. (9–12)
- L3 For a competent explanation of average cost but with a limited development of economies, or a fuller development of only some of the economies but still with a conclusion. (7–8)
- L2 For a correct but weak explanation of the economies with little comment on the possible diseconomies. No explicit balance in the answer is given and the reader is left to draw conclusions. (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)
- (b)** *Comment on market power of monopolies and effect on price; comment on the exploitation of resources by a large company which can create barriers to entry and force up prices. The government might be concerned about the lack of provision for conservation, exploitation of consumers, excessive profits, safety and health issues.*
- L4 For a reasoned and well argued discussion with accurate development of several of the points and a reasoned conclusion. (9–13)
- L3 For a clear but undeveloped discussion but one which still tries to make a conclusion. The answer may comment only on one or two points about monopoly pricing and profits. (7–8)
- L2 For a limited attempt to consider the information but with no conclusion. (5–6)
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. (1–4)
- 3** *Discussion of the theory of wages. Imperfect markets would result in reduced employment and also lower wages compared with perfect markets. Large investment is likely to cause factor substitution in favour of capital especially in telecommunications. However, productivity may go up as a result with possible beneficial effects on wages. In telecommunications, the decrease in demand for labour is unlikely to be caused by a decrease in demand for the product.*
- L4 For a thorough explanation of the analysis of wage determination with a clear link to the explanation of wages and a clear comparison between more and less competitive markets. Overall conclusion and well-structured answer. (18–25)
(14–17 for demand and supply only)
- L3 For a competent explanation of imperfect markets but with limited discussion and comparison and imprecise conclusion. (14–17)
(10–13 for demand and supply only)
- L2 For a correct but undeveloped explanation with only a brief comparison and no real conclusion. (10–13)
(6–9 for demand and supply only)
- L1 For an answer which contains inaccuracies and only a few correct points. (1–9)
(1–5 for demand and supply only)

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- 4 (a) 2 marks each for transactions and precautionary, 6 for speculative demands for money. This section is an explanation, what each term means and, briefly, what it is dependent upon – income, time of year, possible future purchases, interest rates, level of interest rates and elasticity.

- L4 For a sound explanation with clear understanding of the concept. (8–10)
 L3 For a competent explanation but with more limited comment on what each term is dependent upon. (6–7)
 L2 For a general but very brief explanation. (4–5)
 L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

- (b) *Increase in pay will increase transactions demand, monthly rather than weekly pay will also increase transactions demand. (Candidates might mention the effect of increased use of credit cards where purchases are made but not paid for at the same time. This alters the changes in transactions as income changes that were originally suggested when the concept was developed). The higher rate of interest might encourage some minor reduction in transactions demand on a temporary basis.*

If precautionary demand is for unexpected expenditure there will be no change, assuming expectations are the same.

Higher interest causes price of securities to fall and may increase demand for securities rather than for idle balances of money in anticipation of selling when price rises. Higher interest may increase demand for currency from foreign buyers, causing rise in exchange rate which reinforces demand for currency. Expectations about future of exchange rates may shift speculative curve.

- L4 For a reasoned discussion on transactions and precautionary – up to 6, on speculative – up to 9, clearly structured answer. (12–15)
 L3 For a competent discussion but with less development, transactions and precautionary up to 4, speculative up to 7. (9–11)
 L2 For a weaker attempt which gives only a brief comment and discussion. Transactions and precautionary up to 3, speculative up to 5. (6–8)
 L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

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- 5 (a) *Explanation of the meaning of GDP and a comparison of that indicator with other suitable indicators of standard of living. Alternative measures such as GDP per head, HDI, MEW should be mentioned. If no alternative measures mentioned = L3 max.*

- L4 For a sound explanation and explicit comparison giving a good range of indicators both economic and social and a conclusion. (9–12)
- L3 For a competent explanation but with a limited comparison, or a fuller development of only two indicators but still with a conclusion. (7–8)
- L2 For a correct but weak explanation and little development. No explicit comparison given and reader is left to draw conclusions. (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)

- (b) *Discussion should consider what the point of a population policy might be. If it is to promote economic growth then other aims and policies might be more pertinent. A consideration of the use of resources, of the international trade, of the development of industry and services, of health care and education might be mentioned.*

- L4 For a reasoned and well argued discussion with accurate development of the discussion and a reasoned conclusion. (9–13)
- L3 For a clear but undeveloped discussion but one which still tries to make a conclusion. (7–8)
- L2 For a limited attempt to consider the information but with no conclusion. (5–6)
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. (1–4)

- 6 (a) *Description of the term using economic variables such as employment, output, prices, international trade. Candidates could describe the effects of recession on the lives of employees, companies and government.*

- L4 For a sound explanation with clear understanding of the term. (8–10)
- L3 For a competent explanation but with more limited development of the idea. (6–7)
- L2 For a general but very brief explanation. (4–5)
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

- (b) *Discussion and analysis of government policies, fiscal, monetary, regulations and their effects on employment, output and growth.*

- L4 For a reasoned discussion on different types of policy with a comment on how the policies will affect a recession. (12–15)
- L3 For a competent discussion but with less development and less comment on how the policies affect a recession. (9–11)
- L2 For a weaker attempt which gives only a brief discussion. (6–8)
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

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- 7 *Candidates should recognise that they have to comment on an argument. First, they need to decide whether inflation may be caused by the pressure on demand and on resources through fast growth. Secondly, they need to decide whether the reason for dealing with inflation is because it does not lead to job creation. The decision has to be taken whether inflation needs to be controlled and whether it is because of the lack of jobs. Thirdly, they need to consider, if inflation has to be controlled, whether interest rate policy is the only tool available. A conclusion on whether they support the argument, or parts of the argument, should be given.*
- L4 For a thorough comment and discussion with a reasoned development of each stage of the argument, with a conclusion clearly presented. (18–25)
- L3 For a competent discussion but without necessarily considering each stage of the argument. There should still be a use of analysis to support the conclusion which should be clearly presented. (14–17)
- L2 For a correct but undeveloped discussion with only limited reference to supporting analysis and without a consideration of each stage of the argument. The structure will not be clear and the answer will be left without a definitive conclusion. (10–13)
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant. (1–9)

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GCE Advanced Subsidiary Level and GCE Advanced Level

**MARK SCHEME for the October/November 2010 question paper
for the guidance of teachers**

9708 ECONOMICS

9708/41

Paper 4 (Data Response and Essays (Supplement)),
maximum raw mark 70

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 must be read in conjunction with the question papers and the report on the examination.

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Section A

1 (a) How has the type of market structure in food retailing in the UK changed? [3]

Candidates should compare the original smaller shops to the larger supermarkets, with increasing emphasis towards imperfect market structure. 1 for descriptive mention (e.g. type of shops, range or products, proportion of market size for supermarkets (75%)). 2 for comment using market structure terms – still competitive with each other, so really oligopoly but monopoly in legal terms.

(b) To what extent does the article support the view that the consumer is sovereign in food retailing? [4]

Article says supermarkets gave consumers what they wanted e.g. organic and fair trade products; this seems to support the idea that the consumer is sovereign. However, it was the supermarkets which decided to expand, introduce new products, introduce own product brands, introduce store cards, controlled suppliers to get cheaper prices. This does not support the idea of consumer sovereignty.

Reserve 1 mark for brief or implied conclusion.

(c) Explain what the various objectives of a firm might be. [5]

Question does not necessarily require illustration from the information given. Comment on profit maximising, sales maximisation, behavioural aims, satisficing in general terms is enough. Aims which might be found in the information could be mentioned. (e.g. copy rivals, expand into other areas, control suppliers, sell high-quality products).

1 mark for identification of each aim up to a maximum of 3.

1 mark for brief comment.

(d) Do you agree with the conclusion of the article that the size of a firm should not be a source of concern? [8]

Evidence for concern: the comment on high prices, high profits, closure of some competitors, control over suppliers, destruction of environment. Evidence for their being no need for concern: wider choice, more convenient shopping hours, delivery to homes, clearer labels, quality control. Up to 4 each side but reserve 1 mark for conclusion.

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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 Where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 Where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 Where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 Where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14–17 (Linked to level 3 in individual question notes).

- 14–15 Where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 For an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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18–25 (Linked to level 4 in individual question notes).

18–20 Where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 For an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections by level.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

2 In 2009 there were huge fires in Australia which destroyed much property and countryside. The government promised to allocate a large amount of money and resources to help with the restoration of the area.

(a) With the help of diagrams explain what is meant by efficiency in the use of resources.
[12]

Explanation of productive and allocative efficiency.

- L4 For a good explanation of both types of efficiency with supporting diagrams clearly drawn. [9–12]
- L3 For either a competent explanation but unclear diagrams or unclear explanation with accurate diagrams. [7–8]
- L2 For a limited attempt probably only dealing with one type of efficiency. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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(b) Discuss the economic implications of the government's approach to the situation.

[13]

The government's approach is to allocate extra funds and resources. This will have implications for the way the money is raised – fiscal policy or monetary policy. It will have possible implications on other government expenditure – use of opportunity cost concept. It will have implications for employment, changes in incomes, the effect on trade balance – whether to import resources or use domestic resources; the range of government intervention – use of government subsidies, whether to use private or public enterprise etc.

- L4 For a sound discussion with a good discussion – using economic terminology – of three or four areas or implications exploring wider issues. [9–13]
- L3 For a competent comment but with a narrower range of implications, or with a more limited analytical and more descriptive approach. [7–8]
- L2 For a relevant choice of one or two implications in a descriptive style. [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]

3 (a) Explain what is meant by internal economies of scale, and analyse the link between economies of scale and a firm's long run average cost curve.

[12]

Candidates should explain different internal economies of scale and analyse how they are derived. They should then show the link between economies of scale and the long-run average cost curve (LRAC).

- L4 For a sound explanation of economies with clear understanding of the link to the LRAC. [9–12]
- L3 For a competent explanation of economies but with limited development of the link to the cost curve. [7–8]
- L2 For a general explanation probably in descriptive form of economies of scale but no real link to the cost curve. [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]

(b) Discuss whether there is a relationship between the marginal cost curve of the firm and the supply curve of the industry to which it belongs.

[13]

Explanation of the link between marginal cost of the firm and supply curve of industry in perfect competition. Relevance of average variable cost. Comment on the lack of such a straight forward relationship in imperfect competition in order to obtain high L4 (11+).

- L4 For a good discussion of both the firm and industry, clear distinction made between different market structures and with supporting diagrams clearly drawn. [9–13]
- L3 For either a competent explanation but unclear diagrams or unclear explanation of the distinction between the types of market structure but with accurate diagrams of both firm and industry. [7–8]
- L2 For a limited attempt dealing with one type of market, probably perfect competition. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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- 4 Recently, employers in some countries have employed foreign workers instead of local workers. The local workers argue that they should have priority over foreign workers and also that more products should be produced at home rather than being imported.

- (a) Explain, with the help of a marginal revenue productivity diagram why an employer might prefer to switch to foreign workers. [12]

Candidates could comment on the availability of labour, the relative cost of the labour, the skills involved, the speed or the amount/volume of goods produced. Cheaper labour would reduce the cost and be reflected in the supply curve. Better skills, more productive work could be reflected in the marginal revenue productivity curve (mrp).

- L4 For a good explanation, the effect on the demand and the supply with relevant changes in the curves on the diagram with supporting diagrams showing the comparison between home and foreign labour clearly drawn. [9–12]
- L3 For either a competent explanation but unclear diagrams or an unconvincing explanation of the effect on demand and supply but with a competent attempt at a comparative diagram. [7–8]
- L2 For a limited attempt probably dealing with one aspect only – either productivity or cost and no diagram. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

- (b) Discuss whether it would be beneficial for a country to give priority to its local workers. [13]

Candidates should emphasise a more macro aspect than in part (a). They could discuss the wish to increase national income, the wish to reduce local unemployment, to support local industry or particular regions dependent on one major industry, or the wish to reduce imports and attempt to increase exports.

- L4 For a sound discussion involving three reasons for the support of the workers with convincing analysis. [9–13]
- L3 For a competent discussion involving two reasons for the support of the workers with adequate analysis, or three reasons less clearly elaborated. [7–8]
- L2 For a general discussion of two reasons with little development of either. [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]

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- 5 National income statistics are used to calculate a country's GDP. The table shows the GDP for 5 countries for 2008**

Country	GDP \$m
USA	14 580 000
India	3 319 000
Singapore	244 000
Mauritius	14 060
Swaziland	5 626

Discuss how far the table might be used to determine whether one country has higher living standards than another. [25]

Candidates should discuss the usefulness of the figures for GDP. These figures are not per head so the comparison is misleading. They could also discuss the difficulties of comparing statistics between countries with different climates, cultures and economic structures. They should also mention the relevance of other factors which influence the standard of living which might be included in alternative measures of welfare e.g. HDI, MEW.

- L4 For a thorough discussion of the table and the difficulties of using any indicator to compare living standards in countries with different climates, cultures and economic structures. A discussion of alternative measures of welfare to the figures in the table should be presented together with a reasoned conclusion. [18–25]
- L3 For a competent discussion of the table but with a more limited comment about the difficulties of comparing living standards. A conclusion will still be presented. [14–17]
- L2 For a brief comment on the table with little discussion of alternative measures and with no conclusion. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

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6 Explain what is meant by an equilibrium level of national income and discuss why this equilibrium might change in a developing country. [25]

Candidates should explain the link between injections and withdrawals and comment on the balance between them which forms an equilibrium. The process of change by the multiplier should be explained. They should recognise that there is an open economy with government sector. Candidates should suggest which factors might be significant in a developing country. Any reasoned discussion should be accepted. They might suggest the equilibrium changes because of foreign investment, because of national government investment or international trade. Similarly, they could comment on tax changes or spending changes.

- L4 For a thorough discussion of the factors which are involved in the analysis of an equilibrium income involving public and private sectors in an open economy. A good explanation of the multiplier, together with a comment on which might be important in a developing country together with a reasoned conclusion. [18–25]
- L3 For a competent discussion of the factors involved in an equilibrium. The multiplier will be mentioned but the suggested relative importance of different components of the national income will be brief. A conclusion will still be presented. [14–17]
- L2 For an answer which concentrates on the first part of the question explaining what is meant by an equilibrium income; or for an answer with a weak analysis of equilibrium and the multiplier but also with a little discussion of the relative importance of the different components to developing countries. No mention of multiplier, maximum L2. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

7 Economic analysis states that the aims of the government include economic growth and economic efficiency.

(a) Explain how achieving economic growth might conflict with other government macroeconomic aims. [12]

Explanation of government aims and the effect of growth on incomes, demand, possible trade patterns, prices, resource use. Growth could increase demand with possible effects on inflation; could increase imports with possible effects on balance of payments; could use resources with possible effects on conservation and long-term planning; could change incomes with possible effects on fiscal policy and expenditure.

- L4 For a good explanation of the government aims and a comment on three or more conflicts presented in a reasoned argument. [9–12]
- L3 For a competent explanation of government aims but a less clear evaluation of three conflicts or a good explanation of two conflicts. [7–8]
- L2 For a limited attempt probably only dealing with the government aims and a very brief attempt at conflicts with no conclusion. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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- (b) Is economic efficiency better achieved by the market mechanism rather than by government microeconomic policy? [13]**

Explanation of efficiency and a discussion of the relative merits of the market and possible market failures.

- L4 For a sound explanation of efficiency and a discussion of the elements of market failure, for example, externalities, monopolies, lack of information together with a reasoned conclusion. [9–13]
- L3 For a competent explanation of efficiency but briefer discussion of market failure but still with a conclusion. [7–8]
- L2 For a more limited general description, rather than an analytical discussion with little attempt at a conclusion. [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]

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

**MARK SCHEME for the October/November 2010 question paper
for the guidance of teachers**

9708 ECONOMICS

9708/42

Paper 4 (Data Response and Essays (Supplement)),
maximum raw mark 70

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Section A

1 (a) How has the type of market structure in food retailing in the UK changed? [3]

Candidates should compare the original smaller shops to the larger supermarkets, with increasing emphasis towards imperfect market structure. 1 for descriptive mention (e.g. type of shops, range or products, proportion of market size for supermarkets (75%)). 2 for comment using market structure terms – still competitive with each other, so really oligopoly but monopoly in legal terms.

(b) To what extent does the article support the view that the consumer is sovereign in food retailing? [4]

Article says supermarkets gave consumers what they wanted e.g. organic and fair trade products; this seems to support the idea that the consumer is sovereign. However, it was the supermarkets which decided to expand, introduce new products, introduce own product brands, introduce store cards, controlled suppliers to get cheaper prices. This does not support the idea of consumer sovereignty.

Reserve 1 mark for brief or implied conclusion.

(c) Explain what the various objectives of a firm might be. [5]

Question does not necessarily require illustration from the information given. Comment on profit maximising, sales maximisation, behavioural aims, satisficing in general terms is enough. Aims which might be found in the information could be mentioned. (e.g. copy rivals, expand into other areas, control suppliers, sell high-quality products).

1 mark for identification of each aim up to a maximum of 3.

1 mark for brief comment.

(d) Do you agree with the conclusion of the article that the size of a firm should not be a source of concern? [8]

Evidence for concern: the comment on high prices, high profits, closure of some competitors, control over suppliers, destruction of environment. Evidence for their being no need for concern: wider choice, more convenient shopping hours, delivery to homes, clearer labels, quality control. Up to 4 each side but reserve 1 mark for conclusion.

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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 Where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 Where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 Where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 Where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14–17 (Linked to level 3 in individual question notes).

- 14–15 Where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 For an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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18–25 (Linked to level 4 in individual question notes).

18–20 Where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 For an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections by level.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

2 In 2009 there were huge fires in Australia which destroyed much property and countryside. The government promised to allocate a large amount of money and resources to help with the restoration of the area.

(a) With the help of diagrams explain what is meant by efficiency in the use of resources.
[12]

Explanation of productive and allocative efficiency.

- L4 For a good explanation of both types of efficiency with supporting diagrams clearly drawn. [9–12]
- L3 For either a competent explanation but unclear diagrams or unclear explanation with accurate diagrams. [7–8]
- L2 For a limited attempt probably only dealing with one type of efficiency. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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(b) Discuss the economic implications of the government's approach to the situation.

[13]

The government's approach is to allocate extra funds and resources. This will have implications for the way the money is raised – fiscal policy or monetary policy. It will have possible implications on other government expenditure – use of opportunity cost concept. It will have implications for employment, changes in incomes, the effect on trade balance – whether to import resources or use domestic resources; the range of government intervention – use of government subsidies, whether to use private or public enterprise etc.

- L4 For a sound discussion with a good discussion – using economic terminology – of three or four areas or implications exploring wider issues. [9–13]
- L3 For a competent comment but with a narrower range of implications, or with a more limited analytical and more descriptive approach. [7–8]
- L2 For a relevant choice of one or two implications in a descriptive style. [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]

3 (a) Explain what is meant by internal economies of scale, and analyse the link between economies of scale and a firm's long run average cost curve.

[12]

Candidates should explain different internal economies of scale and analyse how they are derived. They should then show the link between economies of scale and the long-run average cost curve (LRAC).

- L4 For a sound explanation of economies with clear understanding of the link to the LRAC. [9–12]
- L3 For a competent explanation of economies but with limited development of the link to the cost curve. [7–8]
- L2 For a general explanation probably in descriptive form of economies of scale but no real link to the cost curve. [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]

(b) Discuss whether there is a relationship between the marginal cost curve of the firm and the supply curve of the industry to which it belongs.

[13]

Explanation of the link between marginal cost of the firm and supply curve of industry in perfect competition. Relevance of average variable cost. Comment on the lack of such a straight forward relationship in imperfect competition in order to obtain high L4 (11+).

- L4 For a good discussion of both the firm and industry, clear distinction made between different market structures and with supporting diagrams clearly drawn. [9–13]
- L3 For either a competent explanation but unclear diagrams or unclear explanation of the distinction between the types of market structure but with accurate diagrams of both firm and industry. [7–8]
- L2 For a limited attempt dealing with one type of market, probably perfect competition. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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- 4 Recently, employers in some countries have employed foreign workers instead of local workers. The local workers argue that they should have priority over foreign workers and also that more products should be produced at home rather than being imported.

- (a) Explain, with the help of a marginal revenue productivity diagram why an employer might prefer to switch to foreign workers. [12]

Candidates could comment on the availability of labour, the relative cost of the labour, the skills involved, the speed or the amount/volume of goods produced. Cheaper labour would reduce the cost and be reflected in the supply curve. Better skills, more productive work could be reflected in the marginal revenue productivity curve (mrp).

- L4 For a good explanation, the effect on the demand and the supply with relevant changes in the curves on the diagram with supporting diagrams showing the comparison between home and foreign labour clearly drawn. [9–12]
- L3 For either a competent explanation but unclear diagrams or an unconvincing explanation of the effect on demand and supply but with a competent attempt at a comparative diagram. [7–8]
- L2 For a limited attempt probably dealing with one aspect only – either productivity or cost and no diagram. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

- (b) Discuss whether it would be beneficial for a country to give priority to its local workers. [13]

Candidates should emphasise a more macro aspect than in part (a). They could discuss the wish to increase national income, the wish to reduce local unemployment, to support local industry or particular regions dependent on one major industry, or the wish to reduce imports and attempt to increase exports.

- L4 For a sound discussion involving three reasons for the support of the workers with convincing analysis. [9–13]
- L3 For a competent discussion involving two reasons for the support of the workers with adequate analysis, or three reasons less clearly elaborated. [7–8]
- L2 For a general discussion of two reasons with little development of either. [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]

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- 5 National income statistics are used to calculate a country's GDP. The table shows the GDP for 5 countries for 2008**

Country	GDP \$m
USA	14 580 000
India	3 319 000
Singapore	244 000
Mauritius	14 060
Swaziland	5 626

Discuss how far the table might be used to determine whether one country has higher living standards than another. [25]

Candidates should discuss the usefulness of the figures for GDP. These figures are not per head so the comparison is misleading. They could also discuss the difficulties of comparing statistics between countries with different climates, cultures and economic structures. They should also mention the relevance of other factors which influence the standard of living which might be included in alternative measures of welfare e.g. HDI, MEW.

- L4 For a thorough discussion of the table and the difficulties of using any indicator to compare living standards in countries with different climates, cultures and economic structures. A discussion of alternative measures of welfare to the figures in the table should be presented together with a reasoned conclusion. [18–25]
- L3 For a competent discussion of the table but with a more limited comment about the difficulties of comparing living standards. A conclusion will still be presented. [14–17]
- L2 For a brief comment on the table with little discussion of alternative measures and with no conclusion. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

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6 Explain what is meant by an equilibrium level of national income and discuss why this equilibrium might change in a developing country. [25]

Candidates should explain the link between injections and withdrawals and comment on the balance between them which forms an equilibrium. The process of change by the multiplier should be explained. They should recognise that there is an open economy with government sector. Candidates should suggest which factors might be significant in a developing country. Any reasoned discussion should be accepted. They might suggest the equilibrium changes because of foreign investment, because of national government investment or international trade. Similarly, they could comment on tax changes or spending changes.

- L4 For a thorough discussion of the factors which are involved in the analysis of an equilibrium income involving public and private sectors in an open economy. A good explanation of the multiplier, together with a comment on which might be important in a developing country together with a reasoned conclusion. [18–25]
- L3 For a competent discussion of the factors involved in an equilibrium. The multiplier will be mentioned but the suggested relative importance of different components of the national income will be brief. A conclusion will still be presented. [14–17]
- L2 For an answer which concentrates on the first part of the question explaining what is meant by an equilibrium income; or for an answer with a weak analysis of equilibrium and the multiplier but also with a little discussion of the relative importance of the different components to developing countries. No mention of multiplier, maximum L2. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

7 Economic analysis states that the aims of the government include economic growth and economic efficiency.

(a) Explain how achieving economic growth might conflict with other government macroeconomic aims. [12]

Explanation of government aims and the effect of growth on incomes, demand, possible trade patterns, prices, resource use. Growth could increase demand with possible effects on inflation; could increase imports with possible effects on balance of payments; could use resources with possible effects on conservation and long-term planning; could change incomes with possible effects on fiscal policy and expenditure.

- L4 For a good explanation of the government aims and a comment on three or more conflicts presented in a reasoned argument. [9–12]
- L3 For a competent explanation of government aims but a less clear evaluation of three conflicts or a good explanation of two conflicts. [7–8]
- L2 For a limited attempt probably only dealing with the government aims and a very brief attempt at conflicts with no conclusion. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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- (b) Is economic efficiency better achieved by the market mechanism rather than by government microeconomic policy? [13]**

Explanation of efficiency and a discussion of the relative merits of the market and possible market failures.

- L4 For a sound explanation of efficiency and a discussion of the elements of market failure, for example, externalities, monopolies, lack of information together with a reasoned conclusion. [9–13]
- L3 For a competent explanation of efficiency but briefer discussion of market failure but still with a conclusion. [7–8]
- L2 For a more limited general description, rather than an analytical discussion with little attempt at a conclusion. [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]

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

**MARK SCHEME for the October/November 2010 question paper
for the guidance of teachers**

9708 ECONOMICS

9708/43

Paper 4 (Data Response and Essays (Supplement)),
maximum raw mark 70

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 must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



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Section A

- 1 (a) The article says that consumers will reduce the amount they are willing to pay for each additional unit of a product. Why do they do this? [4]

Explanation of changes in total utility (1), and marginal utility (1), and the link between marginal utility and price (2). Need mention of equilibrium for 4 marks.

- (b) Explain what is meant by product differentiation and how it might benefit producers. [3]

Explanation of product differentiation (1) and the possibility of charging higher prices for branded goods to help cover research costs (2).

- (c) Two food products are offered for sale. The producers of one carry out research to make it safer and increase its price to pay for the research. The producers of the other try to keep their share of the market by lowering its price.

Show the effects of these changes using a budget line diagram. [4]

Explanation of budget lines based on price and income (2), shift of intersection with axis caused by an increase in price – correctly identified to correct axis (1), simultaneous shift of intersection with axis with decrease in price of other good – identified to correct axis (1).
Need explanation of budget lines for 4 marks.

- (d) The article says that producers have responded to changes in demand and now draw attention to the health aspects of their food products

Does the evidence indicate that the market will always achieve the best allocation of resources in food production? [9]

Against: sellers know more information; consumers sometimes misunderstand; producers only change if profitable; the government needs to be involved in the labelling rules; there are public good elements in food production. For: market is satisfactory only if there is full information on both demand and supply side.

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Section B

General Comments for section B:

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The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

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Mark 1–9 (Linked to level one in individual question notes).

- 1–5 Where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
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Mark 10–13 (Linked to level two in individual question notes).

- 10–11 Where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 Where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14–17 (Linked to level 3 in individual question notes).

- 14–15 Where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 For an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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18–25 (Linked to level 4 in individual question notes).

18–20 Where there is a thorough knowledge of the facts and theory with an excellent ability to describe explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 For an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections by level.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

2 (a) Explain the significance of the distinction between fixed and variable costs for the pricing and output decisions of a firm. [12]

Explanation of two types of cost. Explanation of output, and need at that output to cover variable cost in short run and the consequences of not covering both fixed and variable in long run.

- L4 For a good explanation of both costs, a clear link to short and long run. A diagram is not required but can be rewarded if clear and accurate. [9–12]
- L3 For either a competent explanation of costs but a less clear link to the pricing and output decisions. [7–8]
- L2 For a limited attempt probably only dealing with either short or long run or with both but weak explanation and weak link to pricing and output decisions. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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- (b) Discuss whether the pricing and output decisions of a firm are determined solely by an estimate of revenue and cost. [13]**

Candidates should discuss the role of revenue and cost but also consider the overall aims of the firm and the type of market structure in which the firm operates. Interdependence, contestable markets, imperfect markets all could influence the firm. So could government regulation.

- L4 Clear discussion of the role of costs/revenue in the decisions of the firm especially if it aims for profit maximisation together with a discussion of alternative aims and the structure of the markets with a conclusion. [9–13]
- L3 For a competent analysis but with less development which may be restricted to one type of market structure or one or two alternative aims. A conclusion should still be given. [7–8]
- L2 For a relevant analysis but with only a brief development and without any conclusion. [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]

- 3 It is suggested that there are so many benefits from large-scale production that all firms should be encouraged to grow in size and there should be no government restriction on such growth. Do you agree with this opinion? [25]**

Candidates should discuss whether there are benefits from large scale production and then consider, if there are, whether all firms should be encouraged to grow in size or whether there is a place for small firms. Lastly they should discuss whether this growth, if encouraged, should be unrestricted by government regulation.

- L4 For a discussion of the factors which are involved in the analysis of each the stages of the argument together with a conclusion. [18–25]
- L3 For a competent discussion of part of the argument – probably large scale production – with briefer comment on government regulation and little on whether all firms should be encouraged to grow in size. Some attempt at a conclusion will be presented. [14–17]
- L2 For a brief comment on part of the argument, with a weak explanation of the analysis and little, if any, discussion of the role of the government. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

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- 4 Do you agree that the higher wages paid in some occupations occur just because some trade unions have a stronger bargaining position than others? [25]**

Candidates should explain the factors affecting the level of wages. The demand for labour and the supply of labour should be discussed. Demand should be linked to the marginal revenue product (mrp) analysis. Supply could be influenced in imperfect competition by trade unions who bargain over the wage rate and also over non-wage benefits. Other relevant factors influencing supply include the wages in alternative employment, the idea of income and substitution effects leading to a backward slope in the supply curve. Look for a conclusion as to whether the trade union is the main factor.

- L4 For a thorough explanation of the analysis of wage determination with a clear link to a discussion of trade unions and a clear conclusion to the answer. [18–25]
(16–17 for demand and supply only without mrp)
- L3 For a competent explanation of the analysis but with a more limited discussion of the relevance of trade unions. There will still be a conclusion. [14–17]
(12–13 for demand and supply without mrp)
- L2 For a more limited analysis, some, but very limited attempt to discuss the trade union influence and with no conclusion. [10–13]
(6–9 for demand and supply without mrp)
- L1 For an answer which contains inaccuracies and only a few correct points [6–9]
(1–5 for demand and supply only without mrp)

- 5 (a) Explain what you consider to be *three* economic issues in the country in which you live and analyse which is most significant. [12]**

Candidates can mention any three problems, macro or micro but they must give a reasoned account of the relative significance of them.

- L4 For a good explanation of three problems (up to 6) with a clear analysis of which is most significant (up to 6) [9–12]
- L3 For a competent analysis of the problems (up to 6) but with a weaker discussion of their relevance or significance (up to 3) [7–8]
- L2 For a limited general explanation of possible problems (up to 6) but with very limited or no attempt to discuss their significance. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

- (b) Discuss what measures might be recommended to try to deal with the most significant issue. [13]**

Candidates could consider government micro or macro measures, fiscal policy, monetary policy, regulation, or control. The measures suggested should be shown to be relevant to the problems mentioned.

- L4 For a good analysis of possible measures with a clear discussion of how they link to the problem mentioned. [9–13]
- L3 For a competent explanation of general measures but with little to suggest how they might be linked to the significant problem mentioned. [7–8]
- L2 For a limited general explanation of the measures with no real attempt to link to the problem mentioned. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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- 6 Hurricanes can occur in some parts of the world. Major flooding is caused, crops are ruined and the wind destroys homes and factories. People's standard of living is severely affected. Some blame climate change for unusual weather conditions.

(a) Explain how a country might measure its standard of living. [12]

Candidates should discuss ways of measuring a country's standard of living and how to determine whether people are 'better off'. They should consider indicators that might be used – both quantitative and qualitative.

- L4 For a thorough explanation and a good coverage of quantitative and qualitative indicators. [9–12]
- L3 For a competent explanation but with a more limited development of the indicators. There will still be a conclusion. [7–8]
- L2 For an undeveloped explanation, probably concentrating on quantitative indicators with little discussion of wider indicators. There will be no conclusion. [5–6]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–4]

(b) Discuss how far a country's standard of living is determined by factors beyond its control [13]

Changes in standards of living can only be measured by the indicators mentioned in (a). Candidates should discuss how these indicators might be influenced by natural disasters but also discuss how a government, business and consumer activity might have an influence on a country's standard of living by its aims and policies. Both quantitative and qualitative indicators would be affected. There should be a conclusion.

- L4 For a thorough discussion of how natural disasters would affect the standard of living together with a good discussion of the relevance of government policy, business and consumer activity. [9–13]
- L3 For a competent explanation but with a more limited development of the range of activity that might influence living standards, possibly concentrating on government policies. There will still be a conclusion. [7–8]
- L2 For an undeveloped explanation and poor overall balance between changes caused by natural disasters and changes deliberately caused by economic activity. There will be no conclusion. [5–6]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies. [1–4]

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- 7 (a) **Some African countries are richer in natural resources in the form of minerals and land than some developed countries. Why then are these same African countries referred to as developing countries?** [12]

Discussion of the indicators which characterise developing countries – population growth, income distribution, economic structure, employment, external trade, role of multinational corporations.

- L4 For a good analysis of the characteristics with a link to the relevance of the natural resources as being only part of the classification. There should be a conclusion. [9–12]
- L3 For a competent analysis of the characteristics but with a weaker discussion of the relevance of natural resources. There should still be a conclusion. [7–8]
- L2 For a limited general explanation of characteristics with little attempt to refer to the natural resources and no conclusion. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

- (b) **Use the concept of the multiplier to discuss how an increase in investment in a developed country might affect both the developed country and developing countries.** [13]

Candidates should mention the effect of an increase in investment on national income using the multiplier process. For example, could result in an increase in incomes, increase in trade, more tax for government in developed country, maybe might appear more desirable a place to invest for multinational companies.

- L4 For a good analysis of the multiplier and a competent discussion of the repercussions on both developed and developing countries. [9–13]
- L3 For a competent explanation of the multiplier but with a more general and limited discussion on the link between the two types of country. [7–8]
- L2 For a limited general explanation of the multiplier with no real attempt to discuss the link between the countries. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

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Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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- 1 (a) 2008 (1), stopped increasing after 2007 (1) [1]
- (b) both were rising (1), US was rising faster (1), Euro area had a steady increase (1) [3]
- (c) diagram (1 for labels), price change shown (1); parallel shift of curve either for an increase or decrease in income price (1); explanation (1) [4]
- (d) meaning of utility (1); equi-marginal formula (2);
 explanation and meaning of principle (2) comment on significance – makes no difference
 how goods are paid for (1) [4]
- (e) Evidence supporting the idea of a disadvantage: unemployment caused reductions in income and therefore spending was cut. This might reduce profits.
 Evidence against the idea of a disadvantage can be found in the comments about some luxury goods and the trend towards environmentally friendly goods.
 Producers lowered prices and adopted sales promotions – this may have increased revenue depending on the elasticity. Although employment was reduced the evidence does not support the view that all business revenue was reduced.
 Allow up to 4 marks for one side of the discussion only plus reserve 1 mark for the conclusion that there is insufficient evidence to support this opinion. [8]

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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level three in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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Mark 18–25 (Linked to level four in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

2 Candidates should discuss what is meant by imperfections in the market/market failure. They should also explain the meaning of efficiency. They should then consider whether government policies and intervention necessarily lead to a better distribution of resources with an outcome of greater efficiency.

L4 For a thorough analysis of market failure and also of efficiency together with a reasoned comment about the outcomes of government policy and the practicality of achieving efficiency. A conclusion should be given. [18–25]

L3 For a competent explanation of the terms but with limited discussion of the likely outcome from government intervention. [14–17]

L2 For a correct but undeveloped theoretical analysis with very little comment on the likely outcome of intervention and no conclusion. [10–13]

L1 For an answer which contains inaccuracies and only a few correct points. [1–9]

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- 3 (a)** Explain the distinction between the two types of profit and explanation of profit in perfect and imperfect competition. Abnormal profit in short-run perfect competition, monopolistic competition and possibly short-run and long-run imperfect competition. Normal profit necessary in long-run perfect competition, monopolistic competition and possibly in other imperfect markets.
- L4 For a clear definition and accurate analysis of theory in both perfect and imperfect, short and long run [9–12]
 - L3 For a clear definition and fair analysis which concentrates either on perfect and monopoly without monopolistic competition, or omits part of the long run analysis [7–8]
 - L2 For a limited analysis which may omit the definition but briefly explains when the two types of profit may occur. [5–6]
 - L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]
- (b)** Discuss what economic theory suggests are the characteristics and possible behaviour of firms in an oligopolistic market; small number of competing firms, interdependence, price-makers, differentiated products, barriers to entry. Main features of behaviour; collusion, price leadership, sometimes price stability, sometimes price wars and non-price competition.
- L4 For a good analysis of the market structure and at least three developed accounts of market behaviour [9–13]
 - L3 For clear analysis of the market structure and three brief accounts, or two developed accounts, of market behaviour. [7–8]
 - L2 For understanding, perhaps focusing on the characteristics with weak comment on behaviour or at most one type of behaviour. [5–6]
 - L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]
- 4** Discussion of the determinants of wages. Candidates should assess the theoretical analysis of what influences the supply of labour and how it is moderated by the existence of unions and government regulations. Expect comment on both supply and demand. Theoretical analysis without marginal revenue productivity approach does not merit the full range of marks. [25]
- L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and/or government policy. (14–17 for demand and supply only with institutional factors and government policy) [18–25]
 - L3 For a competent explanation but with limited discussion of unions and/or government factors. (10–13 for demand and supply) [14–17]
 - L2 For a correct but undeveloped theoretical analysis with no institutional factors or only very brief mention of these factors. (6–9 for demand and supply) [10–13]
 - L1 For an answer which contains inaccuracies and only a few correct points. (1–5 for demand and supply only) [1–9]

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- 5 (a)** For an explanation of economic indicator (3), for the difference between gross and net (2), for the difference between domestic and national (2), for a statement about the link between and calculation of product and income (2), for the difference between factor cost and market prices (3). [12]
- L4 For a clear explanation of each of the parts [9–12]
 L3 For an explanation which omits part of the distinction or which is less clear perhaps on the link in the calculation. [7–8]
 L2 For a limited explanation which omits some part of the distinction [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]
- (b)** Discuss the use of GDP, its value and limitations as a means of comparison of the standard of living of a developing country with that of a developed country, and whether it is better than other alternative indicators.
- L4 For a good analysis of the use of GDP and developed evaluative comment with a comparison of alternative indicators [9–13]
 L3 For clear analysis but with less developed evaluative comment on alternative indicators [7–8]
 L2 For understanding but with no comment on alternative indicators or only a brief comment on limitations together with a brief mention of alternative indicators [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]
- 6 (a)** Explanation of the main macroeconomic aims with a comment on the validity of one of them for a particular region or country.
- L4 For a clear explanation of the aims together with a reasoned attempt with a good explanation to use an application of the aim to the country. [9–12]
 L3 For an explanation of the aims but with a more limited attempt to apply one of the aims to a country. There should though still be some reasoned account. [7–8]
 L2 For a limited explanation of the aims and little attempt to give an application. [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]
- (b)** Discuss the likely conflicts that might occur for example employment/inflation; growth/balance of payments; growth/inflation.
- L4 For a good analysis which mentions at least two conflicts with a reasoned account with a conclusion. [9–13]
 L3 For clear analysis of at least two conflicts but with less development [7–8]
 L2 For a weaker understanding and with only one conflict mentioned with no conclusion [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

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- 7 (a) Private expenditure: Immigrants if working will have money available for saving, or spending, the amount for each might depend on whether money is sent home to families. Those beyond working age – depends on extent of wealth. Income will be reduced, whether spending declines depends on extent of existing wealth. Debatable whether savings likely to be less or more significant for beyond working age than for immigrants who may send money home.

Public expenditure: expenditure on health care likely to increase, this may decrease expenditure on other areas if receipts from taxes decline as proportion beyond working age increases. Depends whether this is compensated for by increases in tax from immigrants who work.

An explanation needed.

- L4 For a sound explanation with good application and a clear understanding of the possibilities involved together with a conclusion [9–12]
- L3 For an accurate reference to the question but with a more limited explanation and less developed possibilities. Still with a conclusion. [7–8]
- L2 For a correct explanation but undeveloped comment, not necessarily logically presented or with a conclusion [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

- (b) Evaluate policies which include indirect, direct taxation, transfer payments, subsidies, grants.

- L4 For a reasoned and clear analysis of at least three policies logically presented [9–13]
- L3 For a fair but undeveloped analysis of three policies or two policies more fully developed [7–8]
- L2 For a limited analysis with little elaboration [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

**MARK SCHEME for the October/November 2011 question paper
for the guidance of teachers**

9708 ECONOMICS

9708/42

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A

- 1 (a) Gross Domestic Product measures the value of economic activity within a country. It is the sum of the market values, or prices, of all final goods and services produced in an economy during a period of time. It gives an indication of the growth of the economy, some indication of how the economy compares with other economies and gives a guide to what policies the government might need to manage the economy. (1 mark only for description of GDP only) [2]
- (b) Any relevant comment from the charts. At the start of 2005 Japan's GDP had zero growth but the UK's was over 2%, both countries then had a rise in GDP growth. Japan's GDP fluctuated more than UK's between 2005–2009; Japan's GDP fell to a lower level than the UK at the end of 2008. In some ways there was a similar pattern of decline but with Japan's decline of 15.2% worse than the UK's of 5.7%. [4]
- (c) The concern is because exports generate income and employment and the economy partly depends on exports. When sterling is weak exports should be cheaper and demand should be higher. Demand was low when the prices of exports were comparatively low. It would be expected that low prices would have increased exports. Up to 4 marks only without mention of elasticities. [5]
- (d) Both economies suffered from a fall in consumer spending, a fall in business investment, a fall in exports, an increase in unemployment, excess capacity in businesses. (Up to 5 marks for an indication of the influences with little direct comparison). The difference in the information was the emphasis given to exports in Japan and the emphasis given to the housing market in the UK. [8]

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There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

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Total Mark 15	1–5	6–8	9–11	12–15

2 (a) Candidates should explain marginal utility theory, the equilibrium position and the allocation of expenditure between products. [12]

L4 For a reasoned and clear discussion of the analysis mentioning the equilibrium position of the consumer for a number of products. [9–12]

L3 For a competent comment but with a limited elaboration of the whole analysis or possibly limited to one product. [7–8]

L2 For a brief explanation with only limited reference to the equilibrium position and limited to one product. [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]

(b) Candidates should analyse the meaning of productive and allocative efficiency and consider when it might not be possible to achieve such efficiency – imperfect markets, externalities, lack of knowledge/information, factor immobility. [13]

L4 For a sound explanation of both efficiencies with good application and a clear understanding of the at least two market failures. [9–13]

L3 For an accurate but less developed explanation of efficiency and either a less developed understanding of two market failures or a fuller account of one market failure. [7–8]

L2 For a brief explanation of the concept but minor errors or lack of understanding in the application and brief comment on market failure. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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- 3 (a)** Consideration of the benefits of small organisations – personal service, individual products, niche markets, local provision – set against the possible disadvantages which might include the lack of economies of scale or investment for research. A conclusion should be given. [12]
- L4 For a sound consideration with good application and a clear understanding of the principles involved. [9–12]
- L3 For an accurate but less developed consideration possibly with a concentration on the advantages. A conclusion should be given. [7–8]
- L2 For an undeveloped comment and some errors or lack of understanding in the application. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]
- (b)** Discussion of the possibility of lower average costs caused by economies of scale but with a consideration of the possibility that diseconomies may operate and that therefore costs need not be lower. [13]
- L4 For a reasoned and clear explanation with accurate development of theory. [9–13]
- L3 For a fair but undeveloped explanation. [7–8]
- L2 For a limited but acceptable attempt to consider the theory but with little reference to the particular changes mentioned in the question. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]
- 4** Discussion of determinants of wages. Candidates should discuss the theoretical analysis of wage determination by the market but they must also evaluate whether the market might lead to exploitation of the labour force. There should be a conclusion on whether wage determination is sometimes suitable for government intervention to ensure a fair and equitable wage rate level or whether wage determination is best left either to the market or to collective bargaining. Theoretical analysis without marginal revenue productivity approach does not merit the full range of marks. [25]
- L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of government together with a conclusion. [18–25]
(14–17 for demand and supply only with institutional factors and government policy)
- L3 For a competent explanation but with limited discussion of the role of government but with a conclusion. [14–17]
(10–13 for demand and supply)
- L2 For a correct but undeveloped theoretical analysis with little discussion of government involvement and no conclusion. [10–13]
(6–9 for demand and supply)
- L1 For an answer which contains inaccuracies and only a few correct points. [1–9]
(1–5 for demand and supply only)

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- 5 (a)** Explanation of macro/micro. Candidates could use any two types of policy from each – macro: fiscal, monetary, exchange rate, supply side; micro: price control/fixing for particular industries, wage policy, monopoly regulation, privatisation, supply of goods. [12]
- L4 For a sound explanation with good application with an illustration and a clear understanding of the principles involved. [9–12]
- L3 For an accurate explanation of the difference between macro and micro but with a more limited comment on the application and illustration. [7–8]
- L2 For a weaker explanation and illustration which lacks any real development. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]
- (b)** Discussion of tax policies, subsidies, grants, government expenditure, export encouragement, interest rate policy, regulatory or ownership policies to help a country come out of a recession. [13]
- L4 For a reasoned and developed discussion of at least three types of policy, logically presented and a conclusion drawn. [9–13]
- L3 For a fair but undeveloped discussion possibly concentrating on one or two policies together with a conclusion. [7–8]
- L2 For a limited discussion with little comment and no conclusion. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]
- 6 (a)** Expect transactions, precautionary, speculative descriptions. Up to 6 marks for first two, and 6 marks for speculative. [12]
- L4 For a sound explanation with good application and a clear understanding of the principles involved. [9–12]
- L3 For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. [7–8]
- L2 For a correct explanation but undeveloped comment, not necessary logically presented. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]
- (b)** Assessment of effect of increase in supply on interest – with discussion of elasticity of liquidity preference. Effect of changes in interest on investment, with discussion of elasticity of investment schedule. [13]
- L4 For a reasoned and clear analysis of both parts of the question, logically presented. [9–13]
- L3 For a fair but undeveloped discussion but with accurate reference to the question. [7–8]
- L2 For a limited analysis probably concentrating on one part of the question. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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- 7 Up to 17 marks for explanation of the criteria used to distinguish the two economies although the term developed economy hides many dissimilarities and differentiated development will exist among developed economies. A developed economy is assumed to be in a stronger position than a developing economy. However, the fundamental economic problem remains – scarce resources and unlimited wants. Developed economies face economic problems which differ in extent (e.g. higher GDP per head and higher life expectancy) and in nature (e.g. more environmental difficulties) from those found in developing economies. Candidates could mention possible similar problems e.g. unemployment, pollution, inflation, over-crowding, negative externalities, exploitation of resources with lack of consideration for the long term. [25]
- L4 For a well argued analysis of both parts of the question – a good range of indicators both economic and social – with accurate development of the discussion and a reasoned conclusion. [18–25]
- L3 For a competent explanation of the criteria, a clear but undeveloped discussion or one which concentrates on part of the question but still has a conclusion. [14–17]
- L2 For a limited and more descriptive attempt, weak explanation of the criteria, little discussion of the question and with no conclusion. [10–13]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. [1–9]

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

**MARK SCHEME for the October/November 2011 question paper
for the guidance of teachers**

9708 ECONOMICS

9708/43

Paper 4 (Data Response and Essays – Supplement),
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Section A

- 1 (a) Explanation of any suitable characteristics, for example, employment distribution, health, education, standards of living, sanitation, dependence on overseas aid. [4]
- (b) They are concerned about the total cost of production including the externality of carbon emissions. They argue that resources should be conserved and not exploited. This, they say, could be achieved by switching to local products. [2]
- (c) There should be a statement about the meaning of marginal utility (1); the relation of marginal utility to price (2); and a comment about buying more expensive products (3). The theory does not prevent the purchase of more expensive items. Fewer would be bought if the price were higher. It might be questioned whether buying **the same** product at a higher price was rational and whether the argument was reasonable. [6]
- (d) Developing countries depend on agriculture – some figures are given for some countries. Agriculture depends more on the weather than other sectors. Incomes are more volatile. An example is given. Developing countries have come to depend on trade with developed countries which is likely to be withdrawn. Developed countries are rich enough to go to other suppliers; developing countries would find it difficult to find other buyers. It is likely that the statement is true but there is only a little supporting evidence and some general background information. [8]

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Mark 10–13 (Linked to level two in individual question notes).

- 10–11 Where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 Where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level three in individual question notes).

- 14–15 Where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 For an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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Mark 18–25 (Linked to level four in individual question notes).

18–20 Where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 For an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4	5–6	7–8	9–13

2 Candidates should discuss the proposition. There are similarities. They may all have a profit motive – although there are alternative aims also. They may all be subject to competition – with contestable markets – depending on how monopoly is defined. Whether the producer has all the benefit is debateable. However, there are differences in the amount of control over prices, over abnormal profits, over information, over collusion, over branding and price discrimination. [25]

L4 For a thorough analysis of the proposition with a consideration of the likenesses and differences and with a clear discussion and conclusion. [18–25]

L3 For a competent explanation but which will probably concentrate on the differences with limited discussion of the comparability but still with a conclusion. [14–17]

L2 For a correct but limited theoretical analysis which may concentrate on one side of the proposition or may present both sides but with little development. No conclusion. [10–13]

L1 For an answer which contains inaccuracies and only a few correct points. [1–9]

3 (a) Explanation of the effect of an increase in consumer expenditure (C); increase in injections via subsidies, increase in national income; explanation of multiplier. [12]

L4 For a sound explanation with good application and a clear understanding of the principles involved both of an increase in C and of govt. subsidies. [9–12]

L3 For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance. [7–8]

L2 For a weaker explanation of the multiplier or without a clear explanation of the effect of subsidies. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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- (b) Candidates should discuss general macroeconomic objectives. Increasing demand might conflict with controlling prices overall and might have balance of payments repercussions if the new cars are imported. It should not conflict with decreasing unemployment or increasing growth. [13]

- L4 For a reasoned and clear discussion with the analysis logically presented and a conclusion drawn. [9–13]
 L3 For a fair but undeveloped discussion possibly concentrating on two aims only. [7–8]
 L2 For a limited discussion with little comment and no conclusion. [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

- 4 (a) Discussion of influence of demand for labour on the wage rate paid. Better answers will use the marginal revenue product (mrp) theory, average or weaker answers will explain the idea through a standard demand curve – which will need to be related to the supply to fix the wage rate. [12]

- L4 For a sound explanation with good application and a clear understanding of the principles involved – diagrams will probably be used. [9–12]
 L3 For an accurate but less developed explanation. [7–8]
 L2 For an explanation of the analysis but not necessarily logically presented, or with some errors. [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

- (b) Analysis of the change in wage rates when the market becomes imperfect. The marginal wage and average wage will not be identical and the wage rate will be pushed down. If the product market is also imperfect the average and marginal revenue will not be the same and this will affect the mrp. However, these changes may be modified either because the trade union influences the level of the wage rate or because it is fixed by the government. Candidates could discuss the effect of a minimum wage. [13]

- L4 For a reasoned and clear analytical comment. [9–13]
 L3 For a fair but undeveloped comment. [7–8]
 L2 For a limited but acceptable attempt to consider the possible effects. [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

- 5 (a) Explanation of the calculation of the change in GDP/GNP and its link to growth rates [12]

- L4 For a sound explanation of the different methods and a clear understanding of the principles involved. [9–12]
 L3 For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. [7–8]
 L2 For a correct explanation but undeveloped comment, not necessarily logically presented. [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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- (b) Consideration of the value of GDP but also of other factors which might be important which are not included directly in GDP – health, housing, education, crime, income distribution. Difficulties of comparing different cultures, climates. [13]

- L4 For a reasoned and clear discussion, logically presented. [9–13]
 L3 For a fair but undeveloped discussion but with accurate reference to the question. [7–8]
 L2 For a limited discussion with little comment. [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

- 6 (a) Expect descriptions of the transactions, precautionary and speculative reasons behind the demand for money. Up to 6 for first two, 6 for speculative. [12]

- L4 For a sound explanation with good application and a clear understanding of the principles involved. [9–12]
 L3 For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. [7–8]
 L2 For a correct explanation but undeveloped comment, not necessarily logically presented. [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

- (b) Discussion of effect of increase in supply on interest, with discussion of elasticity of liquidity preference. Effect of changes in interest on investment, with discussion of elasticity of investment schedule and extent of marginal propensity to save. Effect on international situation with changes in imports, exports, speculation and exchange rates. This could lead to changes in government policy. [13]

- L4 For a reasoned and clear discussion, logically presented. [9–13]
 L3 For a fair but undeveloped discussion but with accurate reference to the question. [7–8]
 L2 For a limited discussion with little comment. [5–6]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

- 7 Explanation of the meaning of allocative efficiency and productive efficiency with a discussion of the policies that might be used to approach allocative efficiency when the market does not reflect that situation – subsidies, regulation, taxes, prohibitions, ownership, provision of government services. It might be possible to achieve productive efficiency but more difficult to measure and achieve allocative efficiency. [25]

- L4 For a reasoned and clearly structured answer which gives an explanation of both types of efficiency and a discussion of the policy. A conclusion should be drawn. [18–25]
 L3 For a fair explanation but with a weaker or undeveloped discussion on policy but still with a conclusion. [14–17]
 L2 For an answer which concentrates on the explanation but does not explore the discussion and has no conclusion. [10–13]
 L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–9]

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9708 ECONOMICS

9708/41

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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.

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Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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Section A

- 1 (a) Comment on the meaning of the two terms: integration, vertical or horizontal, is a merger or acquisition, 2 marks. It may result in economies of scale which reduces long run average total cost but economies of scale can occur within an existing firm without a merger, 2 marks. [4]
- (b) Integration is likely to increase costs initially with a rise in both fixed and variable costs. Subsequently there may be savings and average costs may be reduced. Candidates could debate the relative increase in fixed and variable costs, and the relative long run reduction. [4]
- (c) Market share remained the same but two of its rivals' market shares declined; revenue up by 4.4% which is higher than two of its rivals; only Sainsbury's improvement was better than Morrisons. [4]
- (d) Oligopoly – few firms with the ability to prevent entry into the market. Banks: it is said there is a lack of competition, but this does not necessarily make them oligopolies. They may be able to prevent entry but the information does not comment on this. Supermarkets: there are 4 large supermarkets but many small firms, no evidence of prevention of entry; no evidence of collusion in either banks or supermarkets. Not enough evidence in the article to conclude existence of oligopoly. Up to 5 marks for either banks or supermarkets. [8]

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Section B

General Comments

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to Level 1 in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level 2 in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to Level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements. Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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Mark 18–25 (Linked to Level 4 in individual question notes).

- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
- 21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation. Be positive in your marking, awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

Total Mark 12 1–4 5–6 7–8 9–12

Total Mark 13 1–4+ 5–6+ 7–8+ 9–13

- 2 (a)** Explanation of the meaning of utility and the analysis which underlies an individual demand curve. When prices change, consumers' choice changes.

L4 For a reasoned explanation linked to more than one good and clearly structured answer which deals with a changing situation. [9–12]

L3 For a fair explanation of utility but an undeveloped answer which deals with more than one good but makes no reference, or just passing reference, to a changing situation. [7–8]

L2 For a limited attempt which does not clearly determine the equilibrium position for more than one good and makes no reference to a changing situation. [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]

- (b)** Discussion of the aims of a firm, whether to maximise profits or to follow some alternative aim.

L4 For a sound discussion and analysis, and a clear understanding of the principles involved with a good comparison of alternative aims and a conclusion. [9–13]

L3 For a competent comment but with limited elaboration of alternative aims but still with a conclusion. [7–8]

L2 For a correct explanation of part of the analysis, with little comment on alternative aims. [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]

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- 3** The question presents an argument. Candidates should explain whether the theory does cover a perfect market. They should then debate whether all markets are imperfect and what those imperfections might be. They should then discuss whether the theory can be adapted to an imperfect market by recognising such things as monopsony, institutional factors, government, trade unions. There should be a conclusion to the argument.
- L4 For a thorough analysis of theoretical wage determination with a clear discussion of each part of the argument, together with a comment on the conclusion of the argument. [18–25]
(14–17 for demand and supply only although the answer contains a full discussion of the argument)
- L3 For a competent explanation of perfect competition but with a more limited discussion of the structure of the argument although the answer itself should come to a conclusion. [14–17]
(10–13 for demand and supply)
- L2 For a correct but undeveloped theoretical analysis with scant comment about the structure of the argument, and no conclusion. [10–13]
(6–9 for demand and supply)
- L1 For an answer which contains inaccuracies and only a few correct points. [1–9]
(1–5 for demand and supply only)
- 4 (a)** Explanation of the link between interest, investment, income and economic growth. The circular flow of income and the multiplier should be expected.
- L4 For a sound explanation with good application and a clear understanding of the principles involved. An explanation of economic growth should be given and a comment on the circular flow of the multiplier. [9–12]
- L3 For an accurate explanation but with a more limited development and comment although the multiplier should still be mentioned. [7–8]
- L2 For a weaker explanation, briefly sketched, with no mention of the multiplier. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]
- (b)** Analysis of fiscal, monetary and supply side policies which might be used together with a comment on their effectiveness.
- L4 For a reasoned and clear discussion with the analysis logically presented and a conclusion drawn. [9–13]
- L3 For a fair but undeveloped discussion possibly concentrating on limited range of policies but still with a conclusion. [7–8]
- L2 For a more descriptive account with little evaluation and no conclusion. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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- 5** Candidates should consider each part of the statement. They should discuss whether there are many difficulties in measuring living standards and give reasons for their conclusion on this part of the question. They should then consider whether it is possible to compare one country with another and discuss what use national income statistics might be. They should draw an overall conclusion.
- L4 For a thorough discussion of the difficulties of measuring living standards, and a clear conclusion to the assertion followed by a consideration of the usefulness of using the statistics to make comparisons. [18–25]
- L3 For a competent explanation of the difficulties but with a limited conclusion. There will be some consideration of comparison between countries but this will not be fully developed or extensive. [14–17]
- L2 For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation. The conclusion will be weak. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]
- 6 (a)** Explanation of the causes of a rise in unemployment. Candidates should use the different types of unemployment to enable them to comment why they might increase.
- L4 For a sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment. [9–12]
- L3 For an accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained. [7–8]
- L2 For a correct but brief explanation of three types of unemployment not necessarily logically presented. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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- (b) Discussion of the analytical reasons why consumers demand money according to liquidity preference. Transactions, precautionary, speculative motives. Candidates should comment on the effect of the proposed changes on each of the motives. Transactions may decline; precautionary may or may not change, depending upon consumers' attitude to risk. Speculative is unlikely to be affected unless the rate of interest on long term government securities changes.

L4 For a sound discussion with good application and a clear understanding of the principles involved. [9–13]

L3 For an accurate reference to the question but with a more limited discussion and minor errors in the analysis. [7–8]

L2 For a correct discussion but undeveloped comment, not necessarily logically presented. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

7 (a) Explanation of productive and allocative efficiency.

L4 For a reasoned and clearly structured answer which gives an explanation of both types of efficiency. [9–12]

L3 For a fair but weaker or undeveloped explanation. [7–8]

L2 For an answer which concentrates on one aspect of efficiency. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

- (b) Discussion of the balance between the creation of wealth, income and jobs by the building of an airport by the private sector against the potential destruction of existing environments, with overcrowding, congestion, pollution, and negative externalities. The private sector would not take account of these market failures.

L4 For a reasoned and well argued discussion with accurate development presenting both aspects of the development and a conclusion drawn. [9–13]

L3 For a clear but undeveloped discussion but one which still deals with both aspects of the development. [7–8]

L2 For a limited attempt to consider the case but with a concentration on one side of the discussion. [5–6]

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

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9708 ECONOMICS

9708/42

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A

- 1 (a) In what type of market structure is Unilever likely to be operating? Explain your answer. [3]**

It is a large multinational company so the size would indicate that it is in an imperfectly competitive market. This means it has some control over its price decisions, that it has branded products, which implies that it advertises. Allow 1 mark for market economy/mixed economy/diversified market provided there is an explanatory reason.

- (b) Why might it be thought that there could be a conflict between Unilever's stated objective and its policy concerning its suppliers? [5]**

It has an aim of doubling its size. This might indicate that it hopes to achieve economies of scale. However, elements of their business would seem to be towards perfect competition and against the idea of larger size as they wish to deal with 500 000 small farmers. It also had a policy of improving efficiency by reducing international suppliers. It says its future aim would be to halve our environmental impact. However, rather than limiting its transport and distribution to a few suppliers as it did in the past it is now expanding its distribution network with more demand on resources and transport pollution.

- (c) GSK's new drug was expensive to research and develop. Why might a company conduct research and development (R&D) if it is so expensive? [4]**

It is presumed that the company wishes to make profits and to expand. It is hoped that the cost of research would help achieve this by creating a new product for which there is a large demand and that revenues from this product would more than offset the research costs.

- (d) Discuss whether there is enough evidence in the information to conclude that the objective of Unilever and GSK is not that of profit maximisation. [8]**

There would still seem to be a desire for profit maximisation in the statements about doubling the size of the business (Unilever), and the wish to still make profit (GSK initial pricing). However, the article does not give information about the pricing of other products, and the comparative profits with other competitors are not known. Against the notion of a pure profit aim are the statements from Oxfam about Unilever and the government policy towards GSK's supply policy. It may be, however, that this agreement with the government is more likely to secure a constant demand for GSK from government hospitals and would in the long run enable a more secure growth in profits. The overall conclusion is uncertain. Up to 4 for each company but reserve 1 for a stated conclusion to the question.

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Section B

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- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level 2 in individual question notes)

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to Level 3 in individual question notes)

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There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments, should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.
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Mark 18–25 (Linked to Level 4 in individual question notes)

- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
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Corresponding marks for sub-sections.

Level	1	2	3	4
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13

- 2 (a) Use the theory of marginal utility to analyse how a consumer will normally buy more of a product at a lower price than at a higher price and explain how this theory can be used to derive a market demand curve. [12]**

Explanation of the meaning of utility and the analysis of the equi-marginal principle which underlies an individual demand curve. The sum of individual demand curves form the market demand curve. Whether individual utilities can be added is debatable.

- L4 For a reasoned explanation linked to more than one good and clearly structured answer which deals with a market demand curve. [9–12]
- L3 For a fair explanation utility but an undeveloped answer which deals with more than one good but makes no reference, or just passing reference, to a market demand curve. [7–8]
- L2 For a limited attempt which does not clearly determine the equilibrium position for more than one good and makes no reference to a market curve. [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]

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- (b) Economic texts examine market equilibrium. Discuss whether it is the consumer or the producer who determines the equilibrium market price and whether consumers have the same power in all types of market structure. [13]**

Candidates should consider both whether the market is controlled by the producer and not the consumer, and whether the same situation applies in all market structures. The balance between producer and consumer sovereignty may vary between goods and markets but the producer is not the only determinant of market price and output.

- L4 For a reasoned discussion dealing with both parts of the question. The answer should be clearly structured with a conclusion. [9–13]
- L3 For a fair discussion but undeveloped answer which may concentrate on one part of the question or deal with both parts but briefly. There should still be a conclusion. [7–8]
- L2 For a limited attempt which deals with only one part of the question and which does not have a conclusion. [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]

- 3 (a) Analyse whether in a perfectly competitive labour market it is true that a profit maximising firm will employ labour only up to the point where the marginal revenue product of labour is at its maximum. [12]**

Analysis of wage determination in perfect competition using marginal revenue product. Candidates should show the link between the market wage and the firm. Candidates should conclude that the proposition in the question is untrue.

- L4 For a sound explanation of theory and a clear understanding of the principles involved linking the market and the firm, with a conclusion. [9–12]
- L3 For a competent explanation with limited development but still with some mention of the link between the market and the firm and with a conclusion. [7–8]
- L2 For an undeveloped explanation with no link to the market, nor a conclusion. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

Page 6	Mark Scheme	Syllabus	Paper
	GCE AS/A LEVEL – October/November 2013	9708	42

(b) Discuss whether the marginal revenue productivity theory of wages is useful in explaining wage determination in an imperfect market where there is a trade union. [13]

Candidates should discuss the difference between perfect and imperfect markets, recognise that there would be a difference, in the theory, in the shape of the demand/supply/marginal cost/marginal revenue productivity curves. Candidates should also discuss how institutional factors such as a trade union and collective bargaining might have an effect on the final wage and employment level.

L4 For a reasoned and clearly structured answer dealing with theory and institutional aspects. [9–13]

L3 For a fair but undeveloped answer maybe concentrating on either the theory or the institutions or commenting on both but only briefly. [7–8]

L2 For a limited but acceptable attempt to consider the possible differences. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

4 In the economic recession of 2011 many private sector firms were still able to announce that they were successful and had made substantial profits. Large bonuses were paid to directors and shareholders received large dividends.

Discuss whether it is better for an economy if the allocation of resources is left entirely to the private sector operating through the market system. [25]

Candidates should discuss first what is meant by resources and then consider whether resources should be allocated by the private sector and the market system. They should comment on whether high profits necessarily mean that the private market system is not a suitable means of allocation. High profits could well generate further investment, income and employment. However, it might not always be the case that the market system is the best allocative means. Candidates should also comment on the possibility of other market failures even if high profits do not rule out market system allocation.

L4 For a clear consideration of each stage of the suggestion in the question. A reasoned conclusion should be presented. [18–25]

L3 For a competent but more limited comment – maybe concentrating on general market failures without considering the particular implication in the question. [14–17]

L2 For an undeveloped discussion of the implication concentrating on only one aspect and with no overall comment on the conclusion in the question. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

Page 7	Mark Scheme	Syllabus	Paper
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- 5 (a) Explain, using the concept of the multiplier, the possible link between a fall in interest rates and an increase in national income. [12]**

Explanation of comparison of changes in interest rates against prospective yields of investment, short-term versus long-term considerations. Link between investment and national income with an explanation of the multiplier.

L4 For a sound explanation of both parts of the question, – interest/investment; investment/income – and a clear understanding of the principles involved. [9–12]

L3 For a competent comment but with limited elaboration of the analysis although the multiplier should be mentioned. [7–8]

L2 For a correct explanation of either the link between interest and investment but with no mention of the multiplier process; or a very poor link between interest and investment but a brief description of the multiplier. [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]

- (b) Discuss whether the use of fiscal policy is the only effective means of stimulating economic growth. [13]**

Discussion of fiscal policy with possible effects on demand side or supply side – with a comment on alternative means of stimulating economic growth – maybe through monetary policy, maybe through regulation changes.

L4 For a sound explanation of the analysis and a clear understanding of the principles involved with a good comparison and discussion of alternatives and a conclusion. [9–13]

L3 For a competent comment but with limited elaboration of alternative policies but still with a conclusion. [7–8]

L2 For a correct explanation of part of the analysis, with little comment on alternative policies. [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]

Page 8	Mark Scheme	Syllabus	Paper
	GCE AS/A LEVEL – October/November 2013	9708	42

- 6 While the overall aim may be to improve the economy, governments find that their macroeconomic policies sometimes conflict with each other. Explain why some government economic policies may conflict with each other and discuss which should be given priority.** [25]

Discussion of different government macroeconomic aims and the possible conflicts, for example, employment against inflation, growth against price stability, income equality against restriction in demand.

- L4 For a thorough explanation of the aims, a competent account of different conflicts, a discussion of relative merits and a reasoned conclusion, and an evaluation which states which policies are preferred and why. [18–25]
- L3 For a competent explanation but with a more limited development. There should still be a conclusion with an attempt to give a reason why certain policies were chosen. [14–17]
- L2 For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

- 7 A country has a high level of unemployment and a low level of GDP. Discuss whether this situation is a good indication that the country is a developing country.** [25]

The two indicators mentioned are high unemployment and low GDP. Candidates should discuss the relevance of each as an indicator of a developing economy. High unemployment can occur in developed countries – although the type of unemployment may differ from that in developing countries. The use of GDP is not a good indicator of developing status. Candidates should mention other characteristics of developing countries and discuss the drawbacks of using GDP, which include – the lack of value of non marketed items (jobs done yourself) this is in MEW; the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being.

- L4 For a comment on both indicators mentioned in the question and a thorough explanation of the difficulties of using GDP, with illustration and/or examples (see general descriptors). There should be a conclusion. [18–25]
- L3 For a competent explanation which does mention both indicators but which does not fully analyse the difficulties of using GDP but makes some attempt at evaluation. A brief conclusion should be stated. [14–17]
- L2 For an accurate though undeveloped explanation probably concentrating on the use of GDP and with no real attempt to draw a conclusion. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant. [1–9]

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9708 ECONOMICS

9708/43

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

Page 2	Mark Scheme	Syllabus	Paper
	GCE AS/A LEVEL – October/November 2013	9708	43

Section A

- 1 (a) A fall in the general level of prices: candidates could explain it in terms of an excess of national income over expenditure, or withdrawals over injections at the full employment level of national income which causes a potential reduction in national income. [2]
- (b) (i) Candidates would need to refer to the table to comment upon the rate of inflation in the 1970s (1 mark). Candidates should also refer to the reactions of firms and the importance of oil in the construction of the price index (2 marks). Identifying one reason to dismiss the view that oil price rises might cause inflation (1 mark). [4]
- (ii) Explanation of a budget deficit as an increase in expenditure over revenue. It could be achieved through fiscal or monetary policy. There could be a decrease in T, an increase in G, reduced i. This should encourage borrowing and spending. Extra demand could put pressure on resources which might result in rising prices. Table 1 shows rising prices. [6]
- (c) Less likely to be inflationary – smaller % oil price rise than in 1970s which was inflationary; – country less dependent on oil – oil to GDP now 60% of that in 1970s + government reductions in expenditure; also there was a smaller public sector; banking crisis – reduced employment in private sector (6 marks). Some reference to factors that would not support the view that oil prices in 2011 would be less inflationary (1 mark). A conclusion (1 mark). [8]

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Section B

General Comments

The essay questions carry a maximum mark of 25. Try not to ‘bunch’ marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to Level 1 in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level 2 in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to Level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements. Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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Mark 18–25 (Linked to Level 4 in individual question notes).

- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
- 21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation. Be positive in your marking, awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

Total Mark 12 1–4 5–6 7–8 9–12

Total Mark 13 1–4+ 5–6+ 7–8+ 9–13

Page 5	Mark Scheme	Syllabus	Paper
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2 (a) Explanation of principle of allocation with equi-marginal utility as prices change.

- L4 For a good explanation linked to more than one good and clearly structured answer with a conclusion about what happens as prices change. [9–12]
- L3 For a fair explanation but undeveloped answer but still with some comment about what happens when prices change. [7–8]
- L2 For a limited attempt which does not clearly determine the equilibrium position for more than one good or which does determine that but expresses it as a static model and does not consider price changes. [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]

(b) There are two parts to the question: whether the market is controlled by the producer and not the consumer, and whether utility theory is valid. The balance between producer and consumer sovereignty may vary between goods and markets but the producer is not the only determinant of market price and output. Utility theory has practical difficulties in measurement and comparison between products but these are the same in perfect and imperfect competition. Imperfect competition does not make the use of utility theory any more problematic.

- L4 For a reasoned discussion dealing with both parts of the question. The answer should be clearly structured with a conclusion. [9–13]
- L3 For a fair discussion but undeveloped answer which may concentrate on one part of the question or deal with both parts but briefly. There should still be a conclusion. [7–8]
- L2 For a limited attempt which deals with only one part of the question and which does not have a conclusion. [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]

Page 6	Mark Scheme	Syllabus	Paper
	GCE AS/A LEVEL – October/November 2013	9708	43

- 3 (a)** Explanation of the theory of wages which deals with both supply and demand factors. Given a similar demand, (mrp), the wage level would change if supply was different in different occupations but it is not the sole factor.

L4 For a sound explanation of the analysis and a clear understanding of the principles involved in perfect markets. [9–12]
(D/S only, no mrp, 7–8)

L3 For a competent comment in a perfect market but with a limited development of the analysis. [7–8]
(D/S only, no mrp, 4–5)

L2 For a correct explanation of a limited part of the analysis – perhaps concentrating on supply. [5–6]
(D/S only, no mrp, 3–4)

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]
(D/S only 1–2)

- (b)** Analysis of marginal revenue productivity theory in imperfectly competitive labour market. The fixing of a minimum wage can be incorporated into the imperfect market model. It would depend where the minimum wage was as to whether it was effective.

L4 For a sound explanation of the analysis and a clear discussion and understanding of the principles involved in imperfect markets. [9–13]
(D/S only, no mrp, 7–8)

L3 For a competent comment of an imperfect market but with a limited development and discussion of the analysis. [7–8]
(D/S only, no mrp, 5–6)

L2 For a correct explanation of a limited part of the analysis – perhaps concentrating on supply. [5–6]
(D/S only, no mrp, 3–4)

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]
(D/S only 1–2)

Page 7	Mark Scheme	Syllabus	Paper
	GCE AS/A LEVEL – October/November 2013	9708	43

- 4 (a)** Explanation of both terms. Deadweight loss – loss of consumer and producer surplus in imperfect competition compared with perfect competition. Price discrimination – charging different prices for the same product requires separation of markets to occur and different elasticities to be profitable.
- L4 For a sound explanation with clear understanding of the principles involved. Up to 6 for each term. [9–12]
- L3 For a competent explanation but with limited development. Up to 4 for each term. [7–8]
- L2 For a brief explanation not clearly explaining the change in surplus nor the criteria required for price discrimination. Up to 3 for each term. [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]
- (b)** Discussion of the benefits of small firms and the advantages of large firms. Candidates could recognise that each has a place, that personal service and individual products may be best suited to small firms but that economies of scale and reductions in cost, and possibly price, might be achieved by larger firms.
- L4 For a sound discussion with clear understanding of the principles involved with a conclusion. [9–13]
- L3 For a competent discussion but with limited development but still with a conclusion. [7–8]
- L2 For a brief discussion concentrating on one aspect only. [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]

Page 8	Mark Scheme	Syllabus	Paper
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- 5** Candidates should distinguish between quantitative and qualitative data and suggest different data which might be useful. They could mention the data used for measuring standards of living – GDP, HDI; they could mention data related to government policy – rate of interest changes, inflation, unemployment, balance of payments, crime; they could mention data that companies might be interested in – profits, growth, market share, consumer perception of products sold; they could mention information consumers might be interested in – income levels, assets, house prices, differences in rates of pay between jobs.
- L4 For a thorough explanation of the terms, a competent coverage of data, and a discussion of usefulness and a reasoned conclusion. [18–25]
- L3 For a competent explanation but with a more limited range of data and less developed discussion. [14–17]
- L2 For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]
- 6** Discussion of the general macro aims of government policy with a comment on whether the two mentioned should be regarded as the most crucial. The effect on economic growth and low unemployment can be developed. Reasons should be given for either choosing or not choosing these aims as the most important.
- L4 For a thorough explanation of the aims, a clear analysis of the link between them, a discussion of the possible outcome of a choosing either those aims or alternatives with a reasoned conclusion. [18–25]
- L3 For a competent explanation of the aims but where there is only limited attempt to consider the significance of the importance of the aims. There will be some discussion but the evaluation will not be fully developed or extensive. There should still be a conclusion. [14–17]
- L2 For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation with no conclusion. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies, errors of theory or omissions of analysis. [1–9]

Page 9	Mark Scheme	Syllabus	Paper
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- 7 The answer should identify and describe the necessary conditions for efficient resource allocation and consider what is meant by market failure. It should then consider if these market failures can be overcome by government intervention, and if so by what means.
- L4 For a reasoned and clear discussion with accurate development of theory and good links to the statement together with a reasoned conclusion. [18–25]
- L3 For a competent comment together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive. There should still be a conclusion. [14–17]
- L2 For a brief explanation but weak or ill-explained links to the statement. The explanation will be undeveloped with some attempt at analysis but only limited evaluation. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series**9708 ECONOMICS****9708/41**Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2014 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

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Page 2	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	41

Section A

- 1 (a) Identify three reasons why temporary workers in India are disadvantaged compared with permanent workers. [3]**

Temporary workers are paid half, or lower than, the permanent workers' rate, no/few extra benefits, minimum wage not applicable; do not have a permanent contract.

- (b) Is the evidence given sufficient to support the statement that 'most manufacturing firms in India are small'? [4]**

Firms with fewer than 10 workers high %, but this is a % and not an absolute amount; also, this only relates to permanent staff, not total numbers employed; further, do not know if they are manufacturing firms. Table gives 'all' firms. Small only relates to employment and not to output or turnover.

- (c) Distinguish between fixed cost and variable cost and consider how temporary workers and managers would be classified. [3]**

Fixed cost does not change with output, variable cost does. Temporary workers are a variable cost; managers are a fixed cost – allow variable if candidates refer to the long-run.

- (d) Discuss whether the payment of low wages could be good for India's economy. [10]**

Low wages means lower income, lower spending, lower demand, lower growth. However, there may be more demand from firms for workers, including foreign firms, which will increase employment and spending. Global competitiveness is increased. Low wages mean cheaper costs for business, maybe higher profits and more investment. Overall effect on the economy is uncertain as a theoretical discussion but India is among the group of emerging nations, which would indicate that it might contribute to a beneficial result. Up to 6 marks for one side; reserve 1 mark for conclusion.

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	Cambridge International A Level – October/November 2014	9708	41

Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try to use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally (of course) to parts of questions where the total is less than 25.

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate (although) undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements. Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 for an answer showing a well-reasoned understanding of the question's requirements and of the relevant theory; the analysis should be sound though the illustration and development may not be very full.

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18–25 (Linked to level 4 in individual question notes).

- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
- 21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation. Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13

Page 5	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	41

- 2 (a) Analyse whether there is a difference between:
- the way the effects of an increase in price can be represented using a budget line, and
 - the way the effects of an increase in price can be represented using a demand curve based on marginal utility theory. [12]

Explanation of budget line and how an increase in price of one good causes the budget line to pivot. Budget lines alone cannot tell what happens to quantity demanded, although they may show a split between income and price effects. Explanation of utility theory and the link to a movement along a demand curve which can show how the quantity demanded changes. Should candidates understand the analysis but refer to a price decrease, not an increase, award up to L2 maximum. [12]

- L4 For a good analysis with a reasoned comment of budget lines and demand curves/utility with a clearly structured answer and a conclusion. [9–12]
- L3 For a fair analysis but undeveloped answer or a more developed answer on either budget lines or demand/utility. A conclusion should be drawn. [7–8]
- L2 For a limited but acceptable attempt to analyse the link to the theory but with inconclusive or unconvincing discussion and no overall conclusion. [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]

- (b) Discuss what is likely to happen to the equilibrium price and output if a perfectly competitive firm were to become a monopolist. [13]

Perfect competition firm takes price given by the market demand and supply. Monopoly does not need to do this and can fix price. Market price is likely to be higher, market quantity is likely to be lower with monopoly – but this need not be so if there are economies of scale. [13]

- L4 For a sound discussion and explanation with clear understanding of the principles involved and a good structure to the answer. [9–13]
- L3 For a competent discussion but more limited explanation, maybe of the changes in the market situation rather than the firm but still with a reasonable structure to the answer. [7–8]
- L2 For a more limited discussion probably explaining each structure briefly or a lack of link to the market and curve and with a poorer structure to the answer. [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]

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	Cambridge International A Level – October/November 2014	9708	41

- 3 In the recession of 2012, some European firms declared that their profits were not as high as in the previous year.**

(a) Explain how, in theory, a firm might try to increase its profits. [12]

Explanation of maximum profit analysis. Candidates could specify not just where maximum profits are but what a firm should do to achieve this. Such action would depend upon the assumed starting point. A discussion of how this might be achieved in alternative market structures would be valid. [12]

L4 For a good explanation of the link to both profit and output. Answer will clearly specify a change rather than just a maximum profit output. Some mention of alternative market structures to try and increase profits should be mentioned to achieve 11/12. [9–12]

L3 For a competent analysis but with a weaker structure to the answer. A clear indication of a change should be given although probably no mention, or very brief mention of alternative market structures. [7–8]

L2 For a more limited analysis with weak explanations. [5–6]

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

(b) Discuss what alternative objectives a firm might have apart from profit maximisation. [13]

Discussion of the alternative objectives, influence in the market, behavioural theories, managerial theories, balancing of aims of different parts of the company, pricing according to other firms in the market rather than according to profit maximisation. [13]

L4 For a sound discussion with clear understanding of the principles involved. [9–13]

L3 For an accurate reference to the question but with a more limited discussion. [7–8]

L2 For a discussion which contains minor errors or an undeveloped comment, not necessarily logically presented. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	41

- 4 (a) **Employment is likely to decrease if wages fall.
Employment is likely to decrease if wages rise.**

Consider whether these apparently contradictory statements are true in the analysis of the demand for and supply of labour. [12]

In the factor market the S curve shows what would be supplied at a given wage. From the workers' perspective a fall in wages results in workers being less willing to supply labour – first statement true. A rise in wages would result in workers being more willing to supply labour (until the backward supply is reached) – second statement untrue. (Both are movements along the S curve).

However, where the equilibrium occurs/depends on demand as well as supply, if wages rise, employers are likely to demand less labour and employment is likely to decrease. Second statement true if the factor market and not the individual worker is considered. [12]

L4 For a good explanation, and conclusion, of the change on the individual and the market with relevant comparison. [9–12]

L3 For either a competent explanation of the effect on the individual or on the market, or a weaker explanation involving both aspects. [7–8]

L2 For a limited attempt probably dealing with one aspect only, or for dealing with wages only and no mention of employment. [5–6]

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

- (b) **Discuss how wage rates might differ between a perfect and an imperfectly competitive market for labour.** [13]

Discussion of the level of wages in perfect and imperfect competition. Wages likely to be lower in imperfect competition unless market level is changed by government or union. [13]

L4 For a sound discussion clearly explaining the differences. [9–13]

L3 For a competent discussion with a weaker comparison of the two market structures. [7–8]

L2 For a general discussion with no real conclusion of the differences. [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]

Page 8	Mark Scheme	Syllabus	Paper
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- 5 An economist stated ‘you cannot encourage economic growth, and cut spending and increase taxes at the same time’. (Source: *The Times*. 2011)**

(a) Explain the costs and benefits of economic growth. [12]

Explanation of the extent to which growth would either increase income, standards of living, economic development or destroy existing environments, cause overcrowding, congestion, pollution, negative externalities. A consideration of the short-run/long-run position and/or a comment on the differences in developed/developing countries could be given. [12]

L4 For a reasoned and well argued explanation with accurate development of the analysis referring to both benefits and costs. [9–12]

L3 For a clear but undeveloped explanation but one which still deals with both benefits and costs, including economic and social effects. [7–8]

L2 For a limited attempt to consider the theory with a concentration on the economic indicators reflecting output etc. only. [5–6]

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

(b) Discuss whether economic analysis can be used to support the statement of the economist. [13]

Discussion of the negative multiplier effect of reducing government expenditure and increasing taxes and its effect on national income. [13]

L4 For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved with a reasoned conclusion. If there is no critique then 10 marks maximum. [9–13]

L3 For a competent comment but lacking development. [7–8]

L2 For a limited discussion of the analysis but with only very brief development of the ideas. No multiplier: level 2 maximum. [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]

Page 9	Mark Scheme	Syllabus	Paper
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- 6 Government economic policy should be directed to increasing the standard of living – employment, health, education and a sustainable environment. It should not concentrate on fixing prices, raising taxes and regulating bank lending.**

Discuss whether there is any truth in this statement. [25]

Candidates should debate what the main government policy should be. They should question whether these, which may be expressed in the traditional economic macro aims of governments – price stability, growth, balance of payments problems – necessarily imply that there is no connection with employment, health, education, environment. Achievement of these policies may well be to use the methods mentioned or may be to use other methods. [25]

- L4 For a reasoned and clear discussion with accurate development of an argument based on an understanding of theory. There will be good links to the statement together with a conclusion. [18–25]
- L3 For a clear description together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive. A conclusion will be presented. [14–17]
- L2 For a correct explanation but weak or ill-explained links to the statement. The explanation will be undeveloped; there will be some attempt at analysis but only limited evaluation with no conclusion. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]

- 7 The transfer of some functions of the public sector to the private sector is the best way of ensuring efficiency. It is, therefore, worthwhile.**

Is this an argument with which you agree? [25]

Explanation of efficiency and a discussion of the relative merits of the private market and public sector. The private sector maybe competitive and possibly more productively efficient but there will be problems of market failure, information, externalities, merit goods and no public goods. The quote does specify 'some functions'. Candidates could consider which functions might be appropriate for a transfer.

- L4 For a sound explanation of efficiency and a good discussion of the relative merits of each sector. A conclusion should be given with some reference to which functions may be better in the private sector. [18–25]
- L3 For a competent explanation of efficiency but briefer discussion of the relative merits of each sector and no comment on which functions might be appropriate for the private sector. There should still be a conclusion. [14–17]
- L2 For a more limited general description, rather than an analytical discussion with little attempt at evaluation and no conclusion. [10–13]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series**9708 ECONOMICS****9708/42**Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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 will not enter into discussions about these mark schemes.

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Page 2	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	42

Section A

- 1 (a) Distinguish between the type of integration likely to occur in Australian supermarkets and the integration intended by Cisco. [3]**

Vertical applied to supermarket = 1

Horizontal applied to Cisco = 1

Further development e.g. backwards for vertical/same stage of production or equivalent = 1

- (b) What is likely to happen to employment if both examples of integration occur? [3]**

Cisco, stated that employees would be integrated into Cisco, employment would be stable in the short run but it is unlikely that a merger would take place without some rationalisation by the company in terms of the labour force.

Supermarkets; employment in other manufacturing could well decrease in the long term although it might be safeguarded in the short term. If the supermarket makes its own products there may be an increase in employment for the supermarket. Overall result is uncertain.

- (c) The article concludes that Australia's long-term food security will be weakened. Analyse why this conclusion is made and discuss whether you support it. [4]**

The article says that Australia's manufacturing sector needs profits to allow research and development. The article says that without research there will be a decline in production. (The reason/logic of this statement is not clear). Without production there will be no security and Australia will be a food importing nation. (3) A conclusion should be given. (1)

- (d) Does the evidence in the article suggest that integration is beneficial? [10]**

Vertical – to supermarket, there is a gain; to producer, a possible gain in short term from increased orders, less certain in long term if supermarket does not keep them as a supplier; to consumer, a gain in short term, less certain in long term as product range may be reduced. Horizontal – encourages research, reduces cost to customer, Cisco profits likely to be increased, all gains.

Candidates should state an overall conclusion.

Page 3	Mark Scheme	Syllabus	Paper
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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try to use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally, of course, to parts of questions where the total is less than 25.

Mark 1–9 (Linked to level one in individual question notes)

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes)

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes)

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements. Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question. Do not expect too much critical comment on unstated assumptions.
- 16–17 for an answer showing a well-reasoned understanding of the question's requirements and of the relevant theory; the analysis should be sound, though, the illustration and development may not be very full.

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Mark 18–25 (Linked to level 4 in individual question notes)

- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
- 21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

Level	1	2	3	4
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13

Page 5	Mark Scheme	Syllabus	Paper
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- 2 'The purchases a consumer makes are based upon marginal utility. It is this alone that determines market equilibrium in perfect competition. Supply has no relevance.' Is this true? [25]**

Explanation of marginal utility analysis and the link between utility and the demand curve. Individual demand curves can be used to achieve market demand curves. Discussion of the importance of supply. Market equilibrium in perfect competition cannot be obtained from market demand curve alone.

- L4 For a clear explanation of the link between utility and demand, cost and supply, the construction of market equilibrium, a clear assessment of the assertion in the quote and a reasoned conclusion. [18–25]
- L3 For a competent explanation which does not fully analyse the link between utility and market demand or the link between cost and supply. There will be some discussion but the evaluation will not be extensive with some limited conclusion. [14–17]
- L2 For an accurate, though, undeveloped explanation of utility and supply but with only limited evaluation and no conclusion. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]

- 3 Discuss the similarities and differences between a firm's likely price and output policy in perfect competition and oligopoly. [25]**

Similarities: possible aims of profit maximisation, calculation of costs, recognise changes in costs, interested in calculating possible revenue. Differences: in oligopoly discussion of recognition of the fact that firms can manipulate prices, can practise price discrimination, but need not change prices with every change in market demand (kinked demand curve), do have differentiated products, do recognise the inter-relations between the products of one firm and the actions of another, may or may not learn from results of changes in price and influence on demand.

- L4 For a thorough explanation of the theory, a clear analysis, with a discussion which leads to a reasoned conclusion. [18–25]
- L3 For a competent explanation which does not fully analyse the theory but makes some attempt at evaluation with a limited conclusion. [14–17]
- L2 For an accurate, though, undeveloped explanation with some attempt at analysis but only limited evaluation. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

Page 6	Mark Scheme	Syllabus	Paper
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- 4 A huge company with a turnover of \$99.3 billion paid its chief executive \$10.9 million in 2011. At the same time it was reported that the company did not pay what was regarded as a living wage to all its employees.**

(a) Use economic analysis to help explain why there can be wide differences in wage rates.

[12]

Candidates should give an explanation of the factors affecting wage rates. A comment on demand and supply, on marginal productivity, on skills, scarcity, on rates in competitive industries.

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

L3 For a competent explanation but with limited development. [7–8]

L2 For a general explanation of only some of the factors. [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]

(b) Discuss how this analysis could be adapted if a trade union intervened in the process of wage determination.

[13]

The implication is that there is imperfect competition. This may result in 'exploitation'. They should then discuss how the wage rate could be fixed to avoid exploitation. This might involve negotiation with a union, with a conciliation tribunal, or with government intervention. A solution may be reached without the need for government intervention by bargaining between the union and the employers. A conclusion should be presented.

L4 For a reasoned discussion and clearly structured answer with sound knowledge of the analysis and a reasoned conclusion. [9–13]

L3 For a discussion, but without such a full development, but still with a conclusion. [7–8]

L2 For a limited but acceptable attempt to describe the theory but without any real development nor any conclusion. [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]

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	42

- 5 (a) Identify two government macroeconomic aims and analyse how a boom will bring beneficial changes for consumers and producers. [12]

Accept any two. Candidates are likely to choose from GDP, price levels, employment, balance of payments.

- L4 For a reasoned and clear explanation of at least two indicators with the analysis logically presented with a realisation that benefits/drawbacks will vary depending on which group is being considered. [9–12]
- L3 For a fair but undeveloped explanation of two indicators and weaker analysis of the differences for the two groups. [7–8]
- L2 For a weak explanation of two indicators and their effects or a fuller explanation of one indicator and its effects. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

Lord Skidelsky, Keynes's biographer, stated that Keynes believed that 'to cut government spending was completely the wrong policy in a slump'. (Source: *The Times*)

- (b) Discuss why cutting government spending might be considered to be the wrong policy in a slump. [13]

Discussion of effect of a fall in government spending, a fall in injections causing national income to fall via multiplier process. An evaluation of why this might be the wrong policy in a slump should be given.

- L4 For a sound discussion of the multiplier with good application of the effect of decreases in government spending and a clear understanding of the principles involved. An evaluative comment should be provided. [9–13]
- L3 For an accurate discussion of the multiplier but with a more limited comment on the application related to a decrease in government spending in a slump. [7–8]
- L2 For a discussion of the changes in the components of AD and limited comment on the application. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

Page 8	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	42

6 (a) Use liquidity preference theory to explain why there is a demand for money. [12]

Expect transactions, precautionary, speculative descriptions. Up to 6 marks for first two, 6 marks for speculative.

L4 For a sound explanation with good application and a clear understanding of the principles involved. [9–12]

L3 For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. [7–8]

L2 For a correct explanation but undeveloped comment, not necessary logically presented. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

My higher income will make me happier. It will make other people unhappy.

(b) Discuss whether the main aim of government policy should be to achieve a more equal distribution of income. [13]

Candidates should state the macroeconomic aims of the government. They should reflect upon the significance and importance of the different aims in different economic circumstances. Whether income distribution is the most significant may well depend on the situation facing the economy rather than purely a decision in principle. A conclusion should be drawn. [13]

L4 For a sound explanation with good application and discussion with illustration and a clear understanding of the principles involved and a reasoned conclusion. [9–13]

L3 For an accurate explanation of the aims but with a more limited comment on the application to income distribution with a limited conclusion. [7–8]

L2 For a weaker discussion and illustration which lacks any real development. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

Page 9	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	42

- 7 (a) How effective is the measurement of economic growth as an indicator of how a developing country's standard of living compares with other countries? [12]**

Consideration of the value of GDP but also of other factors which might be important which are not included directly in GDP – health, housing, education, crime, income distribution. Difficulties of comparing different cultures, climates.

L4 For a reasoned and clear discussion, logically presented. [9–12]

L3 For a fair but undeveloped discussion but with accurate reference to the question. [7–8]

L2 For a limited discussion with little comment. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

- (b) Discuss whether economic growth would necessarily lead to a more efficient use of resources in developing countries. [13]**

Explanation of the meaning of allocative efficiency and productive efficiency. Economic growth would not necessarily ensure that either occurs; growth of itself has negative aspects as well as positive ones. There may need to be some regulation of market failures by means of subsidies, regulation, taxes, prohibitions, ownership, provision of government services. It might be possible to achieve productive efficiency but more difficult to measure and achieve allocative efficiency.

L4 For a reasoned and clearly structured answer which gives an explanation of both types of efficiency and a discussion effect of growth. A reasoned conclusion should be drawn. [9–13]

L3 For a fair explanation but with a weaker or undeveloped discussion on the application but still with a limited conclusion. [7–8]

L2 For an answer which concentrates on the explanation but does not explore the discussion and has no conclusion. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series**9708 ECONOMICS****9708/43**Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Page 2	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	43

Section A

- 1 (a) Explanation stating that it is an increase in output or GDP (1), further elaboration of any extra point which mentions, for example, per cent rate of increase, real growth allowing for inflation, time period, short term or long term potential growth (1). **[2]**
- (b) Economic growth is achieved by lowering barriers for people to produce (supply) goods and services, lower tax rates encourage extra work, production (supply) increases, lower taxes may also affect profits of firms and willingness of businesses to expand and increase investment. **[3]**
- (c) Explanation of supply curve, increased work as wage increases (1), diagram, labels, shape of curve (1), with backward bend as wages increase beyond a certain level (1), tax rate change will shift curve, receive more income for each level of hours worked (1). **[4]**
- (d) The article says that the result is similar to how a firm's revenue changes (1), greater than 1 is similar to elastic price elasticity of demand (1), there is a marked response in hours worked (1), thus a reduction in tax causes revenue to rise not fall (1). **[4]**
- (e) Discussion of the points mentioned in the article – the difference between the short run and long run, the lack of consistency in the outcome using US figures, the measurement of the sensitivity to tax changes, the difficulty of proving cause and effect. **[7]**

Page 3	Mark Scheme	Syllabus	Paper
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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try to use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a), which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally (of course) to parts of questions where the total is less than 25.

Mark 1 – 9 (Linked to level one in individual question notes)

- 1 – 5** where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6 – 9** where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10 – 13 (Linked to level two in individual question notes)

- 10 – 11** where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.
- 12 – 13** where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Page 4	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	43

14 – 17 (Linked to level 3 in individual question notes)

14 – 15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question. Do not expect too much critical comment on unstated assumptions.

16 – 17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory; the analysis should be sound though the illustration and development may not be very full.

18 – 25 (Linked to level 4 in individual question notes)

18 – 20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21 – 25 for an answer which, given the time constraint, could not be improved significantly; it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 12	1 – 4	5 – 6	7 – 8	9 – 12
Total Mark 13	1 – 4 +	5 – 6 +	7 – 8 +	9 – 13

Page 5	Mark Scheme	Syllabus	Paper
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- 2** Explanation of consumer equilibrium $MU_a / P_a = MU_b / P_b$.
 Explanation of equilibrium for the firm $MC = MR$. MR and price only the same in perfect competition.
 Here there may be a similarity in the equilibrium. The significance mentioned in the statement is not correct in other market structures. **[25]**
- L4)** For a thorough explanation of the analysis, a clear discussion of the possible link between the two situations, a discussion of the lack of link in imperfect markets.
 A reasoned conclusion. **18 – 25**
- L3)** For a competent explanation of the analysis but with more limited discussion and less clarity about the similarity/differences. The evaluation will not be fully developed or extensive. **14 – 17**
- L2)** For an accurate, though, undeveloped explanation with some attempt at analysis but only limited evaluation, possibly concentrating on perfect competition. No conclusion. **10 – 13**
- L1)** For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. **1 – 9**

Page 6	Mark Scheme	Syllabus	Paper
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- 3 (a) Explanation of the criteria for price discrimination. Possible, separate markets, profitable, different price elasticities of demand. Application: different size cabins, not discrimination as not the same product. Different prices for a US address is discrimination. Justified if it allows production, employment, further investment to continue. To achieve this businesses may justify discrimination because it will make more profit. **[12]**

L4) For a reasoned and well argued explanation with accurate development of the analysis with clear reference to the application. **9 – 12**

L3) For a clear but undeveloped explanation but with brief reference to the application, or little reference to the justification. **7 – 8**

L2) For a limited attempt to consider the theory with little application, or general descriptive application with no analytical framework. **5 – 6**

L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. **1 – 4**

- (b) Explanation of meaning of efficiency (productive, allocative) and discussion of possibility of achieving efficiency in each of the market structures. Both productive and allocative efficiency possible in perfect competition, not both possible in monopolistic competition. **[13]**

L4) For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved with a reasoned conclusion. **9 – 13**

L3) For a competent comment but lacking development. **7 – 8**

L2) For a limited discussion of the analysis and only very brief development of the ideas. **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**

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	43

- 4 (a) Explanation of difference between the two market structures in terms of constant, rising average wage line, existence of monopsony, existence of unions. [12]

L4) For a good explanation, and clear contrast/comparison. **9 – 12**

L3) For either a competent explanation of one market or a weaker explanation involving both markets. **7 – 8**

L2) For a limited attempt with no explicit comparison. **5 – 6**

L1) For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. **1 – 4**

- (b) Candidates should deal with both aspects of the question, whether imperfect means it is faulty and also whether this necessitates government intervention. It may be considered 'faulty' if exploitation occurs and wages are forced down and employment reduced. Correction could be by collective bargaining as well as by legislation. [13]

L4) For a sound discussion clearly discussing both parts with a conclusion. **9 – 13**

L3) For a competent discussion of one aspect or a weaker discussion of both parts but still with a conclusion. **7 – 8**

L2) For a general discussion with little evaluation and no conclusion. **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**

- 5 Explanation of increase in injections causing a rise in income and growth via multiplier process. Discussion of disadvantages of growth – resource use, short term vs long term, negative externalities. Explanation of government aims and discussion of possible conflicts – pressure on prices, likely inflation; effect on distribution of income; extra demand may increase imports, effect on balance of payments. There is unlikely to be a conflict with the objective of increased employment. If potential growth increases (PPC moves out) then there may not be conflicts with other government objectives. [25]

L4) For either: a thorough explanation of the analysis of the multiplier, a clear discussion of the possible disadvantages of growth and of the possible conflicts.
Or: a descriptive account of the multiplier and a thorough discussion of the conflicts.
A reasoned conclusion should be given. **18 – 25**

L3) For a competent explanation of the analysis of the multiplier but with more limited discussion and less clarity about the disadvantages/ conflicts. The evaluation will not be fully developed or extensive. There should be a conclusion. **14 – 17**

L2) For an accurate, though, undeveloped explanation with some attempt at analysis but only limited evaluation, possibly concentrating on one of the aspects – disadvantages or conflicts. No conclusion. **10 – 13**

L1) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. **1 – 9**

Page 8	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	43

- 6 (a)** Explanation of transactions, precautionary, speculative demand. Transactions related to income, credit cards not related as money is spent without necessarily having been received. Precautionary – credit cards may reduce precautionary demand because future expense may be made not through money saved by through the credit card. The amount left for speculative may increase if left is used for transactions and precautionary. [12]

L4) For a sound explanation with good application and a clear understanding of the principles involved. **9 – 12**

L3) For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. **7 – 8**

L2) For a correct explanation but undeveloped comment, not necessarily logically presented. **5 – 6**

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory. **1 – 4**

- (b)** Discussion on effect of increase in money supply on interest rates, – with discussion of elasticity of liquidity preference. Effect of changes in interest on investment, with discussion of elasticity of investment schedule and extent of MPS. Effect on international situation with changes in imports, exports, speculation and exchange rates. Potential inflationary effects. This could lead to changes in government policy. [13]

L4) For a reasoned and clear discussion, logically presented. **9 – 13**

L3) For a fair but undeveloped discussion but with accurate reference to the question. **7 – 8**

L2) For a limited discussion with little comment. **5 – 6**

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory. **1 – 4**

Page 9	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2014	9708	43

- 7 (a) Explanation of the characteristics of a developing country with a conclusion about the statement. [12]
- L4)** For a good explanation, a clear reference to the statement – including a critique of the statement about international trade – and a conclusion. **9 – 12**
- L3)** For either a less developed explanation with weaker explicit reference to the statement but with a conclusion. **7 – 8**
- L2)** For a limited attempt, no explicit reference to the statement and no conclusion. **5 – 6**
- L1)** For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. **1 – 4**
- (b) Explanation of what 'performed well' means. Consideration of whether this is a suitable method of comparison. Consideration of other factors which might be important which are not included directly in GDP – health, housing, education, crime, income distribution. Conclusion on whether it is still possible to make such comparisons but maybe not by using GDP. [13]
- L4)** For a reasoned and clear discussion, logically presented. **9 – 13**
- L3)** For a fair but undeveloped discussion but with accurate reference to the question. **7 – 8**
- L2)** For a limited discussion with little comment on alternative methods. **5 – 6**
- L1)** For an answer which has some basic correct facts but includes irrelevancies and errors of theory. **1 – 4**

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**GCE Advanced Subsidiary Level and GCE Advanced Level****MARK SCHEME for the May/June 2008 question paper****9708 ECONOMICS****9708/04****Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70**

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the May/June 2008 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



Page 2	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9708	04

Section A

- 1 (a)** Comment on the number of jobs, income generation, spending and investment will rise. All increase national income. There will be an effect on the trade balance, either from income earned from exports, or from reduction in imported oil due to domestic use of home oil. This will also affect national income.
4 separate points are not required for 4 marks: 2 marks can be given for a point if it is developed and explained. [4]
- (b)** Evidence for expansion:
 – the number of jobs – may be for exploration though
 – the investment increases, technological advances continue
 – possibly the government encouragement
 – the fact that large profits are made
 Evidence for decline:
 – production levels falling – maybe though only from more accessible fields. Text unclear on this.
 – Need extra measures to boost new firms.
 Overall text uncertain. Look for conclusion. [6]
- (c)** – the most important thing is that prices are rising. This is not mentioned in the text. It has to be deduced from the diagram. 2 marks for recognising this.
 – profits increasing – supported by view of chancellor increasing taxes
 – small firms have advantage
 – changes in government rules
 – possibility of new oil fields. [4]
- (d)** against usual economic explanation – not personal, niche market, local
 – requires huge investment
 – employs large no. of people
 but for usual economic explanation – small firms often do need government encouragement and support and special concessions so without that they may not survive.
 – profits are large so firms are attracted to the industry.
 Should be an overall conclusion even if it is stated that the conclusion is uncertain.
 5 max without a conclusion. [6]

Page 3	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9708	04

Section B

General Comments for Section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level 1 in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level 2 in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Page 4	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9708	04

Mark 18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

- 2 Candidates should recognise that economic theory does not always suggest that charges should always cover cost – depends which costs, and whether short or long run, and whether operating with the aim of profit maximising. Apart from this sometimes firms are deliberately subsidised and this is allowed in theory.
Candidates should then discuss the principles of allocative efficiency and debate whether economic theory indicates that to aim for such efficiency is the best solution.

- L4) *For an explanation of the terms in the statement, a clear discussion of the analysis of the different aspects of the theory and a clear discussion of the principles of allocative efficiency, with a reasoned conclusion.* (18–25)
- L3) *For a competent explanation which does not fully analyse the terms or deal with all the issues. There will be some discussion but the evaluation will not be fully developed or extensive and the conclusion may be weak or missing.* (14–17)
- L2) *For an undeveloped explanation of some of the terms with some attempt at discussion of the links between them but with very limited evaluation and no real conclusion.* (10–13)
- L1) *For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.* (1–9)

Page 5	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9708	04

- 3 (a) Candidates should give an explanation of the factors affecting supply. The wage rate, the non-wage benefits, the wages in alternative employment, the idea of income and substitution effects leading to a backward slope in the supply curve are all relevant. The union might have some influence on determining the wage rate, or possibly the non-wage benefits. Look for a conclusion as to whether the union is the main factor.

- L4) For a sound explanation with clear understanding of the principles involved and a clear conclusion. (8–10)*
L3) For a competent explanation but with limited development and no real conclusion. (6–7)
L2) For a general explanation of only some of the factors and no conclusion. (4–5)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

- (b) Candidates should explain the economic theory of wages and then introduce the union into the imperfect market. They should then discuss how the wage rate could be fixed between the union demands and the market rate depending on the bargaining strength of the two sides.

- L4) For a reasoned discussion and clearly structured answer with sound knowledge of the analysis. (12–15)*
L3) For a full discussion, but without such a full development – probably not mentioning the range of uncertainty of the final wage rate. (9–11)
L2) For a limited but acceptable attempt to describe the theory but without any real development of the issues. (6–8)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

- 4 Candidates should develop the argument. They need to debate whether large firms are necessarily monopolistic or whether a market can be competitive even though it has large firms. They then need to debate, even if there is a tendency for large firms to become monopolistic, whether monopolistic practices are always detrimental. Finally they need to form a conclusion.

- L4) For an explanation of the terms in the statement, a clear discussion of the analysis of the different aspects of the theory and a clear discussion of the issues involved, with a reasoned conclusion. (18–25)*
L3) For a competent explanation which does not fully analyse the terms or deal with all the issues. There will be some discussion but the evaluation will not be fully developed or extensive. (14–17)
L2) For an accurate though undeveloped explanation of part of the statement but with weak attempt to discuss and consider it as an argument and limited evaluation and no real conclusion. (10–13)
L1) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–9)

Page 6	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9708	04

- 5 (a) Explanation of economic development in terms of an increase in GDP, GDP per capita or increase in national income, productive capacity, or in terms of HDI and standards of living. Reference may be made to the way in which this is achieved.

- L4) For a sound explanation with clear understanding of the principles involved and a clear conclusion. (8–10)*
L3) For a competent explanation but with limited development. The conclusion may be weak or missing. (6–7)
L2) For a general explanation of only some of the factors and no conclusion. (4–5)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

- (b) Candidates should discuss the relevance of each of the suggestions, the reliance on theory, the scientific advances and the market forces. They should conclude whether each is necessary.

- L4) For a reasoned discussion and clearly structured answer mentioning all three suggestions together with a conclusion. (12–15)*
L3) For a discussion, but without such a full development or probably not mentioning all three suggestions, and with weaker conclusion. (9–11)
L2) For a limited but acceptable attempt to discuss one or two of the suggestions without any conclusion. (6–8)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

- 6 (a) Explanation of the link between a rise in taxation and national income. Direct tax increases would lead to a reduction in income and possibly to a fall in spending and national income. It might depend on whom the increase in tax is levied and whether it is progressive or regressive. Indirect tax increases may lead to a fall in spending but it depends on the elasticity of demand for the product or service. It also depends on whether expenditure is switched to other goods/services.

- L4) For a sound explanation with clear understanding of the principles involved and a clear conclusion. (8–10)*
L3) For a competent explanation but with limited development and no real conclusion. (6–7)
L2) For a more general explanation which presents quite a simplistic approach and has no conclusion. (4–5)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

- (b) Discussion of the importance of the link between national income and standards of living. Consideration of the income per head, the distribution of income and other factors some of which are measures by the HDI and some which are of a more social nature.

- L4) For a structured discussion and clearly structured answer together with a reasoned conclusion. (12–15)*
L3) For a discussion, but without such a full development and with weaker conclusion. (9–11)
L2) For a limited but acceptable attempt to discuss the relevance of national income with limited alternatives and without any conclusion. (6–8)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

Page 7	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9708	04

7 (a) Explanation of the demand for money.

- L4) For a sound explanation with clear understanding of the principles involved for the different types of demand. (8–10)*
L3) For a competent explanation but with limited development. (6–7)
L2) For a more general explanation which presents quite a simplistic approach. (4–5)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

(b) Increase in the money supply will lead interest rates to fall, fall in interest rates lead to rise in investment and borrowing, rise in investment will lead through the multiplier to a rise in national income.

- L4) For a structured discussion of each of the steps, a clearly structured answer together with a reasoned conclusion. (12–15)*
L3) For a discussion, but without such a clear analysis of the steps or development and with weaker or missing conclusion. (9–11)
L2) For a limited but acceptable attempt to discuss the links but in a much more general way and without any conclusion. (6–8)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

**MARK SCHEME for the May/June 2009 question paper
for the guidance of teachers**

9708 ECONOMICS

9708/04

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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 must be read in conjunction with the question papers and the report on the examination.

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Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2009	9708	04

Section A

- 1 (a) GDP value of output produced within a country during a year. The income was not earned by production in the home country. [2]
- (b) Candidates could contrast the possible situation at home with limited job opportunities, concentration on primary products, especially in rural areas, and poor pay, with the situation in developed countries. It would be thought by those who travel that there would be better pay, better prospects, more skilled training and wider variety of jobs available. [5]
- (c) There is some reference to individual cases involving education. However to expand that to a national situation the evidence is limited. In one country, China, private initiatives are stated to have had a significant effect. In the other countries the evidence consists of figures for two countries in one year, and a reference to two other countries – and it is not clear in these two countries whether the 'partnership' agreement is the result of private initiatives or the public sector. There are no figures for government expenditure, no comparative figures between other countries or with other years. Also one other country, Mexico, is stated as using government initiatives as well. Overall the evidence is not strong. [5]
- (d) Discussion of the use of measures such as GDP and the difficulties of comparisons year by year. Up to 5 marks. Candidates could mention that the strict use of GDP or even GDP per capita has now been augmented by the use of other measures such as the HDI, MEW. Up to 2 marks. Conclusion 1 mark. [8]

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2009	9708	04

Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Page 4	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2009	9708	04

18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

Page 5	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2009	9708	04

- 2 (a) Question mentions different ways economists classify profit. Answer should include a mention of revenue, cost and also of the difference between normal and abnormal profit. The 'free' newspaper is only free to the consumer. It is not free to the advertiser. Any profit is made from the advertising revenue.

L4) For a clear explanation of the difference between revenue and cost and an explanation of the meaning of normal and abnormal profit together with a recognition that the publisher obtains revenue from the advertisers. (9–12)

L3) For an explanation of revenue, cost and normal profit but uncertain comment about the advertising. (7–8)

L2) For a limited attempt but probably without the normal profit distinction. (5–6)

L1) For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. (1–4)

- (b) Candidates could discuss price and non-price competition. They could also mention collusion and price discrimination.

L4) For a sound discussion with good explanation of the both price and non-price competition. (9–13)

L3) For a competent comment but with limited attempt probably at non-price competition and little mention of price discrimination or collusion. (7–8)

L2) For a correct explanation maybe concentrating on short run or long run pricing and little or no attempt at non-price competition. (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)

- 3 Discussion of determinants of wage rates using either demand and supply or marginal revenue productivity. In the past we have not used the full range of marks for a demand and supply approach only with no mention of marginal revenue productivity.

L4) For a thorough explanation of the analysis of wage determination with a clear link to the explanation of low wages with discussion of institutional factors and/or government policy. (18–25)

(14–17 for demand and supply only with institutional factors and/or government policy)

L3) For a competent explanation but with limited discussion and application. (14–17)
(10–13 for demand and supply)

L2) For a correct but undeveloped explanation with only brief application (10–13)
(6–9 for demand and supply)

L1) For an answer which contains inaccuracies and only a few correct points (1–9)
(1–5 for demand and supply only)

Page 6	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2009	9708	04

- 4 (a) Explanation of criteria for perfect competition and a comparison of those criteria with this company which is a large aircraft company with huge research expenditure, large capital investment and limited competitors.

- L4) For a sound explanation of the criteria with clear understanding of the principles involved and a link to the company mentioned. (8–10)*
L3) For a competent explanation but with limited consideration of each of the criteria. (6–7)
L2) For a general explanation which does not draw a conclusion. (4–5)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)

- (b) Candidates should discuss the meaning of 'against the public interest'. They should then relate this to the information. There is some attempt by the company to recognise the damage it causes to the environment but there is no suggestion that it would not seek to maximise profits or market its product to serve its own aims.

- L4) For a reasoned discussion and clearly structured answer with conclusion on the meaning and application of the public interest. (12–15)*
L3) For a full discussion of the public interest but with only a limited attempt at an application to the company and an undeveloped conclusion. (9–11)
L2) For a limited but acceptable attempt which may not fully consider public interest in terms of profit, output, variety of products and which does not have a conclusion. (6–8)
L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)

- 5 (a) Explanation of the causes of unemployment.

- L4) For a clear explanation with accurate development of four different causes of unemployment. L4 should not be given simply for mentioning 4 causes. (9–12)*
L3) For a clear explanation of two or three causes of unemployment with a limited development at alternative causes. (7–8)
L2) For a limited attempt with little development – possible of more than one cause of unemployment. (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)

- (b) Discussion of how changes in interest rates might influence spending, or saving, or investment and therefore might influence the pressure on resources and on inflation.

- L4) For a sound discussion with good explanation of the analysis and a clear understanding with a conclusion. (9–13)*
L3) For a competent comment but with limited development of the analysis and a weaker conclusion. (7–8)
L2) For a brief explanation and with a weak explanatory link between interest and inflation and with no conclusion. (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)

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- 6** Candidates are asked to construct an argument. The elements in the argument must consist of (i) a statement of government macro-economic aims, (ii) a consideration of alternative aims mentioned, and (iii) whether governments have to abandon their macro aims in order to achieve the alternative.

- L4) For a clear explanation of the macro aims, a clear statement about the assertion in the quote and a discussion of whether this implies the abandoning of other macro aims. A reasoned conclusion will be presented. (18–25)*
- L3) For a competent explanation which does not fully analyse the argument or clearly see the progression, or lack of progression in the argument. There will be some discussion but the evaluation will not be fully developed or extensive. (14–17)*
- L2) For an accurate though undeveloped explanation of some of the terms, probably mentioning some of the macro aims but not dealing with the link with the quote, with very limited evaluation and no real conclusion. (10–13)*
- L1) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–9)*

- 7 (a)** Explain of how an increase in spending causes a rise in national income through the multiplier process. (No multiplier: max. L2)

- L4) For a sound explanation with clear understanding of the principle involved. (8–10)*
- L3) For a competent explanation but with limited development. (6–7)*
- L2) For a general explanation probably in descriptive form. (4–5)*
- L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–3)*

- (b)** Discussion of the wide effects of infrastructure development and a consideration of the efficient allocation of resources which may involve government regulation if not government investment.

- L4) For a reasoned discussion and clearly structured answer with conclusion on both types of efficiency. (12–15)*
- L3) For a full discussion possibly of one type of efficiency with only a limited attempt at a conclusion. (9–11)*
- L2) For a limited but acceptable attempt which may not define efficiency, omit one type of efficiency, not have a conclusion, and not have any development of analysis. (6–8)*
- L1) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–5)*

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2010 question paper
for the guidance of teachers

9708 ECONOMICS

9708/41

Paper 41 (Data Response and Essays – Supplement),
maximum raw mark 70

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 must be read in conjunction with the question papers and the report on the examination.

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CIE is publishing the mark schemes for the May/June 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



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Section A.

- 1 (a) government spending/investment, private investment, [2]
- (b) The information says 4% per year, rise in 3 months, therefore, is 1% (The question does not required an explanation but award 1 mark if there is an attempted explanation of annual equivalent rate, but an incorrect answer). [2]
- (c) Shows \$ against euro. More \$ per euro, so dollar is worth less. [2]
- (d) Fall in interest rates makes borrowing easier, demand for houses increases, average price of houses rises, construction industry is more likely to make profits and be willing to increase supply of houses – presuming that banks are willing to lend to consumers up to 4 if no evaluation. [6]
- (e) Housing market slump could lead to increased unemployment – beginning in the construction industry but spreading to industries which supply contents for houses and materials for house building. The slump could be helped by lower interest rates. However, lower interest rates and the increase in oil prices might increase inflation. Falling interest rates could also increase spending and put further pressure on inflation. Value of dollar is declining and this causes further pressures on the balance of payments and exports. [8]

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Section B.

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.

- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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Mark 18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total mark 10	1–3	4–5	6–7	8–10
Total mark 12	1–4	5–6	7–8	9–12
Total mark 13	1–4+	5–6+	7–8+	9–13
Total mark 15	1–5	6–8	9–11	12–15

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2 (a) *Explanation of equilibrium in terms of productive efficiency and allocative efficiency.*

- L4 For a clear explanation of both types of efficiency and a comment on the possibility of achieving efficiency in different market structures. [9–12]
- L3 For a more limited explanation of both types of efficiency but with little comment. [7–8]
- L2 For a limited attempt probably with an explanation of only productive efficiency or a more general explanation using demand and supply curves only. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

(b) *Discussion of areas of market failure through lack of knowledge, imperfections, monopolies and externalities.*

- L4 For a sound discussion with good explanation of the several market failures with a discussion of the resulting misallocation of resources. [9–13]
- L3 For a full comment of one market failure, probably monopoly or externalities and a briefer discussion of the effect on the allocation of resources. [7–8]
- L2 For a correct but very limited explanation of market failure, either with a brief examples or in general terms. [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]

Page 6	Mark Scheme: Teachers' version	Syllabus	Paper
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- 3 (a)** *Explanation of price discrimination requiring separate markets for the same product and different elasticities for it to be profitable. Difference in the time of day.*

Could be argued to be a separate product. Different fares for different people – who may have different elasticities of demand – on the same service does separate the market for the same product. Those who cannot buy fares in advance also face price discrimination.

L4 For a clear explanation of price discrimination with mention of both separate markets and different elasticities. Good discussion and application to the examples given. [9–12]

L3 For a more limited explanation of price discrimination, possibly not mentioning elasticity and a more limited consideration of the examples given. [7–8]

L2 For a very general comment on price discrimination with limited analysis and only brief comment on the examples given. [5–6]

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

- (b)** *Discussion of output and pricing policy in different market structures. Market price and output in perfect competition against attempts to control the price and output in imperfect competition. Candidates could mention maximum profits, price leadership, collusion, interdependence and oligopoly, non-price competition, establishing barriers to entry.*

L4 For a reasoned and full discussion and clearly structured answer on which covers three market structures, probably perfect competition, monopoly and one other. [9–13]

L3 For a competent but less developed discussion of three market structures or a fuller discussion of two market structures. [7–8]

L2 For a limited but attempt at two market structures or a full account of one market structure. [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]

Page 7	Mark Scheme: Teachers' version	Syllabus	Paper
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- 4** *Discussion of the theory of wages i.e. marginal revenue productivity theory (MRP). Labour markets may be imperfect but the theory does explain imperfect markets. It does not give a definitive answer to the level of wages where negotiations exist, or where there are trade unions, or government intervention. It gives the limits between which the wage will be fixed.*
- L4 For a thorough explanation of the analysis of wage determination with a clear link to the explanation of wages with discussion of institutional factors and government policy. [18–25]
(14–17 for demand and supply only without institutional factors and government policy)
- L3 For a competent explanation but with limited discussion and application and imprecise conclusion. [14–17]
(10–13 for demand and supply only)
- L2 For a correct but undeveloped explanation with only brief application and no real conclusion. [10–13]
(6–9 for demand and supply only)
- L1 For an answer which contains inaccuracies and only a few correct points. [1–9]
(1–5 for demand and supply only)
- 5 (a)** *Explanation of the characteristic differences between a developing country and a developed country.*
- L4 For a sound explanation and explicit comparison of the characteristics giving a good range of indicators both economic and social. [9–12]
- L3 For a competent explanation but with a limited development, or a fuller development of only a few characteristics but still with an explicit comparison. [7–8]
- L2 For a correct but weak explanation of the characteristics and little development. No explicit comparison given and reader is left to draw conclusions. [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]
- (b)** *Discussion using information given. Fair Trade might promote specialisation and, therefore, a better use of resources which overall, might lead to some 'conservation'. The use of home products could well cost more to produce especially if they require use of extra heat or fertilisers. The weather may not be as suitable for them and the saving in transport cost could be outweighed by extra production costs.*
- L4 For a reasoned and well argued discussion with accurate development of the discussion and a reasoned conclusion. [9–13]
- L3 For a clear but undeveloped discussion but one which still tries to make a conclusion. [7–8]
- L2 For a limited attempt to consider the information but with no conclusion. [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. [1–4]

Page 8	Mark Scheme: Teachers' version	Syllabus	Paper
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- 6 (a) *Analysis and explanation of the working of the multiplier showing the link between investment and national income, recognising that there would be no leakages to taxes and imports in the pure market economy.*

L4 For a sound explanation with clear understanding of the principle involved. [9–12]

L3 For a competent explanation but with limited development. [7–8]

L2 For a general explanation probably in descriptive form. [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]

- (b) *The government might wish to influence the investment by using fiscal or monetary policy. It might also influence the investment of the private sector by regulation. It can use taxes or subsidies, interest rates, regulations or controls.*

L4 For a reasoned discussion and clearly structured answer with several alternative policies. [9–13]

L3 For a competent discussion but with a more limited range of policies. [7–8]

L2 For a weaker attempt which may concentrate on only one type of policy, not present any drawbacks of that policy or not develop any wider analysis. [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]

- 7 *There are three different parts to the argument. Candidates should explain utility theory and consumer equilibrium. They should then consider whether the theory allows for account to be taken of a change in income and whether the existence of advertising, which could provide more information and increases rational choice, might be included in the theory. Even if the advertising is purely persuasive the belief that it is correct might also be considered to be the basis for a rational choice. They should then consider whether the overall conclusion of the argument is correct.*

L4 For a thorough explanation of the theory and a reasoned discussion of the results of a change in income and of the influence of advertising. [18–25]

L3 For a competent explanation of the theory but a more limited discussion of the other elements in the assertion. Probably the income aspect will be better dealt with than the advertising. [14–17]

L2 For a correct but undeveloped explanation of the theory and only a brief discussion of the other elements to the assertion. [10–13]

L4 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant. [1–9]

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

**MARK SCHEME for the May/June 2010 question paper
for the guidance of teachers**

9708 ECONOMICS

9708/42

Paper 42 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A.

- 1 (a) Spending increased in Jan and Feb which would indicate an improvement; – this might be linked to the fact that price changes were no longer negative; income was also up in Jan, but fell in Feb; So some improvement. [3]
- (b) There is no apparent consistency between income and spending either in direction or amount. Even if spending is considered in the subsequent month to the income change there is no consistency. There is more consistency between the overall price change and spending in the direction of the change in the same month, but not in the extent of the change. Up to 3 for either comparison. [5]
- (c) A fall in spending will cause a fall in demand, expected revenue/profits to business will decline. If the decline is significant or if it is protracted and it is thought that the trend will continue then there will be less revenue with which to invest and no incentive to invest. [4]
- (d) A rise in saving could mean more funds available to lend which will stimulate the economy. However, if everyone saves more we know from the multiplier that this means reduced injections into the economy as people spend less. We are told that spending accounts for two-thirds of GNP. Increased saving and low spending affects businesses, it could cause more unemployment. It also affects the government which would probably have to spend more supporting the unemployed and also receive less in tax revenue. The data says that US government is proposing to reduce taxes but this will come at a cost later either in a switch of government expenditure – so some anticipated projects will not be funded – or in subsequently raised taxes which will not be welcome.

Up to 6 for comment on positive side, up to 6 for comment on negative side – max 8 but multiplier should be mentioned on one side of the argument. If no mention of multiplier max 6. [8]

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Section B.

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- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.

- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

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16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total mark 10	1–3	4–5	6–7	8–10
Total mark 12	1–4	5–6	7–8	9–12
Total mark 13	1–4+	5–6+	7–8+	9–13
Total mark 15	1–5	6–8	9–11	12–15

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- 2 (a)** *Market clearing where demand equals supply with the best results for everyone is based on perfect information and perfect markets. With imperfect markets and imperfect information market failure occurs. This could be because of monopoly influences with resulting higher profits for producers but higher prices for consumers – and with possibly less choice. It could be because of externalities which may affect consumers but would not necessarily have to be accounted for by producers. It could be from a lack of information – it is likely that producers will have more information about the effects of a product than consumers.*

L4 For a good analysis and clear explanation of both winners and losers. [9–12]

L3 For a competent analysis of both sides but with less development or a concentration on one or two aspects of market failure. [7–8]

L2 For a limited general explanation of market failure with only a brief evaluation or a comment concentrating on one market failure – probably monopoly. [5–6]

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

- (b)** *Discussion of the possibility of government intervention through regulation, through taxation or through control.*

L4 For a good analysis of both fiscal and regulative measures with a clear explanation of how they can help overcome the failure. [9–13]

L3 For a competent but less developed explanation, maybe concentrating on fiscal measures. [7–8]

L2 For a limited general explanation of the measures. [5–6]

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

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- 3 (a)** *Explanation of imperfect market, probably oligopoly. Award up to L2 for an explanation of theoretical monopoly or monopolistic competition. Use full mark range if candidates use the legal definition of a monopoly rather than the theoretical definition as this allows for more than one form of monopoly.*

L4 For a good analysis of the characteristics with a description of the pricing policy which reflects interdependence or collusion. [9–12]

L3 For a competent analysis of the characteristics and a weaker description of the possible pricing structure. [7–8]

L2 For a limited general explanation of characteristics and with little on pricing policy. [5–6]

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

- (b)** *Microeconomic theory usually suggests some advantages of large organisations because of increased efficiency, economies of scale and research and development. However, it also comments on their disadvantages – increased market power which can lead to higher prices, diseconomies which could lead to higher costs, higher profits which might be caused by restricting choice, discrimination or lower output. However, macroeconomic theory might support the idea of increasing subsidies to encourage industry, to support regions and to stimulate growth. The theory does not suggest that all large organisations should be encouraged.*

L4 For a good analysis of both micro and macro aspects with a conclusion about whether all large organisations should be encouraged. [9–13]

L3 For an explanation which concentrates on either macro or micro or which deals with both aspects in a less developed manner. There should still be a conclusion. [7–8]

L2 For a limited general explanation probably of micro analysis with no supporting conclusion. [5–6]

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

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- 4 (a) *Normally increase in wages leads to increase in number of hours. Exception: backward supply curve where higher wages causes substitution effect – more work taken instead of leisure – but this is outweighed by income effect – less need to work the hours – and overall fewer hours are worked.*

L4 For a sound explanation with clear understanding of the analysis and a clear conclusion. [8–10]

L3 For a competent explanation but with limited development of the income and substitution effect. There should still be a conclusion. [6–7]

L2 For a general explanation with little detail and no conclusion. [4–5]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–3]

- (b) *In perfect competition, market forces dominate. In imperfect competition, institutional factors such as government, trade unions will influence the final level of wages. The government is able to control public sector pay but not private sector pay.*

L4 For a reasoned discussion and clearly structured answer with sound knowledge of the analysis of both perfect and imperfect markets with a conclusion. [12–15]

L3 For a competent discussion, but without such a full development. There should still be a conclusion. [9–11]

L2 For a limited but acceptable attempt to describe the theory but without any real development and without a conclusion. [6–8]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–5]

- 5 *Candidates should explain the nature of the equilibrium in terms of marginal utility theory for the consumer. They should comment on how the equilibrium is reached and then comment on the relevance of the theory. For the consumer there is the difficulty of measuring utility, comparing utility between goods, and persuasion to buy through advertising and not through consumer's calculation of utility.*

L4 For a clear discussion of the analysis using the equi-marginal principle and a good comment on the usefulness and practicality of giving a value to the equilibrium position. A conclusion should be given. [18–25]

L3 For a competent discussion the analysis but a weaker evaluation of its practical usefulness. Some attempt at a conclusion will be presented. [14–17]

L2 For a brief comment on the analysis with very limited evaluation, or a fuller comment on the analysis but with no evaluation and no conclusion. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

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6 (a) explanation of the different causes of unemployment.

L4 For a clear explanation with accurate development of at least four causes of unemployment, cyclical, structural, frictional, seasonal, voluntary. [9–12]

L3 For a clear explanation of at least three causes or more than three with undeveloped explanation. [7–8]

L2 For a limited attempt with little development. [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]

(b) Demand for money/liquidity preference based on transactions plus precautionary demand – the demand for active balances. It is determined by income; frequency with which people are paid; time of year; method of payment – use of credit cards reduces active balance demand; some influence on precautionary demand from the rate of interest – although this is likely to be more relevant to firms' active balances than individuals. An increase in unemployment would affect income, but there may be compensating changes in the use of credit cards. Possible reductions in consumer spending would affect firms receipts and their liquidity preference. Some unemployment, e.g. seasonal, could be already accounted for in the determinants of liquidity preference

L4 For a good analysis of liquidity preference and a clear attempt to link changes in unemployment to that demand for money. [9–13]

L3 For a less developed explanation with weaker links to the changes in unemployment. [7–8]

L2 For a limited general explanation. [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]

7 Candidates should comment on the meaning of 'standard of living' and general influences on the standard of living – with a brief comment on the value of different indicators, for example, GDP, GDP per capita, HDI. They should then consider how the use of natural resources might increase the standard of living – short term and long term – and if so whether it is a good policy to allow multinational companies to use the resources and if so to what extent they should be used. They should then consider alternative policies which might improve living standards particularly the value of government spending on education and health and the link between this expenditure and likely changes in the standard of living.

L4 For a discussion of the factors which are involved in the analysis of each the stages of the argument together with a conclusion. [18–25]

L3 For a competent discussion of part of the argument – probably that related to the explanation of living standards and government policy – with briefer comment on resource exploitation. Some attempt at a conclusion will be presented. [14–17]

L2 For a brief comment on part of the argument, with a weak explanation of the analysis and with no conclusion. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2010 question paper
for the guidance of teachers

9708 ECONOMICS

9708/43

Paper 43 (Data Response and Essays – Supplement),
maximum raw mark 70

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 must be read in conjunction with the question papers and the report on the examination.

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	GCE AS/A LEVEL – May/June 2010	9708	43

Section A.

- 1 (a) Spending increased in Jan and Feb which would indicate an improvement; – this might be linked to the fact that price changes were no longer negative; income was also up in Jan, but fell in Feb; So some improvement. [3]
- (b) There is no apparent consistency between income and spending either in direction or amount. Even if spending is considered in the subsequent month to the income change there is no consistency. There is more consistency between the overall price change and spending in the direction of the change in the same month, but not in the extent of the change. Up to 3 for either comparison. [5]
- (c) A fall in spending will cause a fall in demand, expected revenue/profits to business will decline. If the decline is significant or if it is protracted and it is thought that the trend will continue then there will be less revenue with which to invest and no incentive to invest. [4]
- (d) A rise in saving could mean more funds available to lend which will stimulate the economy. However, if everyone saves more we know from the multiplier that this means reduced injections into the economy as people spend less. We are told that spending accounts for two-thirds of GNP. Increased saving and low spending affects businesses, it could cause more unemployment. It also affects the government which would probably have to spend more supporting the unemployed and also receive less in tax revenue. The data says that US government is proposing to reduce taxes but this will come at a cost later either in a switch of government expenditure – so some anticipated projects will not be funded – or in subsequently raised taxes which will not be welcome.

Up to 6 for comment on positive side, up to 6 for comment on negative side – max 8 but multiplier should be mentioned on one side of the argument. If no mention of multiplier max 6. [8]

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Section B.

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.

- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

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16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total mark 10	1–3	4–5	6–7	8–10
Total mark 12	1–4	5–6	7–8	9–12
Total mark 13	1–4+	5–6+	7–8+	9–13
Total mark 15	1–5	6–8	9–11	12–15

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- 2 (a)** *Market clearing where demand equals supply with the best results for everyone is based on perfect information and perfect markets. With imperfect markets and imperfect information market failure occurs. This could be because of monopoly influences with resulting higher profits for producers but higher prices for consumers – and with possibly less choice. It could be because of externalities which may affect consumers but would not necessarily have to be accounted for by producers. It could be from a lack of information – it is likely that producers will have more information about the effects of a product than consumers.*

L4 For a good analysis and clear explanation of both winners and losers. [9–12]

L3 For a competent analysis of both sides but with less development or a concentration on one or two aspects of market failure. [7–8]

L2 For a limited general explanation of market failure with only a brief evaluation or a comment concentrating on one market failure – probably monopoly. [5–6]

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

- (b)** *Discussion of the possibility of government intervention through regulation, through taxation or through control.*

L4 For a good analysis of both fiscal and regulative measures with a clear explanation of how they can help overcome the failure. [9–13]

L3 For a competent but less developed explanation, maybe concentrating on fiscal measures. [7–8]

L2 For a limited general explanation of the measures. [5–6]

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

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- 3 (a)** *Explanation of imperfect market, probably oligopoly. Award up to L2 for an explanation of theoretical monopoly or monopolistic competition. Use full mark range if candidates use the legal definition of a monopoly rather than the theoretical definition as this allows for more than one form of monopoly.*

L4 For a good analysis of the characteristics with a description of the pricing policy which reflects interdependence or collusion. [9–12]

L3 For a competent analysis of the characteristics and a weaker description of the possible pricing structure. [7–8]

L2 For a limited general explanation of characteristics and with little on pricing policy. [5–6]

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

- (b)** *Microeconomic theory usually suggests some advantages of large organisations because of increased efficiency, economies of scale and research and development. However, it also comments on their disadvantages – increased market power which can lead to higher prices, diseconomies which could lead to higher costs, higher profits which might be caused by restricting choice, discrimination or lower output. However, macroeconomic theory might support the idea of increasing subsidies to encourage industry, to support regions and to stimulate growth. The theory does not suggest that all large organisations should be encouraged.*

L4 For a good analysis of both micro and macro aspects with a conclusion about whether all large organisations should be encouraged. [9–13]

L3 For an explanation which concentrates on either macro or micro or which deals with both aspects in a less developed manner. There should still be a conclusion. [7–8]

L2 For a limited general explanation probably of micro analysis with no supporting conclusion. [5–6]

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

Page 7	Mark Scheme: Teachers' version	Syllabus	Paper
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- 4 (a)** *Normally increase in wages leads to increase in number of hours. Exception: backward supply curve where higher wages causes substitution effect – more work taken instead of leisure – but this is outweighed by income effect – less need to work the hours – and overall fewer hours are worked.*

L4 For a sound explanation with clear understanding of the analysis and a clear conclusion. [8–10]

L3 For a competent explanation but with limited development of the income and substitution effect. There should still be a conclusion. [6–7]

L2 For a general explanation with little detail and no conclusion. [4–5]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–3]

- (b)** *In perfect competition, market forces dominate. In imperfect competition, institutional factors such as government, trade unions will influence the final level of wages. The government is able to control public sector pay but not private sector pay.*

L4 For a reasoned discussion and clearly structured answer with sound knowledge of the analysis of both perfect and imperfect markets with a conclusion. [12–15]

L3 For a competent discussion, but without such a full development. There should still be a conclusion. [9–11]

L2 For a limited but acceptable attempt to describe the theory but without any real development and without a conclusion. [6–8]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–5]

- 5** *Candidates should explain the nature of the equilibrium in terms of marginal utility theory for the consumer. They should comment on how the equilibrium is reached and then comment on the relevance of the theory. For the consumer there is the difficulty of measuring utility, comparing utility between goods, and persuasion to buy through advertising and not through consumer's calculation of utility.*

L4 For a clear discussion of the analysis using the equi-marginal principle and a good comment on the usefulness and practicality of giving a value to the equilibrium position. A conclusion should be given. [18–25]

L3 For a competent discussion the analysis but a weaker evaluation of its practical usefulness. Some attempt at a conclusion will be presented. [14–17]

L2 For a brief comment on the analysis with very limited evaluation, or a fuller comment on the analysis but with no evaluation and no conclusion. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

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6 (a) explanation of the different causes of unemployment.

L4 For a clear explanation with accurate development of at least four causes of unemployment, cyclical, structural, frictional, seasonal, voluntary. [9–12]

L3 For a clear explanation of at least three causes or more than three with undeveloped explanation. [7–8]

L2 For a limited attempt with little development. [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]

(b) Demand for money/liquidity preference based on transactions plus precautionary demand – the demand for active balances. It is determined by income; frequency with which people are paid; time of year; method of payment – use of credit cards reduces active balance demand; some influence on precautionary demand from the rate of interest – although this is likely to be more relevant to firms' active balances than individuals. An increase in unemployment would affect income, but there may be compensating changes in the use of credit cards. Possible reductions in consumer spending would affect firms receipts and their liquidity preference. Some unemployment, e.g. seasonal, could be already accounted for in the determinants of liquidity preference

L4 For a good analysis of liquidity preference and a clear attempt to link changes in unemployment to that demand for money. [9–13]

L3 For a less developed explanation with weaker links to the changes in unemployment. [7–8]

L2 For a limited general explanation. [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]

7 Candidates should comment on the meaning of 'standard of living' and general influences on the standard of living – with a brief comment on the value of different indicators, for example, GDP, GDP per capita, HDI. They should then consider how the use of natural resources might increase the standard of living – short term and long term – and if so whether it is a good policy to allow multinational companies to use the resources and if so to what extent they should be used. They should then consider alternative policies which might improve living standards particularly the value of government spending on education and health and the link between this expenditure and likely changes in the standard of living.

L4 For a discussion of the factors which are involved in the analysis of each the stages of the argument together with a conclusion. [18–25]

L3 For a competent discussion of part of the argument – probably that related to the explanation of living standards and government policy – with briefer comment on resource exploitation. Some attempt at a conclusion will be presented. [14–17]

L2 For a brief comment on part of the argument, with a weak explanation of the analysis and with no conclusion. [10–13]

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**GCE Advanced Subsidiary Level and GCE Advanced Level****MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers****9708 ECONOMICS****9708/41**Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2011	9708	41

Section A

- 1 (a) Do not need a formal definition to gain 3 marks. Explanation of a recession in terms of a decline in output, a reduction in GDP, an increase in unemployment, decline in spending, decline in investment. [3]
- (b) (i) The statement means that the rise in taxes does not increase the government's revenue as is anticipated and does not, therefore, increase the government's funds for expenditure. The distribution of the tax burden is not directed more to the higher income earners. [3]
- (ii) Evidence in the charts: In the US during the 1980s the top rate was cut from 70% to 28% and the share of taxes paid by the top 1% rose from 17.6% to 27.5%.
 – However, there is no evidence about what happened when tax rates were increased.
 – there is also no statement about what the higher tax rates were intended to achieve.
 – there is no statement about what happened to production and employment when taxes were high.
 Up to 4 marks for evidence giving one side only. [6]
- (c) The bank lowered interest rates. Lower interest rates would mean a reduction in the cost of borrowing with a potential increase in investment which would stimulate the economy. Candidates can explain the effect of investment/injection increases. Lower rates are also hoped to encourage spending maybe by an increase in credit. Buying bonds also puts more money into the economy with the hope that this would stimulate demand. [8]

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Section B

General Comments for Section B:

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The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

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- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

2 (a) There should be an attempt to explain the meaning of economic efficiency and of market failure. Economic efficiency should be explained in terms of productive and allocative efficiency, market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities, merit goods and of the need for public goods. There should then be an attempt to discuss whether governments can overcome these market failures in order to increase efficiency. [25]

L4 For a thorough discussion of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented. (18–25)

L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. (14–17)

L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. (10–13)

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. (1–9)

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- 3 (a)** Explanation of the two terms and an analysis of the link between the short run average cost curves reflecting diminishing returns, and the long run average cost curves reflecting economies of scale. [12]
- L4 For a good explanation of both the terms with examples and a clear link between the short and long run. The diagram will be clear and accurate. Must provide a diagram to gain Level 4. (9–12)
- L3 For a competent analysis of the terms maybe concentrating on economies of scale with a weaker link between the short run and long run, or no diagram of the link. (7–8)
- L2 For a more limited analysis with no link or no diagram. (5–6)
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. (1–4)
- (b)** Discussion of the aims which are assumed for perfect competition, profit maximisation, and the aims which are possible for imperfect competition. One of these is profit maximisation but there are also other behavioural and managerial aims. [13]
- L4 For a good discussion and comparison of the aims between the different market structures with a range of aims in imperfect markets. (9–13)
- L3 For a competent explanation with either an undeveloped comment on a range of aims in imperfect markets or a fuller explanation of two aims. (7–8)
- L2 For a limited discussion and only a brief comparison. (5–6)
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. (1–4)
- 4** Discussion of determinants of wages. Candidates should discuss the theoretical analysis and how it is moderated by the existence of unions and government regulations. Theoretical analysis without marginal revenue productivity approach has, in the past, not merited the full range of marks. [25]
- L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and/or government policy.
(14–17 for demand and supply only with institutional factors and government policy) (18–25)
- L3 For a competent explanation but with limited discussion of unions and/or government factors.
(10–13 for demand and supply) (14–17)
- L2 For a correct but undeveloped theoretical analysis with no institutional factors or only very brief mention of these factors.
(6–9 for demand and supply) (10–13)
- L1 For an answer which contains inaccuracies and only a few correct points.
(1–5 for demand and supply only) (1–9)

Page 6	Mark Scheme: Teachers' version	Syllabus	Paper
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- 5 (a)** Explanation of meaning of GDP and description of methods of calculation. [12]
- L4 For a sound explanation with good application and a clear understanding of the principles involved in the three methods of calculation. (9–12)
- L3 For an accurate reference to the question but with a more limited explanation or minor errors in the analysis of three methods or a full account of two methods of calculation. (7–8)
- L2 For an explanation of two methods perhaps with minor errors not necessarily logically presented. (5–6)
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
- (b)** Evaluation of comment. Consideration of the value of GDP but also of other factors which might be important but which are not included directly in GDP – health, housing, education, crime, income distribution etc. [13]
- L4 For a reasoned and clear discussion, logically presented. (9–13)
- L3 For a fair but undeveloped discussion but with accurate reference to the question. (7–8)
- L2 For a limited discussion with little comment. (5–6)
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

Page 7	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2011	9708	41

- 6 (a)** Explanation of the multiplier. [12]
- L4 For a sound explanation with good application and a clear understanding of the principles involved. An explanation of G and T and I and E should be given and a comment on the overall balance on the multiplier should be mentioned. (9–12)
- L3 For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance once G, T, X, M are included. (7–8)
- L2 For a weaker explanation of the multiplier or with either G (but not T) or X (but not M) and no comment on the overall change. (5–6)
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
- (b)** Discussion of the effect of a change in the equilibrium through an injection. An increased injection could increase demand and put pressure on the use of resources which could cause inflation. A decrease in injections could reduce demand resulting in fall in sales and a possibility of increased unemployment. [13]
- L4 For a reasoned and clear discussion with the analysis logically presented and a conclusion drawn. (9–13)
- L3 For a fair but undeveloped discussion (possibly concentrating in one direction only). (7–8)
- L2 For a limited discussion with little comment and no conclusion. (5–6)
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
- 7** The candidates should present an argument which considers the criteria which distinguish developed from developing countries; which discusses the significance of the protection of domestic industry and the role of investment; and which comments on the proposition that governments should place an emphasis on protection and investment. [25]
- L4 For a thorough discussion of the range of distinguishing criteria, a competent discussion of the role of protection and investment and a reasoned conclusion. (18–25)
- L3 For a competent discussion but with a more limited comment on the relative importance of protection and investment (to other alternatives). A conclusion should still be presented. (14–17)
- L2 For an accurate though undeveloped discussion, limited attempt to mention the relative importance of protection and investment and no conclusion. (10–13)
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. (1–9)

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**GCE Advanced Subsidiary Level and GCE Advanced Level****MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers****9708 ECONOMICS****9708/42**Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2011	9708	42

Section A.

- 1 (a) The Gross Domestic Product (GDP) measures the value of economic activity within a country. Strictly defined, GDP is the sum of the market values, or prices, of all final goods and services produced in an economy during a period of time. [3]
(For stating Gross Domestic Product 1 mark only)
- (b) It means more available credit, easier to get; or credit at lower interest rates. This would be likely to increase national income by the multiplier process. (A descriptive reference to the process is sufficient; there is no need to use the actual term) [3]
- (c) Use the figures for specific exchange rates, and figures for GDP – expect to see examples of emerging/developing countries compared with developed countries. But they are only selected countries, and for only two years and they are projections not actual figures. Exchange rate figures may mean exports become more difficult to sell. [6]
[Maximum 4 for one side of the argument only]
- (d) An increase in domestic demand to encourage growth and export-led growth. 2 marks
Conflict? Different approaches but same aim of growth 2 marks
increase exports improves balance of payments and increases injections and GDP; increase domestic demand will also increase injections and help increase GDP. No conflict. 2 marks
Increase domestic demand may increase incomes and increase imports which may need to be offset by further export growth. A possible conflict. 2 marks
[8]
- [A general description of fiscal and monetary policy; 2 maximum]

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Section B.

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.

- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

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Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions

- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to level 4 in individual question notes).

- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

- 21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.
Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

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- 2 Candidates need to explain the two terms, market failure and the meaning of the efficient use of resources, and then consider the argument. Market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities and of merit goods, and of the need for public goods. Economic efficiency should be explained in terms of productive and allocative efficiency.

Government intervention can be through regulation, taxation or subsidies.

There are negative and positive externalities from car use. Negative externalities include pollution. Positive externalities include less crowded public transport with greater comfort; benefits from the expenditure of the tax receipts. Unlike other positive externalities where subsidies have been used, it has never been suggested that subsidies ought to be used to increase the positive externalities from private car use. Any subsidies given are used to make alternative public transport more attractive. However, taxes have been used to decrease negative externalities. Taxing the use of cars is usually presented in the context of negative externalities to achieve allocative efficiency. Taxing production might not result in productive efficiency. [25]

L4 For a thorough explanation of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented [18–25]

*L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. [14–17]
(L3 maximum if there is no mention of production and use of cars)*

L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

- 3 (a) A rise in the price of a good: a demand schedule has price and quantity of one good bought against price; budget line diagrams have quantities of two goods – price is not on the axis; one cannot tell how demand will change with budget line unless you also show preference lines.

A rise in a consumer's income: similarity, both move parallel out for a rise in income; but cannot tell what will be bought unless have supply line – with demand – or preference lines with budget line. [12]

L4 For a sound discussion indicating the similarities/differences [9–12]

L3 For an accurate explanation but with a less clear comparison [7–8]

L2 For a general undeveloped explanation with little comparison. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

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- 3 (b)** Analysis of equi-marginal principle which underlies an individual demand curve. The sum of individual demand curves form the market demand curve. Whether individual utilities can be added is debatable. [13]

L4 For a reasoned discussion linked to more than one good and clearly structured answer with a conclusion [9–13]

[Low L4 maximum if there is no mention of market demand]

L3 For a fair discussion but undeveloped answer but still with a conclusion [7–8]

L2 For a limited attempt which does not clearly determine the equilibrium position for more than one good and no conclusion. [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]

- 4 (a)** Discussion of possible reasons for growth including large market demand, economies of scale, possible future profits, with a contrasting comment on reasons why it might not be advantageous to grow in size; diseconomies of scale, small market demand, specialised products/services. Allow a wider interpretation which discusses effects on consumers and in the economy. [12]

L4 For a sound discussion with contrasting explanations. [9–12]

L3 For an accurate explanation but with an emphasis on one side – possibly of economies of scale only. [7–8]

L2) For a general undeveloped explanation. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

- (b)** Explanation of the theory of profit maximisation. Candidates should then consider not only whether it is possible to calculate marginal revenue and marginal cost to achieve profit maximisation but also whether the firm might have alternative aims. Sales maximisation, behavioural, managerial, satisficing, market share aims might be mentioned. [13]

L4 For a reasoned discussion and clearly structured answer with a conclusion [9–13]

L3 For a fair discussion but undeveloped answer mentioning either only one part of the question or both parts but only limited mention of alternative aims, but still with a conclusion [7–8]

L2 For a limited but acceptable attempt to consider the question with very limited development of either part and no conclusion. [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]

Page 7	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2011	9708	42

- 5** Candidates should explain the economic theory of wage determination (marginal revenue product) and compare the situation in perfect and imperfect competition. The theory indicates that wages are lower in an imperfect labour market especially if there is monopsony. The extent of the reduction varies depending on whether the labour market is considered with a perfect or imperfect product market. However, the comparative reduction in wage rates may be corrected, at least in part, by the strength of unions or by government legislation. [25]
- L4 For a thorough explanation of the analysis of wage determination with a clear comparison of the two markets and a comment on trade unions and/or government policy. [18–25]
(14–17 for demand and supply only with institutional factors and/or government policy)*
- L3 For a competent explanation of the two markets but with a limited discussion and application. [14–17]
(10–13 for demand and supply)*
- L2 For a correct but undeveloped explanation with only brief application [10–13]
(6–9 for demand and supply)*
- L1 For an answer which contains inaccuracies and only a few correct points [1–9]
(1–5 for demand and supply only)*
- 6 (a)** Candidates should explain the different effects of an injection of investment and a withdrawal through saving by use of the multiplier process. Possible use of 'paradox' of thrift idea. [12]
- L4 For a sound explanation with good application and a clear understanding of the principles involved. [9–12]*
- L3 For an accurate explanation of the multiplier but with a more limited contrast of the difference between the investment and saving. [7–8]*
- L2 For a general explanation probably in descriptive form. [5–6]
[Maximum L2 if there is no mention of the multiplier]*
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]*
- (b)** Candidates should analyse how lowering interest rates might help increase national income through increased investment or increased spending and then discuss whether lowering interest rates is the only policy available. [13]
- L4 For a sound discussion with good explanation of the analysis of interest rate changes and a consideration of alternative fiscal measures with a conclusion [9–13]*
- L3 For a competent comment but with limited development of the analysis or undeveloped alternative policies and a weaker conclusion. [7–8]*
- L For a brief explanation and with a weak discussion of interest rates or weak alternative policy measures with no conclusion. [5–6]*
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Page 8	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2011	9708	42

- 7 (a) The usual division of production is into primary, secondary and tertiary sectors. Developing economies move from a dependence on the agricultural sector through industrialisation. Along with this there is a growth in the service sector – industries relying on IT, call centres, tourism. The changes reflect changes in demand, income, urbanisation, government policy, comparative advantage and competitiveness. [12]
- L4 For a clear explanation of why the relative importance of the productive sectors of the economy might change with good illustration or examples [9–12]*
- L3 For a less developed explanation with fewer examples [7–8]*
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- 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]*
- (b) Economic growth involves greater production measured by changes in GDP/GNP. This could cause an increase in the standard of living, improved health, education and employment opportunities. There may be disadvantages. Poor working conditions, the growth of externalities, the careless depletion of resources. There may also still be questions of inequality in the distribution of income or whether the increased GDP is spent on things which might not give direct benefit e.g. military research. [13]
- L4 For a discussion of the overall effect of growth on development presenting both positive and negative aspects with a conclusion. [9–13]*
- L3 For an analysis of the contribution of growth to development but with a concentration on either the positive or the negative aspects with a conclusion. [7–8]*
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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers

9708 ECONOMICS

9708/43

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A.

- 1 (a) The Gross Domestic Product (GDP) measures the value of economic activity within a country. Strictly defined, GDP is the sum of the market values, or prices, of all final goods and services produced in an economy during a period of time. [3]
(For stating Gross Domestic Product 1 mark only)
- (b) It means more available credit, easier to get; or credit at lower interest rates. This would be likely to increase national income by the multiplier process. (A descriptive reference to the process is sufficient; there is no need to use the actual term) [3]
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[Maximum 4 for one side of the argument only]
- (d) An increase in domestic demand to encourage growth and export-led growth. 2 marks
Conflict? Different approaches but same aim of growth 2 marks
increase exports improves balance of payments and increases injections and GDP; increase domestic demand will also increase injections and help increase GDP. No conflict. 2 marks
Increase domestic demand may increase incomes and increase imports which may need to be offset by further export growth. A possible conflict. 2 marks
[8]
- [A general description of fiscal and monetary policy; 2 maximum]

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Section B.

General Comments for section B:

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- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

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- 2 Candidates need to explain the two terms, market failure and the meaning of the efficient use of resources, and then consider the argument. Market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities and of merit goods, and of the need for public goods. Economic efficiency should be explained in terms of productive and allocative efficiency.

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L4 For a thorough explanation of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented [18–25]

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(L3 maximum if there is no mention of production and use of cars)*

L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

- 3 (a) A rise in the price of a good: a demand schedule has price and quantity of one good bought against price; budget line diagrams have quantities of two goods – price is not on the axis; one cannot tell how demand will change with budget line unless you also show preference lines.

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L4 For a sound discussion indicating the similarities/differences [9–12]

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[Low L4 maximum if there is no mention of market demand]

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- 4 (a)** Discussion of possible reasons for growth including large market demand, economies of scale, possible future profits, with a contrasting comment on reasons why it might not be advantageous to grow in size; diseconomies of scale, small market demand, specialised products/services. Allow a wider interpretation which discusses effects on consumers and in the economy. [12]

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- (b)** Explanation of the theory of profit maximisation. Candidates should then consider not only whether it is possible to calculate marginal revenue and marginal cost to achieve profit maximisation but also whether the firm might have alternative aims. Sales maximisation, behavioural, managerial, satisficing, market share aims might be mentioned. [13]

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Page 7	Mark Scheme: Teachers' version	Syllabus	Paper
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- 5** Candidates should explain the economic theory of wage determination (marginal revenue product) and compare the situation in perfect and imperfect competition. The theory indicates that wages are lower in an imperfect labour market especially if there is monopsony. The extent of the reduction varies depending on whether the labour market is considered with a perfect or imperfect product market. However, the comparative reduction in wage rates may be corrected, at least in part, by the strength of unions or by government legislation. [25]
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(14–17 for demand and supply only with institutional factors and/or government policy)*
- L3 For a competent explanation of the two markets but with a limited discussion and application. [14–17]
(10–13 for demand and supply)*
- L2 For a correct but undeveloped explanation with only brief application [10–13]
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- L1 For an answer which contains inaccuracies and only a few correct points [1–9]
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- L4 For a sound explanation with good application and a clear understanding of the principles involved. [9–12]*
- L3 For an accurate explanation of the multiplier but with a more limited contrast of the difference between the investment and saving. [7–8]*
- L2 For a general explanation probably in descriptive form. [5–6]
[Maximum L2 if there is no mention of the multiplier]*
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]*
- (b)** Candidates should analyse how lowering interest rates might help increase national income through increased investment or increased spending and then discuss whether lowering interest rates is the only policy available. [13]
- L4 For a sound discussion with good explanation of the analysis of interest rate changes and a consideration of alternative fiscal measures with a conclusion [9–13]*
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Page 8	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2011	9708	43

- 7 (a) The usual division of production is into primary, secondary and tertiary sectors. Developing economies move from a dependence on the agricultural sector through industrialisation. Along with this there is a growth in the service sector – industries relying on IT, call centres, tourism. The changes reflect changes in demand, income, urbanisation, government policy, comparative advantage and competitiveness. [12]
- L4 For a clear explanation of why the relative importance of the productive sectors of the economy might change with good illustration or examples [9–12]*
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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**GCE Advanced Subsidiary Level and GCE Advanced Level****MARK SCHEME for the May/June 2012 question paper
for the guidance of teachers****9708 ECONOMICS****9708/41**Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2012	9708	41

Section A

- 1 (a) Is this information on the size of the economy (GDP) enough to conclude that the average person in Italy is better off than the average person in Ireland? Briefly explain your answer. [3]

Economy size is higher but no information on population. Possibly better off as unemployment is lower and negative growth is lower but not able to be definitive. Conclusion required for full marks (3)

- (b) (i) The economic growth rates are shown to be negative. Explain what economic theory suggests might happen to the level of unemployment in an economy if the growth rate figure is negative. [4]

Theory suggests that negative growth would have an impact, on output and hence on unemployment. With negative growth it would be expected that unemployment would rise. Candidates could explain briefly how the changes in income and employment occur. (4)

- (b) (ii) What evidence is there from the information whether there is any link between the economic growth rates and unemployment? [3]

There is unemployment with negative growth but larger negative growth doesn't necessarily mean larger unemployment. For example, Italy's negative growth is higher than Greece, Portugal and Spain but its unemployment rate is lower than that in all three countries. We do not know what the growth and unemployment rates were in the previous year so cannot really conclude how the change in growth affected unemployment in the year shown. (3)

- (c) In 2010 there was much concern about the weakness of the economic situation in Greece compared with the other European countries shown. How far can the data be used as evidence to support that concern? [4]

Unemployment and the negative growth are both below the average of the other countries so Greece is in a better position and not a worse position. The information does not support the concern. However with a relatively smaller negative growth it still has a government debt of 124% of GDP which is the highest of the countries shown. This is why there was so much concern and the information does support that worry. (4)

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- (d) Discuss the possible effects on economic growth and unemployment of the policies suggested by the Spanish Government. [6]**

Spain proposed (i) raising the retirement age, (ii) reducing public spending (iii) increasing taxes and (iv) increasing measures to stop tax evasion

- (i) Raising retirement age increases labour supply. Changes in the labour supply have an uncertain effect on growth. Increased labour supply might result in lower average wages. Spending may then not change overall, or, if the increased labour is employed at the lower ends of the pay scales, spending may go up as lower wage earners spend a higher proportion of income. Increased spending may increase growth. Or alternatively the increase in labour supply may increase unemployment and this will not increase growth.
- (ii) Reducing public spending may have the effect of reducing incomes and reducing spending which affects growth.
- (iii) Increased taxes may reduce investment and reduce growth, may increase unemployment which is already high.
- (iv) Increasing measures to stop tax evasion might increase government revenue and allow additional government spending (6)

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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

1-5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.

6-9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.

12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

14 –15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions

16-17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer

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so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

20-25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10

Total Mark 12	1–4	5–6	7–8	9–12
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Total Mark 13	1–4+	5–6+	7–8+	9–13
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Total Mark 15	1–5	6–8	9–11	12–15
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- 2 (a) Explain, using a budget line diagram, whether**
 (i) **the substitution effect of a price change and**
 (ii) **the income effect**
would be similar for a normal good and an inferior good. **[12]**

Substitution effect would be in the opposite direction to the price change for both goods. Budget line pivots from a point on one axis (6) The income effect is in the same direction as the substitution effect for the normal good but in the opposite direction as the substitution effect for the inferior good. Budget lines alone would not enable the determination of the actual amount bought.(6) (12)

- L4 For a sound explanation of both changes with an accurate clear diagram and a clear understanding of the principles involved 9–12*
L3 For an accurate reference to the question but with a more limited explanation perhaps concentrating on one of the types of good, or minor errors in the analysis or in the diagrams 7–8
L2 For an explanation of one of the changes for both goods or both the changes for one good, or a combination of the two but with inaccurate diagrams to support the text 5–6
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1–4

- (b) Discuss the extent to which the law of diminishing marginal utility may be used to determine the market demand for a good.** **[13]**

Explanation/discussion of DMU and its link to the amount a consumer is willing to buy and the formation of an individual demand curve. Discussion of calculation of market demand curve by adding individual demand curves. (13)

- L4 For a reasoned and clear discussion, logically presented 9–13*
L3 For a fair but undeveloped discussion probably with either a brief comment about the individual demand curve or no discussion about the market demand curve 7–8
L2 For a limited explanation with only a brief comment 5–6
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1–4

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3 (a) Distinguish between perfect competition and monopolistic competition. [12]

Explanation in terms of criteria for perfect competition and the similarities/differences that occur in monopolistic competition. Candidates should also comment on the likely aims of the two structures – profits, output, prices. (12)

- L4 For an explanation of both market structures – criteria, aims, likely profits with a conclusion. 9–12*
- L3 For a competent explanation which does not fully analyse both types of market structure. There will be some comment but the analysis will not be fully developed or extensive. 7–8*
- L2 For an accurate though undeveloped explanation concentrating possibly on either the criteria or the aims probably presented as two separate parts of the answer with no direct distinction drawn. 5–6*
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–4*

(b) Discuss whether oligopoly is likely to be the most realistic market structure in a mixed economy. [13]

Discussion of the characteristics of oligopoly relating them to a mixed economy where profit motive, brand loyalty, larger firms, non-price promotions, barriers to entry, collusion are likely to be found. Candidates should discuss whether these characteristics are found in other market structures and which structure is the more likely. (13)

- L4 For a good discussion of market structures and their relevance to reality. A conclusion should be drawn. 9–13*
- L3 For a competent explanation of the characteristics but with an undeveloped comment on the likelihood of finding oligopoly rather than other market structures. 7–8*
- L2 For a limited explanation and only a brief comparison and comment on the significance of oligopoly - with no conclusion 5–6*
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. 1–4*

4 In 2010 the directors of a major UK chocolate firm, worth over £10 billion, recommended that its shareholders accept a takeover offer from a large US food firm. The firm would not then be controlled in the UK. It was feared that some production in the UK would cease.

(a) Analyse what economic theory suggests might be the outcome of such a takeover for the enlarged firm and its workers [12]

Candidates need to recognise that this is a large multinational organisation. The takeover will increase the original company's costs:—fixed and variable, but it might make economies of scale possible. Some parts of the production will be duplicated and it is stated that some parts would have to be closed to achieve these economies. For the worker, the takeover might result in redundancies, moving to a new location, increased competition for any likely promotion. Up to 8 for discussion of the company. (12)

- L4 For a sound analysis and discussion with clear understanding of the principles involved and a reasoned conclusion. 9–12*
- L3 For a competent analysis but more limited discussion and development but still with a conclusion. 7–8*

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L2 For a correct explanation, probably concentrating on the probability of economies of scale and without concluding comment. 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

(b) Discuss the possible macroeconomic outcomes for a domestic economy of such a takeover by a foreign firm. [13]

Candidates should discuss the likely effects on the economy in terms of injections and withdrawals. £10 billion has been spent and production may become more efficient. However, possible redundancies would have a likely impact on the workers' spending and government payments for the unemployed. There would also be a possible effect on the balance of payments depending on whether the profits remain in the UK or are sent to the US. (13)

L4 For a good discussion with a reasoned comment of both possible injections and withdrawals and clearly structured answer with a conclusion of the likely significance of each 9–13

L3 For a fair discussion but undeveloped answer of both injections and withdrawals or a fuller answer of either injections or withdrawals 7–8

L2 For a limited but acceptable attempt to consider the impact on the economy but with little development and no overall conclusion 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

5 Discuss whether the higher wage rates paid in some occupations occur solely because some trade unions have a stronger bargaining power than others. [25]

Discussion of determinants of wages. Candidates should discuss the theoretical analysis and how it is moderated by the existence of unions and discuss whether it is likely that unions are the sole reason for higher wages in some occupations. They may influence the level of wages but would not be the sole determinant. Theoretical analysis without marginal revenue productivity approach has, in the past, not merited the full range of marks. (25)

L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and their likely significance over other factors. 18–25 (14–17 for demand and supply only with institutional factors and government policy)

L3 For a competent explanation but with limited discussion of unions and their significance. 14–17. (10–13 for demand and supply)

L2 For a correct but undeveloped theoretical analysis with very bald comment about the role of unions. 10–13 (6–9 for demand and supply)

L1 For an answer which contains inaccuracies and only a few correct points 1–9 (1–5 for demand and supply only)

6 Population is increasing most rapidly in countries that can least afford it if they wish to encourage economic growth.

(a) What are the main characteristics of a developing country? [12]

Description of the nature of a developing economy in terms its GDP, GDP per capita, productive capacity, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population. (12)

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L4 For a sound description with clear understanding of the characteristics and a clear conclusion 9–12

L3 For a competent description but with limited development. 7–8

L2 For a general description of only some of the factors and no conclusion. 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

(b) If a developing country wishes to become developed, the main aim of its government should be to control the growth of its population. Discuss this opinion. [13]

Candidates should present a reasoned argument about what they consider to be the most important, or main, aim a government should follow. They should consider the importance of controlling the population growth and discuss what might happen if population increased very fast, but they should also comment on other aims and hopes and discuss which is the more significant. (13)

L4 For a reasoned discussion and clearly structured answer mentioning various alternative together with a conclusion 9–13

L3 For a discussion, but without such a full development or probably not mentioning a range of alternatives and with weaker conclusion. 7–8

L2 For a limited but acceptable attempt to discuss one policy with brief comment on population and without any conclusion. 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

7 Explain the difference between productive and allocative efficiency and discuss the suggestion that it is only possible to achieve such efficiencies through government intervention. [25]

Economic efficiency should be explained in terms of productive and allocative efficiency. Candidates should then consider whether the market ever achieves such efficiencies. They may be possible in a perfect market but the reality is that there will be inefficiencies due to market failures – excess profits, lack of information, externalities, merit goods, public goods might all prevent the achievement of efficiency. Whether the efficiency can instead be achieved by government intervention should also be discussed. Candidates could debate what type of intervention might be suitable. (25)

L4 For a thorough discussion of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented. 18–25

L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. 14–17

L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. 10–13

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. 1–9

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**GCE Advanced Subsidiary Level and GCE Advanced Level****MARK SCHEME for the May/June 2012 question paper
for the guidance of teachers****9708 ECONOMICS****9708/42**Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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 must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2012 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



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Section A

- 1 (a) The article begins by stating that Malaysia is a market-orientated economy. Identify evidence in the article that
- supports this opinion; and
 - contradicts this opinion.
- [4]

supports the opinion:

there are a large number of small and medium sized enterprises
the government has abandoned protection of industry
existence of competitive prices

against the opinion:

there is government intervention in the economy
a large % of the output in manufacturing and agriculture is controlled by large industries who are likely to control prices (thus it may be thought not to be a free perfectly competitive market although large industries do exist in imperfect markets. It depends on how the candidate defines a market)

(4)

- (b) State two indicators which can be used to measure the performance of firms. [2]

Brief comment on two indicators, for example, profit levels, productivity, employment, research activity, economies of scale, price levels, optimum output, market size, turnover, sales.

- (c) The article states that the aim of the government programmes is to encourage a better performance from SMEs.
Discuss how two of the government policies mentioned might be used to encourage a better performance from SMEs. [6]

Government policies mentioned are provision of loans, technical advice, information on prices, production and technology. Candidates can choose any two and suggest whether they might influence production and allocation of resources. Max 4 for any one. (6)

For a discussion of general government policies, with some implication or reference to SMEs; max 2.

- (d) The article says that the development of SMEs has been given government priority as they are important to the economy. How far does the information support this statement? [8]

SMEs are large in number and employ over half the country's workforce.

However, they account for only 19% of the value of exports.

Also, the output SMEs produce is only 43.5% of the total; and in manufacturing, which is the sector which has the biggest value of output, their share is only 34.9%. The larger enterprises account for only 10.7% of the number of enterprises in manufacturing but produce, disproportionately, 65.1% of the manufacturing output. The largest % of SMEs by sector is in agriculture but agriculture accounts for only a small % of the output of the economy.

In services, SMEs account for 96.7% of the total number of enterprises but the remaining 3.3% of larger enterprises produce 43.4% of the output. (SMEs produce 56.6%).

The output and export value puts a different perspective on the importance of SMEs compared with the number of enterprises existing. Nevertheless they are a significant feature of the economy by number and number employed. (8)

Accept an alternative approach that discusses whether the government is, or is not, giving SMEs priority. Can use full marks for either approach.

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Section B

General Comments for section B:

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1 -5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.

6-9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.

12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

14 –15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions

16 - 17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be

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introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10

Total Mark 12	1–4	5–6	7–8	9–12
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Total Mark 13	1–4+	5–6+	7–8+	9–13
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Total Mark 15	1–5	6–8	9–11	12–15
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- 2 When buying goods not everyone buys the same standard product. There are some who want a cheap product even though it might be of poor quality, while there are those who are willing to pay more for a luxury or an individually-made product. Customers search for value but value is not just in the price.**

(adapted from New York Times in the Observer 21.02.10)

- (a) Explain the theoretical link between utility, price and the demand for a product. [12]**

Explanation of utility, marginal utility, equi-marginal principle, derivation of demand curve. (12)

L4 For a sound analysis and explanation with clear understanding of the principles involved and a good structure to the answer. 9–12

L3 For a competent analysis but more limited explanation maybe of the link to the demand curve but still with a reasonable structure to the answer. 7–8

L2 For a more limited analysis probably explaining DMU but with either an incorrect statement of the equi-marginal principle or of a lack of connection to a demand curve and with a poorer structure to the answer 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

- (b) Discuss whether the economic analysis of a rational consumer estimating demand based on value (utility) is valid not only for standard products but also for poor quality and luxury products. [13]**

Discussion of whether marginal utility can be applied to all products. Utility involves satisfaction. It might be that a cheaper product is just as acceptable as what would have been paid for a standard product – so the MU would have been above the price. The lower price gives greater consumer surplus. Alternatively, the cheaper product might have given less satisfaction so the MU would not have been as great and would still be proportional to the price. A dearer product could give greater satisfaction and still be accommodated into the theory.

L4 For a good discussion with a reasoned comment of both cheaper and dearer products, with a clearly structured answer and a conclusion. 9–13

L3 For a fair discussion but undeveloped answer or a more developed answer on either the cheaper or dearer product. A conclusion should be drawn. 7–8

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- L2 For a limited but acceptable attempt to discuss the link to the theory but with inconclusive or unconvincing discussion and no overall conclusion 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*

3 (a) Explain why there may be different levels of profit within perfect competition and between perfect competition and monopoly. [12]

Discussion of the possible changes in profit between short and long run in perfect competition and of the possibility of long-run supernormal profits in monopoly. (12)

- L4 For a good discussion and comparison of the profit levels short and long run perfect competition, and perfect competition and monopoly. 9–12*
- L3 For a competent explanation with either a concentration on the short and long run in perfect competition or on the difference between perfect competition and monopoly or of a weak explanation of both aspects. 7–8*
- L2 For a limited discussion and only a brief comparison. 5–6*
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. 1–4*

(b) Discuss whether the average variable cost has any significance in a perfectly competitive market structure in determining (i) the output produced by a firm and (ii) the profit of a firm. [13]

Firm must cover AVC even in short run to remain in business. Output is determined by $MC=MR$ above minimum AVC; $AVC + AFC$ gives ATC which is compared with AR to determine profit. (13)

- L4 For a good explanation of the link to both profit and output. The diagram will be clear and accurate. 9–13*
- L3 For a competent analysis but with a weaker structure to the answer. Diagrams will be less clear, not have complete labels, or contain a single error. 7–8*
- L2 For a more limited analysis with weak explanation of the significance. The diagram will be poor with more than one error. 5–6*
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. 1–4*

4 Wage rates in some non-essential occupations, such as entertainment, are very high while wage rates in essential occupations, such as public sector hospital nurses, are much lower. This is unfair.

Analyse how economic theory can explain these differences in wage rates and consider whether you agree with the conclusion of this statement. [25]

Discussion of the determinants of wages. Candidates should discuss the theoretical analysis of what influences the wage rate through a consideration of the demand and supply of labour. Differences in wages may be influenced not only by market demand and supply but by imperfections caused by unions and whether workers are in the public sector and subject to government controls over wages. (25)

- L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and/or government policy together with a conclusion about 'fairness'. 18–25 (14–17 for demand and supply only with institutional factors and government policy)*
- L3 For a competent explanation but with limited discussion of unions and/or government factors but still with a conclusion. 14–17 (10–13 for demand and supply)*

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L2 For a correct but undeveloped theoretical analysis with no institutional factors or only very brief mention of these factors and no conclusion. 10–13 (6–9 for demand and supply)

L1 For an answer which contains inaccuracies and only a few correct points 1–9 (1–5 for demand and supply only)

5 As part of the measurement of GDP governments calculate the level of investment expenditure.

(a) What determines the level of investment and how do changes in investment expenditure affect GDP? [12]

Investment is determined by the rate of interest, the cost and efficiency of capital equipment, changes in consumer demand and expectations. Changes in investment affect the level of GDP – the multiplier should be used to explain how this happens.

L4 For a good explanation with a comment on at least three determinants and their significance with a link to the multiplier. 9–12

L3 For a fair explanation but undeveloped answer covering either two of the determinants together with a link to the circular flow/multiplier 7–8

L2 For a limited but acceptable attempt to consider the determinants but with little development 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

(b) Assess the difficulties of using GDP as an economic indicator. [13]

Assessment of the use of GDP as an indicator compared with alternative indicators.

L4 For a full coverage of problems of data collection, and a discussion of usefulness and drawbacks of using GDP. 9–13

L3 For a competent but more limited discussion of the validity of using GDP. 7–8

L2 For a general comment with nothing on alternative measures and only limited evaluation. 5–6

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. 1–4

6 It is sometimes stated that the economic growth rates of developed countries are higher than those of developing countries.

(a) Explain why developing countries often aim to increase economic growth. [12]

Explanation of the benefits of growth in terms of increases in income, productive capacity, trading position, employment, profitability, standards of living.

L4 For a sound explanation with clear understanding of the principles involved and a clear conclusion 9–12

L3 For a competent explanation but with limited development but still with a conclusion. 7–8

L2 For a general description of only some of the factors and no conclusion. 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

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- (b) Assess the likely effectiveness of the types of policy the government of a developing country might use if it wished to increase economic growth. [13]**

Accept any reasoned discussion of fiscal, monetary, direct intervention, trading policies and the effects of the policies chosen on economic growth.

- L4 For a reasoned discussion and clearly structured answer with a competent assessment of the effect of the policies 9–13*
L3 For an accurate but less developed discussion with brief evaluation of the effectiveness. 7–8
L2 For a limited but acceptable attempt to discuss policies but with no evaluation of their effectiveness 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

- 7 It is important to achieve economic efficiency in the use of resources. This can only be done if the private sector is increased in size. Government intervention in the economy should, therefore, be minimised.**

To what extent do you support this argument. [25]

Candidates are asked to construct an argument. The elements in the argument must consist of

- (i) a statement of the meaning of efficiency and whether it is important to achieve efficiency,
- (ii) a consideration of whether the assertion is correct that the only means of achieving efficiency is if the private sector is increased in size and
- (iii) whether, therefore, the conclusion in the statement is true.

- L4 For an clear explanation of efficiency, a clear assessment of the assertion in the quote and a reasoned conclusion. 18–25*
L3 For a competent explanation which does not fully analyse the meaning of efficiency or explains efficiency but does not fully deal with the assertion about the private sector. There will be some discussion but the evaluation will not be extensive. 14–17
L2 For an accurate though undeveloped explanation of efficiency but with very little evaluation of the role of the private and public sector and no conclusion. 10–13
L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–9

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**GCE Advanced Subsidiary Level and GCE Advanced Level****MARK SCHEME for the May/June 2012 question paper
for the guidance of teachers****9708 ECONOMICS****9708/43**Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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 must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2012 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



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Section A

- 1 (a) Is this information on the size of the economy (GDP) enough to conclude that the average person in Italy is better off than the average person in Ireland? Briefly explain your answer. [3]**

Economy size is higher but no information on population. Possibly better off as unemployment is lower and negative growth is lower but not able to be definitive. Conclusion required for full marks (3)

- (b) (i) The economic growth rates are shown to be negative. Explain what economic theory suggests might happen to the level of unemployment in an economy if the growth rate figure is negative. [4]**

Theory suggests that negative growth would have an impact, on output and hence on unemployment. With negative growth it would be expected that unemployment would rise. Candidates could explain briefly how the changes in income and employment occur. (4)

- (b) (ii) What evidence is there from the information whether there is any link between the economic growth rates and unemployment? [3]**

There is unemployment with negative growth but larger negative growth doesn't necessarily mean larger unemployment. For example, Italy's negative growth is higher than Greece, Portugal and Spain but its unemployment rate is lower than that in all three countries. We do not know what the growth and unemployment rates were in the previous year so cannot really conclude how the change in growth affected unemployment in the year shown. (3)

- (c) In 2010 there was much concern about the weakness of the economic situation in Greece compared with the other European countries shown. How far can the data be used as evidence to support that concern? [4]**

Unemployment and the negative growth are both below the average of the other countries so Greece is in a better position and not a worse position. The information does not support the concern. However with a relatively smaller negative growth it still has a government debt of 124% of GDP which is the highest of the countries shown. This is why there was so much concern and the information does support that worry. (4)

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- (d) Discuss the possible effects on economic growth and unemployment of the policies suggested by the Spanish Government. [6]**

Spain proposed (i) raising the retirement age, (ii) reducing public spending (iii) increasing taxes and (iv) increasing measures to stop tax evasion

- (i) Raising retirement age increases labour supply. Changes in the labour supply have an uncertain effect on growth. Increased labour supply might result in lower average wages. Spending may then not change overall, or, if the increased labour is employed at the lower ends of the pay scales, spending may go up as lower wage earners spend a higher proportion of income. Increased spending may increase growth. Or alternatively the increase in labour supply may increase unemployment and this will not increase growth.
- (ii) Reducing public spending may have the effect of reducing incomes and reducing spending which affects growth.
- (iii) Increased taxes may reduce investment and reduce growth, may increase unemployment which is already high.
- (iv) Increasing measures to stop tax evasion might increase government revenue and allow additional government spending (6)

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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

1-5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.

6-9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.

12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

14 –15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions

16-17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer

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so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

20-25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10

Total Mark 12	1–4	5–6	7–8	9–12
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Total Mark 13	1–4+	5–6+	7–8+	9–13
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Total Mark 15	1–5	6–8	9–11	12–15
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- 2 (a) Explain, using a budget line diagram, whether**
 (i) **the substitution effect of a price change and**
 (ii) **the income effect**
would be similar for a normal good and an inferior good. **[12]**

Substitution effect would be in the opposite direction to the price change for both goods. Budget line pivots from a point on one axis (6) The income effect is in the same direction as the substitution effect for the normal good but in the opposite direction as the substitution effect for the inferior good. Budget lines alone would not enable the determination of the actual amount bought.(6) (12)

- L4 For a sound explanation of both changes with an accurate clear diagram and a clear understanding of the principles involved 9–12*
L3 For an accurate reference to the question but with a more limited explanation perhaps concentrating on one of the types of good, or minor errors in the analysis or in the diagrams 7–8
L2 For an explanation of one of the changes for both goods or both the changes for one good, or a combination of the two but with inaccurate diagrams to support the text 5–6
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1–4

- (b) Discuss the extent to which the law of diminishing marginal utility may be used to determine the market demand for a good.** **[13]**

Explanation/discussion of DMU and its link to the amount a consumer is willing to buy and the formation of an individual demand curve. Discussion of calculation of market demand curve by adding individual demand curves. (13)

- L4 For a reasoned and clear discussion, logically presented 9–13*
L3 For a fair but undeveloped discussion probably with either a brief comment about the individual demand curve or no discussion about the market demand curve 7–8
L2 For a limited explanation with only a brief comment 5–6
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1–4

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3 (a) Distinguish between perfect competition and monopolistic competition. [12]

Explanation in terms of criteria for perfect competition and the similarities/differences that occur in monopolistic competition. Candidates should also comment on the likely aims of the two structures – profits, output, prices. (12)

- L4 For an explanation of both market structures – criteria, aims, likely profits with a conclusion. 9–12*
- L3 For a competent explanation which does not fully analyse both types of market structure. There will be some comment but the analysis will not be fully developed or extensive. 7–8*
- L2 For an accurate though undeveloped explanation concentrating possibly on either the criteria or the aims probably presented as two separate parts of the answer with no direct distinction drawn. 5–6*
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–4*

(b) Discuss whether oligopoly is likely to be the most realistic market structure in a mixed economy. [13]

Discussion of the characteristics of oligopoly relating them to a mixed economy where profit motive, brand loyalty, larger firms, non-price promotions, barriers to entry, collusion are likely to be found. Candidates should discuss whether these characteristics are found in other market structures and which structure is the more likely. (13)

- L4 For a good discussion of market structures and their relevance to reality. A conclusion should be drawn. 9–13*
- L3 For a competent explanation of the characteristics but with an undeveloped comment on the likelihood of finding oligopoly rather than other market structures. 7–8*
- L2 For a limited explanation and only a brief comparison and comment on the significance of oligopoly - with no conclusion 5–6*
- L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. 1–4*

4 In 2010 the directors of a major UK chocolate firm, worth over £10 billion, recommended that its shareholders accept a takeover offer from a large US food firm. The firm would not then be controlled in the UK. It was feared that some production in the UK would cease.

(a) Analyse what economic theory suggests might be the outcome of such a takeover for the enlarged firm and its workers [12]

Candidates need to recognise that this is a large multinational organisation. The takeover will increase the original company's costs:—fixed and variable, but it might make economies of scale possible. Some parts of the production will be duplicated and it is stated that some parts would have to be closed to achieve these economies. For the worker, the takeover might result in redundancies, moving to a new location, increased competition for any likely promotion. Up to 8 for discussion of the company. (12)

- L4 For a sound analysis and discussion with clear understanding of the principles involved and a reasoned conclusion. 9–12*
- L3 For a competent analysis but more limited discussion and development but still with a conclusion. 7–8*

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L2 For a correct explanation, probably concentrating on the probability of economies of scale and without concluding comment. 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

(b) Discuss the possible macroeconomic outcomes for a domestic economy of such a takeover by a foreign firm. [13]

Candidates should discuss the likely effects on the economy in terms of injections and withdrawals. £10 billion has been spent and production may become more efficient. However, possible redundancies would have a likely impact on the workers' spending and government payments for the unemployed. There would also be a possible effect on the balance of payments depending on whether the profits remain in the UK or are sent to the US. (13)

L4 For a good discussion with a reasoned comment of both possible injections and withdrawals and clearly structured answer with a conclusion of the likely significance of each 9–13

L3 For a fair discussion but undeveloped answer of both injections and withdrawals or a fuller answer of either injections or withdrawals 7–8

L2 For a limited but acceptable attempt to consider the impact on the economy but with little development and no overall conclusion 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

5 Discuss whether the higher wage rates paid in some occupations occur solely because some trade unions have a stronger bargaining power than others. [25]

Discussion of determinants of wages. Candidates should discuss the theoretical analysis and how it is moderated by the existence of unions and discuss whether it is likely that unions are the sole reason for higher wages in some occupations. They may influence the level of wages but would not be the sole determinant. Theoretical analysis without marginal revenue productivity approach has, in the past, not merited the full range of marks. (25)

L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and their likely significance over other factors. 18–25 (14–17 for demand and supply only with institutional factors and government policy)

L3 For a competent explanation but with limited discussion of unions and their significance. 14–17. (10–13 for demand and supply)

L2 For a correct but undeveloped theoretical analysis with very bald comment about the role of unions. 10–13 (6–9 for demand and supply)

L1 For an answer which contains inaccuracies and only a few correct points 1–9 (1–5 for demand and supply only)

6 Population is increasing most rapidly in countries that can least afford it if they wish to encourage economic growth.

(a) What are the main characteristics of a developing country? [12]

Description of the nature of a developing economy in terms its GDP, GDP per capita, productive capacity, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population. (12)

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L4 For a sound description with clear understanding of the characteristics and a clear conclusion 9–12

L3 For a competent description but with limited development. 7–8

L2 For a general description of only some of the factors and no conclusion. 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

(b) If a developing country wishes to become developed, the main aim of its government should be to control the growth of its population. Discuss this opinion. [13]

Candidates should present a reasoned argument about what they consider to be the most important, or main, aim a government should follow. They should consider the importance of controlling the population growth and discuss what might happen if population increased very fast, but they should also comment on other aims and hopes and discuss which is the more significant. (13)

L4 For a reasoned discussion and clearly structured answer mentioning various alternative together with a conclusion 9–13

L3 For a discussion, but without such a full development or probably not mentioning a range of alternatives and with weaker conclusion. 7–8

L2 For a limited but acceptable attempt to discuss one policy with brief comment on population and without any conclusion. 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

7 Explain the difference between productive and allocative efficiency and discuss the suggestion that it is only possible to achieve such efficiencies through government intervention. [25]

Economic efficiency should be explained in terms of productive and allocative efficiency. Candidates should then consider whether the market ever achieves such efficiencies. They may be possible in a perfect market but the reality is that there will be inefficiencies due to market failures – excess profits, lack of information, externalities, merit goods, public goods might all prevent the achievement of efficiency. Whether the efficiency can instead be achieved by government intervention should also be discussed. Candidates could debate what type of intervention might be suitable. (25)

L4 For a thorough discussion of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented. 18–25

L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. 14–17

L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. 10–13

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. 1–9

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9708 ECONOMICS

9708/41

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A

- 1 (a) Use the information to explain how macroeconomic changes can be linked to microeconomic decisions. [5]**

5 marks for effects. Those mentioned in the text of how public sector decisions have an impact on private sector firms include – reduced investment, lower profits, reduced demand, not possible to raise prices, public sector employment reduced causing a decline in confidence, fear of job losses, and possible reductions in expenditure, reduced research etc.

- (b) Analyse with the aid of a diagram, showing costs and revenue for a monopoly, what is likely to happen to the firm's profits when there is a fall in demand in the industry due to a recession [5]**

Average revenue (ar) shifts back, marginal revenue (mr) shifts back, output declines to a new marginal cost (mc)/mr point, price falls. It is likely that profits will fall, although this might be a reduction in supernormal profit rather than a loss. Diagram: 1 for labels, 1 for shift of one curve (normally the ar one), 1 for correct change in output. 2 for explanation.

- (c) Suggest, using the concept of income elasticity of demand, why the decline in profits was less severe during the recession in the food industry than in the leisure industry. [4]**

It is likely that the food industry deals in more essential products, with lower income elasticity, possibly, and less effect on sales and revenue. This might explain the differences in changes in profit although it is uncertain how the relative costs in leisure and food were affected.

- (d) Do you support the opinion in the information that a recession is likely to be worse for firms with a high proportion of fixed costs than firms with a higher proportion of variable costs? [6]**

Explanation of differences between fixed and variable costs. Possibly the situation may be worse if the fixed costs form a high proportion of the costs and cannot be covered nor, in the short run, avoided. (Theory assumes fixed costs paid for before production and only need to cover variable costs. Practice probably is that fixed costs are paid monthly. But either way still have to pay for fixed costs) However, it depends on the level of profits. Firms with lower fixed costs may still be affected badly if the profit levels were not high. Reserve one mark for a conclusion.

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Section B

General Comments

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25.

Mark 1–9 (Linked to Level one in individual question notes).

- 1–5** where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9** where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level two in individual question notes).

- 10–11** where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13** where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

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Mark 14–17 (Linked to Level 3 in individual question notes).

- 14–15** where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

- 16–17** for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to Level 4 in individual question notes).

- 18–20** where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

- 21–25** for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking, awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

Level	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

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- 2 It is important that an economy makes the most efficient use of its resources. This can only be done if firms are allowed to increase in size. Government regulation of firms should, therefore, be minimised.**

Discuss whether you agree with this statement.

[25]

Candidates are expected to consider the argument. First, what is meant by resources and whether the premise is correct about their use; second, if it is correct, whether this can be achieved only by larger firms and thirdly whether the conclusion is correct. Candidates may refute, or accept, the subsidiary conclusion about larger firms, or the final conclusion or both.

- L4** For a clear consideration of each stage of the argument in the question. A reasoned conclusion should be presented. (18–25)
- L3** For a competent but more limited comment on the whole argument or by concentrating on part of the argument – maybe the link between resource use and large firms perhaps by discussing economies of scale; or of the final part of the argument about the role of the government. (14–17)
- L2** For an undeveloped discussion of the argument concentrating on only one aspect and with no overall comment on the conclusion in the question. (10–13)
- L1** For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. (1–9)

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- 3 (a) Explain how the quantity of labour employed and the wage rate are determined by a firm in a perfectly competitive labour market. [12]**

Explanation of wage determination using marginal revenue product or demand and supply for perfect competition only. Candidates should show the link between the market and the firm. Conventionally we have not given as high a mark for D/S approach as for mrp approach.

L4 For a sound explanation of theory and a clear understanding of the principles involved linking the market and the firm. (9–12)
(7–8 D/S only)

L3 For a competent explanation with limited development but still with some mention of the link between the market and the firm. (7–8)
(5–6 D/S only)

L2 For an undeveloped explanation with no link to the market. (5–6)
(3–4 D/S only)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
(1–2 D/S only)

- (b) Discuss why wage rates might be different in practice from those in a perfectly competitive labour market. [13]**

Candidates should recognise the fact that most markets are imperfect which, in the theory, would affect the shape of the demand/supply/mc/mrp curves. In practice, candidates should also discuss institutional factors such as the role of government legislation and possible effects of the demands for increased incomes by organised groups such as unions.

L4 For a reasoned and clearly structured answer dealing with theory and institutional aspects. (9–13)
(7–8 D/S only)

L3 For a fair but undeveloped answer maybe concentrating on either the theory or the institutions or commenting on both but only briefly. (7–8)
(5–6 D/S only)

L2 For a limited but acceptable attempt to consider the possible differences. (5–6)
(3–4 D/S only)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
(1–2 D/S only)

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- 4 Governments often suggest that there has been an improvement in the standard of living in their economy and support their statement by referring to a range of economic indicators. One of the indicators they use is GDP. Discuss whether GDP is a reliable indicator of changes in the standard of living in an economy. [25]**

The indicator mentioned is GDP. Rising GDP is used to suggest that the standard of living has risen. However, GDP does not include – non marketed items (jobs done yourself), this is in MEW; the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being.

- L4** For a thorough explanation of the difficulties of using GDP. There should be a conclusion which should refer to the stimulus. (18–25)
- L3** For a competent explanation which does not fully analyse the difficulties of using GDP but makes some attempt at evaluation and a brief conclusion should be stated. (14–17)
- L2** For an accurate though undeveloped explanation with some attempt at analysis but no real attempt to draw a conclusion. (10–13)
- L1** For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant. (1–9)

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5 (a) What distinguishes a developed economy from a developing economy? [12]

Description of the different economic characteristics in terms of an increase in national income, productive capacity, occupational distribution, or in terms of HDI and standards of living with a mention of population growth, education, health, income distribution.

L4 For a sound description with clear understanding of the principles involved and a clear explicit distinction drawn. (9–12)

L3 For a competent description but with limited development and explicit distinction. (7–8)

L2 For a general description of only some of the factors and vague distinction. (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)

(b) Developing economies are often keen to encourage industrial development in rural areas. Developed economies, by contrast, often prevent industrial development in rural areas.

Discuss why there might be this difference in policies. [13]

Candidates should mention the likely possibility that developing countries rely on the primary sector and this can cause wide fluctuations in income and disguised unemployment. Industrialisation might increase employment, make a more secure base for income, encourage the use of resources, decrease poverty in urban areas. Developed countries, by contrast, have a desire to preserve rural areas, are concerned about externalities of production in some areas, wish to use the advantage of economies of scale in urban areas.

L4 For a good explanation with a reasoned discussion of the different approaches and clearly structured answer which reaches a conclusion. (9–13)

L3 For a fair discussion but undeveloped answer which does not present a well-structured reasoned response. (7–8)

L2 For a limited but acceptable attempt to consider the different approaches but with little development and no conclusion. (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)

Page 9	Mark Scheme	Syllabus	Paper
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- 6 (a) Explain how a fall in interest rates might influence the level of investment and, as a result, national income. [12]**

Explanation of comparison of a fall in interest rates against prospective yields of investment, short-term v long-term considerations. Show link between investment and national income with an explanation of the multiplier.

L4 For a sound explanation of both parts of the question, – interest/investment; investment/income – and a clear understanding of the principles involved. (9–12)

L3 For a competent comment but with limited elaboration of the analysis although the multiplier should be mentioned. (7–8)

L2 For a correct explanation of either the link between interest and investment but with no mention of the multiplier process; or a very poor link between interest and investment but a brief description of the multiplier. (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)

- (b) Discuss, with reference to liquidity preference theory, whether interest rates are the main determinant of consumers' demand for money. [13]**

Discussion of the analytical reasons why consumers demand money according to liquidity preference; transactions, precautionary, speculative motives. Interest may only affect transactions and precautionary marginally – high rates may encourage some temporary saving in 'on-demand' accounts. Precautionary demand has been weakened by use of credit cards – expenditure on credit cards may be influenced by interest charges. Interest rates do affect speculative demand. There is an inverse relationship – except where there is a 'liquidity trap'.

L4 For a sound discussion with good application and a clear understanding of the principles involved. (9–13)

L3 For an accurate reference to the question but with a more limited discussion and minor errors in the analysis. (7–8)

L2 For a correct discussion but undeveloped comment, not necessarily logically presented. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

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- 7 (a) A newspaper reported that ‘unemployment had risen for the third consecutive month.’ What might be the cause of a rise in unemployment? [12]**

Explanation of the causes of unemployment.

- L4** For a sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment. (9–12)
- L3** For an accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained. (7–8)
- L2** For a correct but brief explanation of three types of unemployment not necessarily logically presented. (5–6)
- L1** For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

- (b) Discuss whether achieving a fall in the level of unemployment should be the main macroeconomic aim of a government. [13]**

Discussion of the main macro aims of the government with a reasoned argument about which should have the priority.

- L4** For a reasoned and clear discussion, logically presented, dealing with the possible conflicts between the policies. A conclusion should be presented. (9–13)
- L3** For a fair but undeveloped discussion, with limited reference to possible conflicts but with a conclusion. (7–8)
- L2** For a limited discussion with little development and no conclusion. (5–6)
- L1** For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9708 ECONOMICS

9708/42

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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 will not enter into discussions about these mark schemes.

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Section A

- 1 (a) Explain what is meant by collusion and when it is most likely to occur in an industry. [4]**

It is an agreement between firms; maybe to fix prices, maybe to fix output by quotas, maybe both. It could be an agreement on restricting advertising. It is most likely to occur when there is a small number of firms, where it is easy to monitor, where products are similar. Two marks for definition; two marks for occurrence.

- (b) Analyse, using Table 1, whether price fixing benefited Procter and Gamble. [4]**

Profits in 2010 were down compared with 2009, but they rose between 2006 and 2009. The dividend rose throughout the period. Revenue fluctuated but the overall trend was up – there is no information about prices – only about overall earnings which may be partly the result of cost changes. One mark for comment on each; one mark for development of any part.

- (c) Suggest why creating the advantage of large scale by ‘integrating across its different businesses’ might benefit a firm. [6]**

Candidates could consider the advantages of integration, benefits of ordering, supply chain, administration, economies of scale, specialisation, use of resources, cost savings.

- (d) Is the evidence in the article sufficient to conclude that Procter and Gamble is working against the public interest? [6]**

Comment on information – Profits were down in the last year but may have been down more if there had been no collusion. This may be regarded as against the public interest. However there is no information about cost saving, or about rivals’ prices/profits/costs. In favour of the public interest it might be said that P&G does research, gets top place in a stated list for its innovations – whether the list is of value is uncertain. Packaging was reduced avoiding waste; its brand names are popular with the public. A large firm may increase employment. Up to four marks for one side.

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Section B

General Comments

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to Level one in individual question notes).

- 1–5** where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9** where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level two in individual question notes).

- 10–11** where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13** where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to Level 3 in individual question notes).

- 14–15** where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

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16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to Level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking, awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

Level	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

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- 2 (a) Explain how a consumer allocates expenditure according to the principle of equi-marginal utility and analyse how a change in income might affect that allocation. [12]**

Explanation of principle of marginal utility and equi-marginal utility allocation. A change in income would shift the demand curve, depending on the nature of the good (normal/inferior). It may, but not necessarily, alter its slope. Candidates should mention both a rise and fall in income, quantity bought will change. Movements along the supply curve will cause price changes so the equilibrium utility/price ratio will change.

- L4** For a reasoned explanation linked to more than one good and clearly structured answer with a conclusion about what happens as income rises and falls. (9–12)
- L3** For a fair explanation but undeveloped answer; possibly with income moving in one direction with comment on effect on price/utility ratio. Or mention of rise and fall in income but unclear link to price/utility ratio. (7–8)
- L2** For a limited attempt which does not clearly determine the equilibrium position for more than one good or which does determine that but expresses it as a static model and does not consider income changes. (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)

- (b) Discuss how a government might achieve a more equal distribution of income. [13]**

Discussion of different tax policies, of transfer payments, of subsidies and support.

- L4** For a reasoned and well argued discussion with accurate development of the alternative policies. (9–13)
- L3** For a clear but undeveloped discussion but one which still deals with more than one type of policy. (7–8)
- L2** For a limited attempt to consider the policies with a concentration on one policy, probably tax changes, only. (5–6)
- L1** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. (1–4)

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- 3 In 2011, as a result of a recession, the governments of some countries reduced the wages that they paid to public sector workers. Trade unions organised mass demonstrations in protest.**

Discuss how the economic theory of wage determination in perfect competition can be adapted to explain such a situation. [25]

Candidates should recognise in their discussion of the theory of the determination of wages the role of demand and supply. Perfect competition theory (using mrp) can be adapted to include institutional factors, government, and trade unions.

- L4** For a thorough analysis of theoretical wage determination with a clear focus on how the theory may be adapted to include unions and/or government policy together with a conclusion. (18–25)
(14–17 for demand and supply only with institutional factors and government policy)
- L3** For a competent explanation but with a more limited focus of the significance of unions and/or government factors but still with some conclusion. (14–17)
(10–13 for demand and supply)
- L2** For a correct but undeveloped theoretical analysis with little comment about government and/or trade unions. (10–13)
(6–9 for demand and supply)
- L1** For an answer which contains inaccuracies and only a few correct points. (1–9)
(1–5 for demand and supply only)

- 4 The combination of rapid economic growth and inflation is no coincidence. (Source: *The Times*)**

(a) Explain why the rapid growth and high inflation might often occur at the same time. [12]

Explanation of meaning of economic growth and its effects on national income, consumer spending, government spending and firms' investment, or foreign demand for exports which may have become cheaper. The effect on aggregate demand which will increase could cause inflation – especially if there is a pressure on resources.

- L4** For a sound explanation with good application and a clear understanding of the principles involved. An explanation of economic growth should be given and a comment on the possibility of inflation. (9–12)
- L3** For an accurate explanation but with a more limited development and comment on the possibility of inflation. (7–8)
- L2** For a weaker explanation, briefly sketched, with no real connection to inflation. (5–6)
- L1** For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

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(b) Discuss what policies might be used by a government to control inflation. [13]

Analysis of fiscal and monetary policies which might be used together with a comment on their effectiveness.

L4 For a reasoned and clear discussion with the analysis logically presented and a conclusion drawn. (9–13)

L3 For a fair but undeveloped discussion possibly concentrating on limited range of policies but still with a conclusion. (7–8)

L2 For a more descriptive account with little evaluation and no conclusion. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

5 (a) Explain what changes might occur to the age distribution and occupational structure of a population as an economy changes from developing to developed. [12]

Distribution: comment on the likely changes in the birth and death rates and in infant mortality. Occupational: The usual division of production is into primary, secondary and tertiary sectors. Developing economies move from a dependence on the agricultural sector through industrialisation. Along with this there is a growth in the service sector – industries relying on IT, call centres, tourism.

L4 For a clear explanation of the distributional changes and also of the changes in the relative importance of the productive sectors of the economy might change – with good illustration or examples. (9–12)

L3 For a less developed explanation of both aspects or a competent explanation of one of the parts of the question. (7–8)

L2 For a more general descriptive account with few examples and very brief explanation. (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)

(b) Assume that you have been given some statistics which indicate that a country has a high rate of unemployment and a dependency on international trade. Discuss whether these statistics are sufficient to indicate whether that country may be classed as developing or developed? [13]

Discussion of the characteristics of a developing country. It may be that developing countries have a high rate of unemployment and a dependency on international trade but these are not the only defining features. It might also be true that a developed country has such characteristics. Candidates should present their case and draw a conclusion.

L4 For a discussion of the overall characteristics of a developing country, production, standard of living, income levels, with a comment on the two indicators mentioned and a conclusion. (9–13)

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L3 For more limited discussion but still with a conclusion and a comment on developed countries together with a conclusion. (7–8)

L2 For a more descriptive account without much evaluation and without a conclusion. (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)

- 6 In 2011, one of the UK's largest multinational banks announced it would reduce the number of people it employed by 43 000 – the equivalent size of a small town. Unemployment in the UK reached nearly 3 million in 2011.**

(Source: adapted from The Times)

- (a) Analyse what might cause an increase in unemployment in a country. [12]**

Analysis of the causes of an increase in unemployment. Although the information is essentially the same as the static causes of unemployment candidates should make some comment about the reasons for an increase in unemployment drawing attention to what might have changed to result in such an increase.

L4 For a sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment. (9–12)

L3 For an accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained. (7–8)

L2 For a correct but brief explanation of three types of unemployment not necessarily logically presented. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

- (b) Discuss what impact an increase in unemployment is likely to have on an economy. [13]**

Discussion of the likely impact of unemployment – reduced expenditure by consumers, but possibly increased expenditure by governments on training programmes, benefit schemes, reduced incomes, reduced rate of economic growth, social factors and impact of unemployment.

L4 For a sound discussion with good explanation of the possible outcomes with a conclusion. (9–13)

L3 For a competent comment but with limited development but still with a conclusion. (7–8)

L2 For a brief explanation and with a weak discussion and no conclusion. (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)

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7 The market system is not able to allocate resources efficiently.

Discuss this opinion.

[25]

Candidates should explain what is meant by the market system, what is meant by resources and the meaning of efficiency. They should then discuss the areas of 'market failure' which prevent the achievement of an efficient allocation of resources.

- L4** For a thorough explanation of the terms, a clear analysis of the link between them, a discussion of the possible outcome of market failure, with examples of types of market failure, and with a reasoned conclusion. (18–25)
- L3** For a competent explanation which does not fully analyse either the meaning of efficiency or give a full account of the likely market failure. There will be some discussion but the evaluation will not be fully developed or extensive. There should still be a conclusion. (14–17)
- L2** For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation. (10–13)
- L1** For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. (1–9)

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9708 ECONOMICS

9708/43

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A

- 1 (a) Use the information to explain how macroeconomic changes can be linked to microeconomic decisions. [5]**

5 marks for effects. Those mentioned in the text of how public sector decisions have an impact on private sector firms include – reduced investment, lower profits, reduced demand, not possible to raise prices, public sector employment reduced causing a decline in confidence, fear of job losses, and possible reductions in expenditure, reduced research etc.

- (b) Analyse with the aid of a diagram, showing costs and revenue for a monopoly, what is likely to happen to the firm's profits when there is a fall in demand in the industry due to a recession [5]**

Average revenue (ar) shifts back, marginal revenue (mr) shifts back, output declines to a new marginal cost (mc)/mr point, price falls. It is likely that profits will fall, although this might be a reduction in supernormal profit rather than a loss. Diagram: 1 for labels, 1 for shift of one curve (normally the ar one), 1 for correct change in output. 2 for explanation.

- (c) Suggest, using the concept of income elasticity of demand, why the decline in profits was less severe during the recession in the food industry than in the leisure industry. [4]**

It is likely that the food industry deals in more essential products, with lower income elasticity, possibly, and less effect on sales and revenue. This might explain the differences in changes in profit although it is uncertain how the relative costs in leisure and food were affected.

- (d) Do you support the opinion in the information that a recession is likely to be worse for firms with a high proportion of fixed costs than firms with a higher proportion of variable costs? [6]**

Explanation of differences between fixed and variable costs. Possibly the situation may be worse if the fixed costs form a high proportion of the costs and cannot be covered nor, in the short run, avoided. (Theory assumes fixed costs paid for before production and only need to cover variable costs. Practice probably is that fixed costs are paid monthly. But either way still have to pay for fixed costs) However, it depends on the level of profits. Firms with lower fixed costs may still be affected badly if the profit levels were not high. Reserve one mark for a conclusion.

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Section B

General Comments

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- 1–5** where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9** where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level two in individual question notes).

- 10–11** where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13** where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

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Mark 14–17 (Linked to Level 3 in individual question notes).

- 14–15** where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

- 16–17** for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

Mark 18–25 (Linked to Level 4 in individual question notes).

- 18–20** where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

- 21–25** for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking, awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

Level	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

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- 2 It is important that an economy makes the most efficient use of its resources. This can only be done if firms are allowed to increase in size. Government regulation of firms should, therefore, be minimised.**

Discuss whether you agree with this statement.

[25]

Candidates are expected to consider the argument. First, what is meant by resources and whether the premise is correct about their use; second, if it is correct, whether this can be achieved only by larger firms and thirdly whether the conclusion is correct. Candidates may refute, or accept, the subsidiary conclusion about larger firms, or the final conclusion or both.

- L4** For a clear consideration of each stage of the argument in the question. A reasoned conclusion should be presented. (18–25)
- L3** For a competent but more limited comment on the whole argument or by concentrating on part of the argument – maybe the link between resource use and large firms perhaps by discussing economies of scale; or of the final part of the argument about the role of the government. (14–17)
- L2** For an undeveloped discussion of the argument concentrating on only one aspect and with no overall comment on the conclusion in the question. (10–13)
- L1** For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. (1–9)

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- 3 (a) Explain how the quantity of labour employed and the wage rate are determined by a firm in a perfectly competitive labour market. [12]**

Explanation of wage determination using marginal revenue product or demand and supply for perfect competition only. Candidates should show the link between the market and the firm. Conventionally we have not given as high a mark for D/S approach as for mrp approach.

L4 For a sound explanation of theory and a clear understanding of the principles involved linking the market and the firm. (9–12)
(7–8 D/S only)

L3 For a competent explanation with limited development but still with some mention of the link between the market and the firm. (7–8)
(5–6 D/S only)

L2 For an undeveloped explanation with no link to the market. (5–6)
(3–4 D/S only)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
(1–2 D/S only)

- (b) Discuss why wage rates might be different in practice from those in a perfectly competitive labour market. [13]**

Candidates should recognise the fact that most markets are imperfect which, in the theory, would affect the shape of the demand/supply/mc/mrp curves. In practice, candidates should also discuss institutional factors such as the role of government legislation and possible effects of the demands for increased incomes by organised groups such as unions.

L4 For a reasoned and clearly structured answer dealing with theory and institutional aspects. (9–13)
(7–8 D/S only)

L3 For a fair but undeveloped answer maybe concentrating on either the theory or the institutions or commenting on both but only briefly. (7–8)
(5–6 D/S only)

L2 For a limited but acceptable attempt to consider the possible differences. (5–6)
(3–4 D/S only)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
(1–2 D/S only)

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- 4 Governments often suggest that there has been an improvement in the standard of living in their economy and support their statement by referring to a range of economic indicators. One of the indicators they use is GDP. Discuss whether GDP is a reliable indicator of changes in the standard of living in an economy. [25]**

The indicator mentioned is GDP. Rising GDP is used to suggest that the standard of living has risen. However, GDP does not include – non marketed items (jobs done yourself), this is in MEW; the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being.

- L4** For a thorough explanation of the difficulties of using GDP. There should be a conclusion which should refer to the stimulus. (18–25)
- L3** For a competent explanation which does not fully analyse the difficulties of using GDP but makes some attempt at evaluation and a brief conclusion should be stated. (14–17)
- L2** For an accurate though undeveloped explanation with some attempt at analysis but no real attempt to draw a conclusion. (10–13)
- L1** For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant. (1–9)

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5 (a) What distinguishes a developed economy from a developing economy? [12]

Description of the different economic characteristics in terms of an increase in national income, productive capacity, occupational distribution, or in terms of HDI and standards of living with a mention of population growth, education, health, income distribution.

L4 For a sound description with clear understanding of the principles involved and a clear explicit distinction drawn. (9–12)

L3 For a competent description but with limited development and explicit distinction. (7–8)

L2 For a general description of only some of the factors and vague distinction. (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)

(b) Developing economies are often keen to encourage industrial development in rural areas. Developed economies, by contrast, often prevent industrial development in rural areas.

Discuss why there might be this difference in policies. [13]

Candidates should mention the likely possibility that developing countries rely on the primary sector and this can cause wide fluctuations in income and disguised unemployment. Industrialisation might increase employment, make a more secure base for income, encourage the use of resources, decrease poverty in urban areas. Developed countries, by contrast, have a desire to preserve rural areas, are concerned about externalities of production in some areas, wish to use the advantage of economies of scale in urban areas.

L4 For a good explanation with a reasoned discussion of the different approaches and clearly structured answer which reaches a conclusion. (9–13)

L3 For a fair discussion but undeveloped answer which does not present a well-structured reasoned response. (7–8)

L2 For a limited but acceptable attempt to consider the different approaches but with little development and no conclusion. (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)

Page 9	Mark Scheme	Syllabus	Paper
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- 6 (a) Explain how a fall in interest rates might influence the level of investment and, as a result, national income. [12]**

Explanation of comparison of a fall in interest rates against prospective yields of investment, short-term v long-term considerations. Show link between investment and national income with an explanation of the multiplier.

L4 For a sound explanation of both parts of the question, – interest/investment; investment/income – and a clear understanding of the principles involved. (9–12)

L3 For a competent comment but with limited elaboration of the analysis although the multiplier should be mentioned. (7–8)

L2 For a correct explanation of either the link between interest and investment but with no mention of the multiplier process; or a very poor link between interest and investment but a brief description of the multiplier. (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)

- (b) Discuss, with reference to liquidity preference theory, whether interest rates are the main determinant of consumers' demand for money. [13]**

Discussion of the analytical reasons why consumers demand money according to liquidity preference; transactions, precautionary, speculative motives. Interest may only affect transactions and precautionary marginally – high rates may encourage some temporary saving in 'on-demand' accounts. Precautionary demand has been weakened by use of credit cards – expenditure on credit cards may be influenced by interest charges. Interest rates do affect speculative demand. There is an inverse relationship – except where there is a 'liquidity trap'.

L4 For a sound discussion with good application and a clear understanding of the principles involved. (9–13)

L3 For an accurate reference to the question but with a more limited discussion and minor errors in the analysis. (7–8)

L2 For a correct discussion but undeveloped comment, not necessarily logically presented. (5–6)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

Page 10	Mark Scheme	Syllabus	Paper
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- 7 (a) A newspaper reported that ‘unemployment had risen for the third consecutive month.’ What might be the cause of a rise in unemployment? [12]**

Explanation of the causes of unemployment.

- L4** For a sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment. (9–12)
- L3** For an accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained. (7–8)
- L2** For a correct but brief explanation of three types of unemployment not necessarily logically presented. (5–6)
- L1** For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

- (b) Discuss whether achieving a fall in the level of unemployment should be the main macroeconomic aim of a government. [13]**

Discussion of the main macro aims of the government with a reasoned argument about which should have the priority.

- L4** For a reasoned and clear discussion, logically presented, dealing with the possible conflicts between the policies. A conclusion should be presented. (9–13)
- L3** For a fair but undeveloped discussion, with limited reference to possible conflicts but with a conclusion. (7–8)
- L2** For a limited discussion with little development and no conclusion. (5–6)
- L1** For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 series

9708 ECONOMICS

9708/41

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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.

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Section A

- 1 (a) (i) Explain what is meant by an economy of scale. [3]**

An economy of scale is where the increase in output leads to a reduction in average cost per unit (1), long run (1) they can be either internal or external (1).

- (ii) Explain how economies of scale are likely to affect the price and output of a firm such as the supermarket. [4]**

Bulk buying (1), benefit to supermarket – lower cost, lower price (1), higher output (1); benefit to supplier – large revenue (1).

- (b) In the article the supermarket states that it helps the economy. Is this usually an aim of large businesses? [5]**

Traditionally, large businesses are thought to want to maximise profits (1). Other alternative aims are recognised, for example: to increase sales, satisficing, managerial or behavioural aims (1). Increasingly, large companies are promoting the idea that they are concerned about the environment and the conservation of resources (1), as well as increased employment (1). Judgement on how these changes might be thought to be an example of helping the economy (1).

- (c) The article says the supermarket ‘acts as a monopsonist’. Analyse what this means and consider whether the article can be used as evidence to support the opinion that a monopsony is beneficial. [8]**

Monopsonist: meaning a dominant buyer in a market. In most supply chain relationships, for example, between supermarkets and their suppliers – the long term sustainability of an industry requires that both buyer and supplier benefit – if there are no mutually beneficial gains from trade, ultimately trade and exchange will break down. The growth of the Fair Trade label and its organisation is evidence of how pressure from consumers can lead to improved contracts and prices for farmers in developing countries (2).

Can the article be used to support the view that it is a benefit? For suppliers; sometimes yes, as revenue can go up with large orders, but these may be withdrawn. So for suppliers it is not always a benefit (2).

For the supermarket; yes – it allows for lower input costs which may result in higher profits, which can in turn be used to fund capital investment and research (2).

For consumers; maybe because of lower prices but article says overall no benefit (2).

For an answer that concentrates on labour only, award max 13 marks.

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Section B

General comments for section B:

[25]

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus, and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved, as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below (from a total of 25). They may be applied proportionally to parts of questions where the total is less than 25 marks:

Mark 1–9 (Linked to Level One in individual question notes).

- 1–5** Where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9** Where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level Two in individual question notes).

- 10–11** Where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate, although undeveloped, explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13** Where the answer has a more thorough relevance to the question, but where the theory is incompletely explained.

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Mark 14–17 (Linked to Level Three in individual question notes).

- 14–15** Candidate demonstrates clear evidence of the ability to use relevant knowledge and facts and theories with accurate reference to the question presented with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments, should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer.

Do not expect too many extra illustrative points which are not explicitly referred to in the question, and do not expect too much critical comment on unstated assumptions.

- 16–17** For an answer showing a well-reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound, though the illustration and development may not be particularly complete.

Mark 18–25 (Linked to Level Four in individual question notes).

- 18–20** Where there is thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this knowledge in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and there should be clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a soundly structured answer so that the answer as a whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

- 21–25** For an answer which, given the time constraint, could not be significantly improved: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking – award marks for the content of the answer without being overly influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections by level:

	1	2	3	4
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13

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- 2** There is concern about conservation of the environment, prevention of waste and efficient use of resources. Economic theory is clear on how to allocate resources efficiently in a market but in reality such allocation is a problem.

Discuss this opinion.

[25]

The definitive solution of economic theory should be explained in terms of productive and allocative efficiency. Candidates should then consider whether the market ever achieves such efficiencies. These efficiencies may be possible in a perfect market but the reality is that there will be inefficiencies due to market failures: excess profits, lack of information, externalities, merit goods, and public goods might all prevent the achievement of efficiency. Whether the efficiency can instead be achieved by government intervention should also be discussed. Candidates could debate what type of intervention might be suitable and whether the theory has any use. [25]

- L4 (18–25)** For a thorough discussion of both efficiency and the uncertainties of the market with a comment on the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented.
- L3 (14–17)** For a competent explanation with either a more limited comment on both efficiency and the uncertainties of the market, or a full explanation of efficiency but with little comment on uncertainties. The role of the government will be discussed in a more limited way but a conclusion should still be presented.
- L2 (10–13)** For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to the role of economic theory. It is likely that there will be no conclusion.
- L1 (1–9)** For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory.

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- 3 A consumer's demand is sometimes influenced by advertising, and sometimes influenced by impulse buying. This means that the economic theories of consumer demand based on utility are of no relevance to a firm trying to determine its likely revenue.**

Do you agree with this argument?

[25]

Candidates should form a structured answer which first debates whether demand is influenced by advertising or impulse buying. Persuasive advertising/impulse buying could still be related to a belief in potential utility and could still be the result of a rational decision. Candidates should then consider the link between potential demand and revenue, mentioning elasticity. Firms hope to create an increase in demand by advertising. However, this may mean future demand is more unpredictable and, therefore, potential revenue more uncertain, than with known – maybe annual – expectations of change. [25]

- L4 (18–25)** For a thorough explanation of the terms, a clear discussion of the parts of the argument, including an analysis of utility, with a discussion of the conclusion of the argument.)
- L3 (14–17)** For a competent discussion which does not fully analyse the parts of the argument and does not fully develop a link leading to a conclusion but makes an attempt at an evaluation. (No analysis of utility L3 max).
- L2 (10–13)** For an accurate though undeveloped explanation with some attempt at analysis but with only a limited evaluation.
- L1 (1–9)** For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevances and errors of theory.

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4 (a) Explain how a profit-maximising firm will choose the quantity of labour it employs. [12]

Candidates should comment on the availability of labour and the relative cost of the labour. This can be explained using demand and supply analysis or MRP analysis. Lower marks are awarded customarily for D and S analysis. [12]

L4 (18–25) For a good explanation of the theory, with a mention of the difference between perfect and imperfect competition. (7–8 D and S)

L3 (14–17) For either a competent explanation but unclear diagrams, or an unconvincing explanation but with a competent attempt at a comparative diagram. (5–6 D and S)

L2 (10–13) For a limited attempt, most probably without a clear explanation of the theory. (3–4)

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. (1–2 D and S)

(b) Governments sometimes aim to reduce the level of unemployment. Discuss whether this necessarily results in a conflict between this aim and other government macroeconomic aims. [13]

A discussion of the main aims of government policy, with a judgement as to whether there might be any conflict. Accept any relevant suggestion, for example, increased employment might increase spending, which might put pressure on prices and conflict with stable price aim. Non-conflict should also be mentioned, for example, increased employment might aid growth. [13]

L4 (18–25) For a reasoned and clear discussion, logically presented, either one conflict fully presented, or two conflicts briefly presented together with non-conflict.

L3 (14–17) For a fair but undeveloped discussion, but with an accurate reference to the question. One conflict less fully presented together with non-conflict.

L2 (10–13) For a limited discussion with little comment, concentrating on one side only.

L1 (1–9) For an answer which has some basic correct facts, but includes irrelevancies and errors of theory.

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- 5 (a) Explain what is meant by a country's national income multiplier and two reasons why the value of the multiplier might fall. [12]**

An explanation of the multiplier; it might fall because injections decrease or withdrawals increase, or a combination of the two with a net decrease in the value of the multiplier. [12]

L4 (18–25) For a sound explanation with good application and a clear understanding of the principles involved. An explanation of changes to two of the components; C, G, T, I, S, M and E should be given and a comment on the overall balance on the multiplier should be mentioned.

L3 (14–17) For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance.

L2 (10–13) For a weaker explanation of the multiplier and poor comment on the overall change.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

- (b) Discuss how a fall in national income might affect a country's standard of living. [13]**

A discussion of the link between income levels and standard of living; decreased national income, decreased spending, possibly more unemployment, lower government revenue, lower feeling of well-being, fewer government services, lower profits for firms more closures. [13]

L4 (18–25) For a reasoned and clear discussion with the analysis logically presented with at least three consequences and a conclusion drawn.

L3 (14–17) For a fair but undeveloped discussion, possibly dealing with only two consequences, although still with a conclusion.

L2 (10–13) For a limited discussion with little comment and no conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

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- 6 (a) In a time of recession some people fear that their continued employment is uncertain. Explain how, according to liquidity preference theory, this might affect their demand for money. [12]

Expect transactions, precautionary and speculative explanations. Potential reductions in income might: reduce transactions, increase precautionary, or might reduce the wish to speculate with balance. It depends on individual perceptions, and the result is uncertain. Up to 6 marks for transactions and precautionary, 6 marks for speculative. [12]

L4 (18–25) For a sound explanation with a clear understanding of the principles involved and accurate diagrams showing how/why changes might occur.

L3 (14–17) For an accurate reference to the question but with a more limited explanation or briefer comment on change in demand and/or minor errors in the analysis. Diagrams should be accurate.

L2 (10–13) For a less competent explanation, little comment about change, errors in the diagrams, answer may not necessarily be logically presented.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

- (b) Discuss how, in a closed economy, a fall in interest rates might affect consumers and producers. [13]

Candidates should analyse how the lowering of interest rates might encourage borrowing by firms/consumers, and might not encourage saving. It might help increase national income through increased investment or increased spending. [13]

L4 (18–25) For a sound discussion with good explanation of the analysis of interest rate changes and the effect on producers and consumers.

L3 (14–17) For a competent comment but with limited development of the analysis or a concentration on one group (producer/consumer), and a weaker discussion of the other group.

L2 (10–13) For a brief discussion of interest rate change and a weak application to both groups (producer/consumer).

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

Page 10	Mark Scheme	Syllabus	Paper
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- 7 (a) It is sometimes claimed that the population of a developing country is always large. Is a large population the distinguishing feature of a developing country? [12]**

Some developing countries have large populations, some do not. What is more significant is the rate of growth of the population. However, distinguishing features are more often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population. [12]

L4 (18–25) For a sound description with clear understanding of the characteristics and a clear conclusion.

L3 (14–17) For a competent description but with limited development, although some attempt will be made at a conclusion.

L2 (10–13) For a general description of only some of the factors and no conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

- (b) Discuss whether economic growth is necessarily beneficial to a developing economy. [13]**

Economic growth involves greater production measured by changes in GDP/GNP. This could cause an increase in the standard of living, improved health, education and employment opportunities. There may be disadvantages. Poor working conditions, the growth of externalities, the careless depletion of resources. There may also still be questions of inequality in the distribution of income or whether the increased GDP is spent on things which might not give direct benefit e.g. military research. [13]

L4 (18–25) For a discussion of the overall effect of growth on development, presenting both positive and negative aspects, with a conclusion.

L3 (14–17) For an analysis of the contribution of growth to development, but with a concentration on either the positive or the negative aspects, with a conclusion.

L2 (10–13) For a more descriptive account without much evaluation and without a conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 series

9708 ECONOMICS

9708/42

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A

- 1 (a) **Table 1 shows GDP at factor cost. What is the difference between GDP at factor cost and GDP at market prices?** [2]

To obtain market prices from factor cost, add indirect taxes (1) and deduct subsidies. Do not reward 'add direct tax' (candidates may present the reverse change by deducting taxes and adding subsidies) (2).

- (b) (i) **The extract says that India's telecom industry was crucial to growth because of its multiplier effect. With the help of a numerical example explain what economists mean by 'the multiplier effect'.** [5]

An explanation of the multiplier effect commenting on change in national income as a result of a change in injection (2), an explanation of numerical example, 1 for formula, 1 for calculation, 1 for impact (3) (5 total).

- (ii) **Use the information to explain how India's telecom industry had a beneficial effect on the Indian economy.** [5]

Fig. 1 mentions information access, healthcare, education, and government revenues. Candidates should give an explanation of these effects. The article, and Table 1, also give figures on contribution to GDP. Maximum 3 marks for one well-developed point (5).

- (c) **Consider how far the success of India's telecom industry has been because of the change from public sector monopoly to private sector competition.** [8]

It depends how success is measured. Table 1 gives figures on revenues and on subscribers. Competition resulted in price wars, so the service was cheaper. However, the growth of subscribers was crucial for its success and this may be because they had cheaper phones; better technology, spread to rural areas so more business can be undertaken easily. The government still had fiscal policy to encourage the industry – so competition was not the only factor. Other factors not mentioned which could have led to the growth in telecoms include the increase in population, and the increase in income. Maximum 5 marks for one side of the argument, reserve one mark for a conclusion (8).

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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole marking range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus, and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally, of course, to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 Where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 Where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis, may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 Where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question, together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.

- 12–13 Where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 Where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have been presented by the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question, and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments, should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, and do not expect too much critical comment on unstated assumptions.

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16–17 For an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound, though the illustration and development may not be particularly complete.

Mark 18–25 (Linked to level 4 in individual question notes).

18–20 Where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question, and there should be clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound and structured answer so that the overall answer is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 For an answer which, given the time constraint, could not be improved significantly: it will have a clear analysis, ample illustrations and a good attempt at considered evaluation.

Be positive in your marking and award marks for the context of the question without being overly influenced by omissions. Marks should not be deleted for inaccuracies. Corresponding marks for sub-sections:

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13

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- 2 'The analysis of marginal utility as an explanation of consumer equilibrium can only be related to the purchase of one good, cannot be used if incomes increase, and is not applicable if advertising causes a change in tastes. It is, in practice, not a useful guide to consumer behaviour'.

Assess this opinion.

[25]

Candidates should consider the argument presented. They should explain the concept of consumer equilibrium and the construction of a demand curve using marginal utility. They should consider whether the theory only relates to one demand curve or whether it can be applied if the shape of the curve changes, or if the curve shifts. They should present a conclusion to the argument [25].

L4 (18–25) For a thorough explanation of equilibrium and utility and a consideration of the argument in the question. A reasoned conclusion should be presented.

L3 (14–17) For either a competent but more limited comment on both equilibrium and utility, and a comment about the change in the curve, or a full explanation but little comment on changes in the curve. There should still be some judgement on the conclusion in the question.

L2 (10–13) For an undeveloped explanation of equilibrium/utility with very little discussion of changes in the curve. It is likely that no overall comment on the conclusion will be given in the answer.

L1 (1–9) For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory.

- 3 'The profitability of firms is a measure of their efficiency. The higher the profit, the greater the efficiency. High profits should, therefore, be encouraged.'

Do you support this argument?

[25]

Candidates are asked to construct an argument. The elements in the argument must consist of (i) a statement of the meaning of efficiency and whether it is linked to a firm's profits, (ii) a consideration of whether the assertion is correct that the higher the profit, the greater the efficiency and (iii) whether, therefore, the conclusion in the statement is true [25].

L4 (18–25) For a clear explanation of efficiency, a clear assessment of the assertion in the quote and a reasoned conclusion.

L3 (14–17) For a competent explanation which does not fully analyse the meaning of efficiency nor fully explains efficiency and does not fully deal with the assertion concerning the link to profits or changes in profits. There will be some discussion, but the evaluation will not be extensive.

L2 (10–13) For an accurate though undeveloped explanation of efficiency, but with very little comment of the link to profits and no conclusion.

L1 (1–9) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but will include irrelevancies. Errors of theory or omissions of analysis will be substantial.

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- 4 (a) **Some top executives and some sports people are paid very high salaries. It is argued that this is inevitable as people are paid the market rate for the job. Use economic analysis to support this opinion.** [12]

Candidates should give an explanation of the factors affecting wage rates. A comment on demand and supply, on marginal productivity, on skills, scarcity, and on rates in competitive industries. In the past we have asked for MRP to get L4, but with this question, MRP is not necessary for answers to achieve L4 [12].

L4 (9–12) For a sound explanation with clear understanding of the principles involved.

L3 (7–8) For a competent explanation but with limited development.

L2 (5–6) For a general explanation of only some of the factors.

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

- (b) **It is argued that the wage determination in imperfect markets leads to exploitation and that it is necessary and beneficial if the government intervenes in the determination of wage rates. Discuss whether there is any truth in this argument.** [13]

Candidates should discuss whether or how exploitation occurs in imperfect competition. They should then discuss how the wage rate could be fixed to avoid exploitation. This might involve negotiation with a union, with a conciliation tribunal, or with government intervention. A solution may be reached without the need for governments. A conclusion should be presented [13].

L4 (9–13) For a reasoned discussion and a clearly structured answer with sound knowledge of the analysis, and with a conclusion.

L3 (7–8) For a discussion, but without such a full development, but still with a conclusion.

L2 (5–6) For a limited but acceptable attempt to describe the theory, but without any real development nor any conclusion.

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

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- 5 It was reported in 2012 that consumers should not be encouraged to save more and reduce their debts. Increased saving would result in a Keynesian ‘paradox of thrift’ which would not help economic growth. Instead consumers should spend money on new purchases.
(Source: *The Times* 2011)

(a) Explain and comment on what is meant by ‘the paradox of thrift’. [12]

An explanation that states that a rise in the proportion saved (mps) in the time of recession will cause aggregate demand to fall and total income – and thus total savings – to fall. The paradox is that what is good for an individual may not necessarily be good for the economy as a whole. However, the paradox may not occur. A fall in demand may cause a fall in prices, which offsets the fall in demand; a rise in savings may cause a rise in bank reserves and increased lending and possibly lower interest rates and increased investment; a fall in demand at home may be compensated for by a rise in exports [12].

L4 (9–12) For a sound explanation of the paradox with a good application to the effect on increases in savings, and an understanding of the critique.

L3 (7–8) For an accurate explanation of the paradox but with a more limited comment on the critique.

L2 (5–6) For a weak explanation of the paradox and a poor comment on the critique.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

(b) Discuss what is meant by economic growth and consider whether spending money on new purchases would necessarily help economic growth. [13]

A comment on the meaning of economic growth and its measurement, and a discussion on the effect of increased spending. Extra spending should increase a firm’s revenue, which could allow investment, research, further production and economic growth. However, if there is limited spare productive capacity, extra spending might not result in further output but may instead result in rising prices, or increased imports with consequent effects on the balance of payments and long-term international competitiveness [13].

L4 (9–13) For a reasoned and clear discussion with the analysis logically presented with alternative possible outcomes included with a conclusion.

L3 (7–8) For a fair but undeveloped discussion, although still with a conclusion.

L2 (5–6) For a limited discussion with little comment, no alternative possible outcomes and/or no conclusion.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

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- 6 (a) Explain the possible causes of unemployment and explain which is responsible for most of the unemployment in your country. [12]**

An identification of the types of unemployment and a reasoned explanation of what is considered to be the most significant type of unemployment [12].

L4 (9–12) For a sound explanation with a clear understanding of at least four types of unemployment, together with a reasoned account of the most significant.

L3 (7–8) For an accurate but more limited explanation with a briefer account of what is considered to be the most significant type. Expect at least four types briefly explained, or three types more fully explained but with a weaker application.

L2 (5–6) For a correct but brief explanation of three types of unemployment, not necessarily logically presented; or a fuller explanation of two types with a poor application.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

- (b) ‘When a government wishes to lower unemployment its only method of reducing it is by the use of fiscal policies’.**

Do you agree with this opinion? [13]

An explanation of fiscal policies, which might increase demand and hence increase employment. There should then be a discussion of alternative monetary or supply-side policies to improve the incentive to work, increase skill provision, training, education – although these may be over a long term [13].

L4 (9–13) For a reasoned and clear discussion, logically presented, dealing with the possible alternatives. A conclusion should be presented.

L3 (7–8) For a fair but undeveloped discussion, with limited reference to possible alternatives, but with a conclusion.

L2 (5–6) For a limited discussion with little development and no conclusion.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

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7 (a) Too much labour but not enough capital. Is this the most significant difference between a developing and a developed economy? [12]

Some developing countries have a large working-age population, but not all this population is trained. It may be still the case that there is a relative abundance of labour to capital. However, distinguishing features are more often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population and age structure of the population. [12]

L4 (9–12) For a sound description with demonstrated clear understanding of the characteristics, and a clear conclusion.

L3 (7–8) For a competent description but with limited development, although there will be some attempt at a conclusion.

L2 (5–6) For a general description of only some of the factors, and no conclusion.

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

(b) Discuss whether GDP is a reliable measure of the difference in living standards between developing and developed economies. [13]

A discussion of the usefulness of GDP as an indicator of living standards. Consideration should also be given to other indicators, such as income per head, the distribution of income and other factors, some of which are measured by the HDI and some which are of a more social nature or involve political stability or justice and legal systems. A comment should be provided concerning the difficulties of comparison between different countries due to: culture, climate, subsistence sector, informal economy, distribution of income, exchange rates and purchasing power [13].

L4 (9–13) For a reasoned discussion and clearly structured answer, a full account of the difficulties of comparison and a conclusion.

L3 (7–8) For a discussion, but without such a full development and with a less elaborate account of the difficulties of comparison, but still with a conclusion.

L2 (5–6) For a limited but acceptable attempt to discuss the relevance of GDP but with limited alternatives and without any conclusion.

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

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 series

9708 ECONOMICS

9708/43

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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.

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Section A

- 1 (a) (i) Explain what is meant by an economy of scale. [3]**

An economy of scale is where the increase in output leads to a reduction in average cost per unit (1), long run (1) they can be either internal or external (1).

- (ii) Explain how economies of scale are likely to affect the price and output of a firm such as the supermarket. [4]**

Bulk buying (1), benefit to supermarket – lower cost, lower price (1), higher output (1); benefit to supplier – large revenue (1).

- (b) In the article the supermarket states that it helps the economy. Is this usually an aim of large businesses? [5]**

Traditionally, large businesses are thought to want to maximise profits (1). Other alternative aims are recognised, for example: to increase sales, satisficing, managerial or behavioural aims (1). Increasingly, large companies are promoting the idea that they are concerned about the environment and the conservation of resources (1), as well as increased employment (1). Judgement on how these changes might be thought to be an example of helping the economy (1).

- (c) The article says the supermarket ‘acts as a monopsonist’. Analyse what this means and consider whether the article can be used as evidence to support the opinion that a monopsony is beneficial. [8]**

Monopsonist: meaning a dominant buyer in a market. In most supply chain relationships, for example, between supermarkets and their suppliers – the long term sustainability of an industry requires that both buyer and supplier benefit – if there are no mutually beneficial gains from trade, ultimately trade and exchange will break down. The growth of the Fair Trade label and its organisation is evidence of how pressure from consumers can lead to improved contracts and prices for farmers in developing countries (2).

Can the article be used to support the view that it is a benefit? For suppliers; sometimes yes, as revenue can go up with large orders, but these may be withdrawn. So for suppliers it is not always a benefit (2).

For the supermarket; yes – it allows for lower input costs which may result in higher profits, which can in turn be used to fund capital investment and research (2).

For consumers; maybe because of lower prices but article says overall no benefit (2).

For an answer that concentrates on labour only, award max 13 marks.

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Section B

General comments for section B:

[25]

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus, and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved, as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below (from a total of 25). They may be applied proportionally to parts of questions where the total is less than 25 marks:

Mark 1–9 (Linked to Level One in individual question notes).

- 1–5** Where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9** Where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level Two in individual question notes).

- 10–11** Where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate, although undeveloped, explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13** Where the answer has a more thorough relevance to the question, but where the theory is incompletely explained.

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Mark 14–17 (Linked to Level Three in individual question notes).

- 14–15** Candidate demonstrates clear evidence of the ability to use relevant knowledge and facts and theories with accurate reference to the question presented with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments, should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer.

Do not expect too many extra illustrative points which are not explicitly referred to in the question, and do not expect too much critical comment on unstated assumptions.

- 16–17** For an answer showing a well-reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound, though the illustration and development may not be particularly complete.

Mark 18–25 (Linked to Level Four in individual question notes).

- 18–20** Where there is thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this knowledge in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and there should be clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a soundly structured answer so that the answer as a whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

- 21–25** For an answer which, given the time constraint, could not be significantly improved: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking – award marks for the content of the answer without being overly influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections by level:

	1	2	3	4
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13

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- 2** There is concern about conservation of the environment, prevention of waste and efficient use of resources. Economic theory is clear on how to allocate resources efficiently in a market but in reality such allocation is a problem.

Discuss this opinion.

[25]

The definitive solution of economic theory should be explained in terms of productive and allocative efficiency. Candidates should then consider whether the market ever achieves such efficiencies. These efficiencies may be possible in a perfect market but the reality is that there will be inefficiencies due to market failures: excess profits, lack of information, externalities, merit goods, and public goods might all prevent the achievement of efficiency. Whether the efficiency can instead be achieved by government intervention should also be discussed. Candidates could debate what type of intervention might be suitable and whether the theory has any use. [25]

- L4 (18–25)** For a thorough discussion of both efficiency and the uncertainties of the market with a comment on the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented.
- L3 (14–17)** For a competent explanation with either a more limited comment on both efficiency and the uncertainties of the market, or a full explanation of efficiency but with little comment on uncertainties. The role of the government will be discussed in a more limited way but a conclusion should still be presented.
- L2 (10–13)** For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to the role of economic theory. It is likely that there will be no conclusion.
- L1 (1–9)** For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory.

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- 3 A consumer's demand is sometimes influenced by advertising, and sometimes influenced by impulse buying. This means that the economic theories of consumer demand based on utility are of no relevance to a firm trying to determine its likely revenue.**

Do you agree with this argument?

[25]

Candidates should form a structured answer which first debates whether demand is influenced by advertising or impulse buying. Persuasive advertising/impulse buying could still be related to a belief in potential utility and could still be the result of a rational decision. Candidates should then consider the link between potential demand and revenue, mentioning elasticity. Firms hope to create an increase in demand by advertising. However, this may mean future demand is more unpredictable and, therefore, potential revenue more uncertain, than with known – maybe annual – expectations of change. [25]

- L4 (18–25)** For a thorough explanation of the terms, a clear discussion of the parts of the argument, including an analysis of utility, with a discussion of the conclusion of the argument.)
- L3 (14–17)** For a competent discussion which does not fully analyse the parts of the argument and does not fully develop a link leading to a conclusion but makes an attempt at an evaluation. (No analysis of utility L3 max).
- L2 (10–13)** For an accurate though undeveloped explanation with some attempt at analysis but with only a limited evaluation.
- L1 (1–9)** For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevances and errors of theory.

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4 (a) Explain how a profit-maximising firm will choose the quantity of labour it employs. [12]

Candidates should comment on the availability of labour and the relative cost of the labour. This can be explained using demand and supply analysis or MRP analysis. Lower marks are awarded customarily for D and S analysis. [12]

L4 (18–25) For a good explanation of the theory, with a mention of the difference between perfect and imperfect competition. (7–8 D and S)

L3 (14–17) For either a competent explanation but unclear diagrams, or an unconvincing explanation but with a competent attempt at a comparative diagram. (5–6 D and S)

L2 (10–13) For a limited attempt, most probably without a clear explanation of the theory. (3–4)

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. (1–2 D and S)

(b) Governments sometimes aim to reduce the level of unemployment. Discuss whether this necessarily results in a conflict between this aim and other government macroeconomic aims. [13]

A discussion of the main aims of government policy, with a judgement as to whether there might be any conflict. Accept any relevant suggestion, for example, increased employment might increase spending, which might put pressure on prices and conflict with stable price aim. Non-conflict should also be mentioned, for example, increased employment might aid growth. [13]

L4 (18–25) For a reasoned and clear discussion, logically presented, either one conflict fully presented, or two conflicts briefly presented together with non-conflict.

L3 (14–17) For a fair but undeveloped discussion, but with an accurate reference to the question. One conflict less fully presented together with non-conflict.

L2 (10–13) For a limited discussion with little comment, concentrating on one side only.

L1 (1–9) For an answer which has some basic correct facts, but includes irrelevancies and errors of theory.

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- 5 (a) Explain what is meant by a country's national income multiplier and two reasons why the value of the multiplier might fall. [12]**

An explanation of the multiplier; it might fall because injections decrease or withdrawals increase, or a combination of the two with a net decrease in the value of the multiplier. [12]

L4 (18–25) For a sound explanation with good application and a clear understanding of the principles involved. An explanation of changes to two of the components; C, G, T, I, S, M and E should be given and a comment on the overall balance on the multiplier should be mentioned.

L3 (14–17) For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance.

L2 (10–13) For a weaker explanation of the multiplier and poor comment on the overall change.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

- (b) Discuss how a fall in national income might affect a country's standard of living. [13]**

A discussion of the link between income levels and standard of living; decreased national income, decreased spending, possibly more unemployment, lower government revenue, lower feeling of well-being, fewer government services, lower profits for firms more closures. [13]

L4 (18–25) For a reasoned and clear discussion with the analysis logically presented with at least three consequences and a conclusion drawn.

L3 (14–17) For a fair but undeveloped discussion, possibly dealing with only two consequences, although still with a conclusion.

L2 (10–13) For a limited discussion with little comment and no conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

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- 6 (a) In a time of recession some people fear that their continued employment is uncertain. Explain how, according to liquidity preference theory, this might affect their demand for money. [12]

Expect transactions, precautionary and speculative explanations. Potential reductions in income might: reduce transactions, increase precautionary, or might reduce the wish to speculate with balance. It depends on individual perceptions, and the result is uncertain. Up to 6 marks for transactions and precautionary, 6 marks for speculative. [12]

L4 (18–25) For a sound explanation with a clear understanding of the principles involved and accurate diagrams showing how/why changes might occur.

L3 (14–17) For an accurate reference to the question but with a more limited explanation or briefer comment on change in demand and/or minor errors in the analysis. Diagrams should be accurate.

L2 (10–13) For a less competent explanation, little comment about change, errors in the diagrams, answer may not necessarily be logically presented.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

- (b) Discuss how, in a closed economy, a fall in interest rates might affect consumers and producers. [13]

Candidates should analyse how the lowering of interest rates might encourage borrowing by firms/consumers, and might not encourage saving. It might help increase national income through increased investment or increased spending. [13]

L4 (18–25) For a sound discussion with good explanation of the analysis of interest rate changes and the effect on producers and consumers.

L3 (14–17) For a competent comment but with limited development of the analysis or a concentration on one group (producer/consumer), and a weaker discussion of the other group.

L2 (10–13) For a brief discussion of interest rate change and a weak application to both groups (producer/consumer).

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

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- 7 (a) It is sometimes claimed that the population of a developing country is always large. Is a large population the distinguishing feature of a developing country? [12]**

Some developing countries have large populations, some do not. What is more significant is the rate of growth of the population. However, distinguishing features are more often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population. [12]

L4 (18–25) For a sound description with clear understanding of the characteristics and a clear conclusion.

L3 (14–17) For a competent description but with limited development, although some attempt will be made at a conclusion.

L2 (10–13) For a general description of only some of the factors and no conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

- (b) Discuss whether economic growth is necessarily beneficial to a developing economy. [13]**

Economic growth involves greater production measured by changes in GDP/GNP. This could cause an increase in the standard of living, improved health, education and employment opportunities. There may be disadvantages. Poor working conditions, the growth of externalities, the careless depletion of resources. There may also still be questions of inequality in the distribution of income or whether the increased GDP is spent on things which might not give direct benefit e.g. military research. [13]

L4 (18–25) For a discussion of the overall effect of growth on development, presenting both positive and negative aspects, with a conclusion.

L3 (14–17) For an analysis of the contribution of growth to development, but with a concentration on either the positive or the negative aspects, with a conclusion.

L2 (10–13) For a more descriptive account without much evaluation and without a conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

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MARK SCHEME for the October/November 2012 series

9708 ECONOMICS

9708/41

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A

- 1 (a) The data refers to a 'government.....budget deficit'. Explain what this means. [2]

Candidates must recognise that the article refers to a government budget deficit, not an individual's budget, understand what a budget is, understand what a deficit is.

1 mark for only two of the three points.

- (b) Use Fig. 1 to consider whether there is a link between the size of the budget deficit and economic growth. [4]

There is a budget deficit together with economic growth, but they do not occur to the same extent, 1 mark, but this is limited information, 1 mark, if note causal link is two way, 1 mark, selected examples, 2 marks

- (c) Explain how the falling value of some countries' currencies 'stimulated demand for their tradable goods resulting in manufacturing growth.' [4]

An explanation of falling value 1 mark, reference to international trade 1 mark, explanation of how currency changes affect prices of goods and hence demand 2 marks

- (d) Use the evidence given to discuss the similarities and differences in the two opinions and consider which you think is more appropriate to overcome a recession. [10]

Similarities – both recognise the importance of demand
 – both recognise the need for growth
 – both recognise borrowing is important
 – both recognise the need for investment and profitability
 Differences – conflict over the speed at which the deficit should be reduced
 – first opinion does not say why reduced spending will increase growth
 – conflict over the effect of reduced public spending

The charts do not give consistent support to either side.

Up to 5 for one side; reserve 2 for evaluative conclusion.

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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level one in individual question notes).

- 1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.
- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements. Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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Mark 18–25 (Linked to level 4 in individual question notes).

- 18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
- 21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation. Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

2 (a) Explain how the law of diminishing marginal utility might be used to construct a consumer's demand curve for a product. [12]

Explanation of diminishing marginal utility (DMU) and its link to equilibrium price and through changes in price to the demand curve.

- L4 For a sound discussion with good explanation of the analysis and a clear understanding with a conclusion [9–12]
- L3 For a thorough explanation but with limited development of the analysis and a weaker conclusion. [7–8]
- L2 For a brief explanation and with a weak explanatory link between DMU, changes in price and hence the demand curve [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]

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- (b) Analyse how budget lines may be used to illustrate what happens for both a normal good and an inferior good when the price of the good increases at the same time as a consumer's income increases. [13]**

Budget lines can show what happens to the relationship between the two goods. Income rises will shift the budget line in a parallel manner; price rises of one good will shift the budget line towards the origin for that good. The balance of the two changes will vary for a normal and inferior good but what precise quantity of each will be bought before and after the changes cannot be estimated from the budget line alone. Learners could explain that the quantity purchased would fall for an inferior good if income increases

- L4 For a sound discussion with good explanation of the analysis and a clear understanding of the different shifts with a conclusion [9–13]
 L3 For a thorough explanation but with limited development of the analysis and a weaker conclusion. [7–8]
 L2 For a brief explanation and with a weak explanatory link between budget lines and quantity bought and with no conclusion. [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]

- 3 (a) Explain why a firm's short-run average cost curve is usually drawn as a U shape and explain the link between the short-run average cost curve and the long-run average cost curve of a firm. [12]**

Explanation of increasing/diminishing returns, explanation of economies/diseconomies of scale and derivation of long-run curve from successive short-run curves.

- L4 For a sound discussion with good explanation of the analysis and a clear understanding with a conclusion [9–12]
 L3 For a thorough explanation but with limited development of the analysis and a weaker conclusion. [7–8]
 L2 For a brief explanation and with a weak explanatory link between short run and long run or with a concentration on either the short run or on economies of scale [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]

- (b) It is said that perfectly competitive firms and monopolies aim to maximise profits. Discuss whether price, output and profit levels are, therefore, likely to be the same in perfectly competitive firms as in monopolies. [13]**

Discussion of determination of price and output, market price takers or price makers, levels of output, levels of profit in short and long run.

- L4 For a sound discussion with good explanation of the analysis and a clear understanding of the differences between perfect competition and monopoly [9–13]
 L3 For a competent comment but with limited development of the analysis or a concentration on either perfect competition or monopoly [7–8]
 L2 For a brief explanation and with a weak discussion of the distinction between the two types of market. [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]

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- 4 The differences in wage rates paid in different occupations are caused entirely by the differences in the elasticity of supply of labour. The way, therefore, to overcome the differences in wage rates is to increase the training available to workers.**

Discuss whether economic analysis supports this argument. [25]

The question presents an argument. Candidates should recognise this in their discussion of the determination of the role of demand, supply, institutional factors in the determination of wages and their comment about the relevance of the conclusion to the argument.

- L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of demand/supply, unions and/or government policy together with a comment about the significance of the conclusion of the argument about training. [18–25]
(14–17 for demand and supply only with institutional factors and government policy)
- L3 For a competent explanation but with a more limited discussion of the significance of demand, unions and/or government factors but still with some comment about the significance of the argument about training. [14–17]
(10–13 for demand and supply)
- L2 For a correct but undeveloped theoretical analysis with scant comment about the conclusion of the argument regarding training. [10–13]
(6–9 for demand and supply)
- L1 For an answer which contains inaccuracies and only a few correct points [1–9]
(1–5 for demand and supply only)

- 5 (a) Explain what is meant by an inflationary gap. [12]**

An inflationary gap explained, using the circular flow of income model and referring to the full employment level.

- L4 For a sound discussion with good explanation of the analysis and a clear understanding [9–12]
- L3 For a thorough explanation but with limited development of the analysis [7–8]
- L2 For a brief explanation and with a weak explanatory link between full employment level and equilibrium level [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]

- (b) Discuss what policies a government might use to reduce an inflationary gap. [13]**

Governments can either increase withdrawals or decrease injections using fiscal or monetary policy. Deflationary fiscal policy – decrease G or increase T; deflationary monetary policy – increase interest rates, or reduce money.

- L4 For a sound discussion with good explanation of the analysis and a clear understanding of the differences between fiscal and monetary policy [9–13]
- L3 For a competent comment but with limited development of the analysis or a concentration on either fiscal or monetary policy [7–8]
- L2 For a brief explanation and with a weak discussion of the effect of the policies [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]

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- 6 Whether a country can be classified as developed depends on the value of its GDP and the higher the GDP the better it is for the country.**

Assess this opinion.

Candidates should consider the assertion. First they should comment on the merit of using the value of GDP as an indicator of development, then they should consider whether a high GDP is always beneficial for a country. Possible negative results from growth should be mentioned.

- L4 For a clear explanation of the merits and drawbacks of using GDP, a clear assessment of the assertion in the quote and a reasoned conclusion. [18–25]
- L3 For a competent explanation which does not fully analyse the drawbacks of using GDP or does not comment on the possible negative effects of growth. There will be some discussion but the evaluation will not be extensive. [14–17]
- L2 For an accurate though undeveloped explanation of the use of GDP but with little evaluation of its limitations or of the negative side of growth. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]

- 7 (a) Explain what is meant when it is said there might be inefficiencies in the production of goods and in the allocation of resources.** [12]

An explanation of the meaning of economic efficiency, productive and allocative, and an explanation of inefficiencies due to market failure: monopolies, externalities, and information failure.

- L4 For a thorough explanation of both efficiencies and an explanation of at least two market failures. [9–12]
- L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of either efficiency or market failure. [7–8]
- L2 For an undeveloped explanation of efficiency/market failure. [5–6]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–4]

- (b) Discuss whether the best way to overcome market failure is to control private enterprise by means of taxation.** [13]

Discussion of different ways of dealing with market failure: taxes, subsidies, regulation, ownership and a consideration of whether taxation is the best method. Subsidies could be a valid tool for dealing with merit goods but not otherwise.

- L4 For a sound discussion with good explanation of the different means of dealing with market failure and a conclusion about taxation. [9–13]
- L3 For a competent comment on different methods but with limited discussion but still with a conclusion about taxation. [7–8]
- L2 For a brief explanation and also with a weak discussion. [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]

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9708 ECONOMICS

9708/42

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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.

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Section A

- 1 (a) What might be concluded about the Philippines economy from the information given? [4]**

Large dependency on foreign income, – low wages – possible high unemployment – might be in recession.

- (b) How far is the information in the fifth paragraph of the article supported by the evidence in Table 1? [4]**

Not supported: – Mexico forecasts in 2007 were not good
 – Mexico's prediction for 2008 was incorrect
 – In most areas the increase has not been around 33%
 – The World Bank's prediction of a slowing in growth of income sent home in 2008/9 was incorrect from the figures given but there are only selected countries and their figure was an overall average

Supported: – Mexico is the third largest recipient of the countries given

Overall conclusion: text and data do not really agree.

- (c) Assess whether it is beneficial for the receiving country to use migrant labour. [5]**

It might be beneficial because the labour is cheaper, but foreign labour may replace local labour which may cause problems and cheap labour may not encourage innovation and investment. In addition it may not be beneficial if money is returned to home country.

- (d) Discuss the overall effect of the outflow of workers on the economy of their home country. [7]**

It is uncertain. It depends on what happens to the money earned and on whether the loss of labour is significant, or whether the loss of labour can be replaced by capital. Production may be reduced as workers go abroad; alternatively production may go up as money sent home is used for investment or because the income spent causes increases in demand. Other factors to consider are possible social changes, whether the cost of training is met at home or by the host country, short run versus long run.

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Section B

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Mark 10–13 (Linked to level two in individual question notes).

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- 12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14–17 (Linked to level 3 in individual question notes).

- 14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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18–25 (Linked to level 4 in individual question notes).

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation. Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

2 A study found that demand for tickets for exhibitions at a major art gallery had unitary price elasticity.

- (a) Explain how the concept of diminishing marginal utility may be used to construct a demand curve for the product and whether that analysis still applies in the case of demand for tickets for the exhibitions. [12]

Explanation of diminishing marginal utility and its link to a demand curve. It can still apply in the case of unitary elasticity.

- L4 For a sound explanation of the analysis and a clear understanding with a conclusion [9–12]
 L3 For a competent comment but with limited development of the analysis and a weaker conclusion. [7–8]
 L2 For a brief explanation and with a weak comment on the possible problems and no correct conclusion [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]

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(b) Discuss whether the law of diminishing returns contradicts the concept of economies of scale. [13]

Discussion of the law of diminishing returns and economies of scale and a recognition that the two can be used together, diminishing returns in the short run and economies of scale in the long run.

- L4 For a sound discussion with good explanation of the analysis and a clear understanding of the difference between short and long run [9–13]
- L3 For a competent comment but with more limited explanation of the link between the two and of the use of short and long run [7–8]
- L2 For a brief explanation and with a weak discussion of the links [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]

3 (a) Explain what is meant by an oligopoly market and why prices might fluctuate less in an oligopoly market than in a perfectly competitive market. [12]

Explanation of the characteristics of oligopoly and of price rigidity and the kinked demand curve. Also look at non-price competition; price leadership.

- L4 For a sound explanation of the analysis and a clear understanding with a conclusion [9–12]
- L3 For a competent comment but with limited development of the analysis and a weaker conclusion. [7–8]
- L2 For a brief explanation of the characteristics and a weak comment on the price rigidity and no conclusion [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]

(b) Discuss whether a firm in monopolistic competition is more likely to be in the public interest than a firm that is a monopoly. [13]

Discussion of the characteristics of the two types of market structure. Long run profit will be normal in monopolistic competition but not necessarily so in monopoly. Output is likely to be lower in monopoly; prices are likely to be higher. However, there may be merits of large scale monopoly firms through economies of scale. It may be difficult to make a general overall judgement.

- L4 For a sound discussion with good explanation of the analysis and a clear understanding of the differences between the two market structures together with a conclusion [9–13]
- L3 For a competent comment but with more limited discussion of the two market structures but still with a conclusion [7–8]
- L2 For a brief explanation of the structures, limited discussion and no conclusion [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]

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- 4 Some workers producing non-essential luxury goods or services are paid very highly. The wage rate is not related to the economic value of a good or service but more to social factors or fashion. The economic theory of wages is, therefore, of little use in explaining wage differentials.**

Assess this argument.

[25]

Discussion of the economic theory of wages. The demand for a product may be influenced by fashion but it will help determine what might be charged for the product. The price charged can be linked, through the marginal revenue, to the marginal revenue product (mrp) demand for labour. The theory, therefore, is still of some merit and the conclusion of the assessment is that the argument is not supported

L4 For a thorough analysis of theoretical wage determination with a clear discussion of the possible link to product value and factor reward whether in perfect or imperfect markets. [18–25]
(14–17 for demand and supply only with institutional factors and government policy)

L3 For a competent explanation but with limited discussion of the link to product value. [14–17]
(10–13 for demand and supply)

L2 For a correct but undeveloped theoretical analysis and with a poor link to the question. [10–13]

(6–9 for demand and supply)

L1 For an answer which contains inaccuracies and only a few correct points [1–9]
(1–5 for demand and supply only)

- 5 It is said that the lack of investment funds for private companies from banks leads to temporary closures of factories which then become permanent and cause long-term unemployment. This loss of output will lead to a possible recession.**

Analyse each part of this argument and discuss whether you agree with it.

[25]

Candidates are expected to consider the argument. First, does the lack of investment funds lead to temporary closures or is it possible that the closure is for other reasons? Second, does a short-term closure necessarily become a long-term closure? Third, do the closures lead to loss of output lead to a recession?

L4 For a clear consideration of each stage of the argument in the question. A reasoned conclusion should be presented [18–25]

L3 For a competent but more limited comment on the argument probably concentrating on the link between investment and closures, or on short term and long term. There should still be some judgement on the conclusion in the question. [14–17]

L2 For an undeveloped discussion of the argument concentrating on only one aspect and with no overall comment on the conclusion in the question. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

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- 6 (a) Explain how the age and employment structures of the population of a developing country are likely to differ from those of a developed country. [12]**

Explanation of the differences between the birth rates, death rates, migration and between the proportion in primary, secondary and tertiary sectors in developed and developing countries.

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

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

L2 For a brief explanation of the characteristics and no conclusion [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]

- (b) You are told that a country has problems relating to overcrowding, unemployment and pollution.**

Discuss whether the existence of such problems necessarily means that the country must be a developing country. [13]

Discussion of the characteristics of a developing country and a recognition that overcrowding, pollution and unemployment also occur in developed countries. These indicators are not significant in determining whether a country is developed or developing.

L4 For a sound discussion and a clear understanding of the possible similarities between developing and developed countries [9–13]

L3 For a competent comment but with more limited discussion of the types of country but still with a conclusion [7–8]

L2 For a brief discussion with no conclusion [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]

- 7 (a) For what purposes do people demand money? [10]**

Explanation of the demand for money.

L4 For a sound explanation with clear understanding of the principles involved for the different types of demand [8–10]

L3 For a competent explanation but with limited development. [6–7]

L2 For a more general explanation which presents quite a simplistic approach. [4–5]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–3]

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- (b) Too much money causes inflation. Discuss the main macroeconomic aims of the government and consider whether it should give priority to the limitation of inflation in achieving economic well-being. [15]**

Discussion of the main macro aims and a consideration of which might be the more important to achieve.

- L4 For a reasoned discussion of each of the aims, a clearly structured answer together with a conclusion of which aim might be more significant and why [12–15]
- L3 For a less developed discussion and without a clear analysis of why one particular aim is better than another and with a weaker conclusion [9–11]
- L2 For a limited but acceptable attempt to discuss the aims but in a much more general way and without any conclusion. [6–8]
- L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–5]

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9708 ECONOMICS

9708/43

Paper 4 (Data Response and Essays – Supplement),
maximum raw mark 70

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Section A

- 1 (a)** Easy to buy; show off to friends [2]
- (b) (i)** Explanaion of different possible criteria – output level, size of workforce, turnover, market share, capital investment [4]
- (ii)** There is not enough data to be sure; candidates should make a judgement about what might be considered to represent a large firm. They may suggest that capital of \$10m is large, revenue large, employment small, market share unknown, value of companies \$113m and \$400m large. However they may give reasons to suggest that some of these figures represent smaller firms in the communications industry. There should be an overall judgment. [4]
- (c)** Accept any reasoned answer. Fixed costs may increase if there are developments in computer software or the purchase of bigger computers to cope with the demand; variable costs may not increase unless extra staff are needed to monitor the computer use and deal with payments records, or in marketing to persuade other companies to advertise on the site. [4]
- (d)** Evidence that it is wise: big demand, – increased revenue – get others to pay to advertise – value of company
Evidence that it is unwise: new/risky – fashionable [6]

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Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1– 9 (Linked to level one in individual question notes).

- 1–5 Where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.
- 6–9 Where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to level two in individual question notes).

- 10–11 Where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.
- 12–13 Where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14–17 (Linked to level 3 in individual question notes).

- 14–15 Where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions
- 16–17 For an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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18–25 (Linked to level 4 in individual question notes).

- 18–20 Where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
- 21–25 For an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation. Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total Mark 10	1–3	4–5	6–7	8–10
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

- 2 Candidates should discuss the argument presented. They should explain productive and allocative efficiency; they should explain diminishing marginal utility; they should consider whether there is a link between the efficiency and utility; they should consider the conclusion of the argument. [25]
- L4 For a thorough explanation of efficiency and utility and a consideration of the argument in the question. A reasoned conclusion should be presented [18–25]
- L3 For a competent but more limited comment on both efficiency and utility or a full explanation but little comment on whether there is link between them. There should still be some judgement on the conclusion in the question. [14–17]
- L2 For an undeveloped explanation of efficiency/utility with very little discussion of whether there is a link between them. It is likely that no overall comment on the conclusion in the question will be given. [10–13]
- L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

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- 3 (a)** Explanation of diminishing returns in the short run and economies of scale in the long run. [12]
- L4 For a sound explanation of both concepts with accurate clear diagrams and a clear understanding of the principles involved [9– 2]
- L3 For an accurate reference to the question but with a more limited explanation perhaps concentrating on one of the concepts – probably economies of scale – or with minor errors in the analysis or in the diagrams [7–8]
- L2 For a poor explanation of the concepts, or a more accurate explanation but with inaccurate diagrams to support the text [5–6]
- L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]
- (b)** Explanation of deadweight loss and a discussion on the merits of monopolies. [13]
- L4 For a sound explanation of the analysis and a good discussion of the merits and demerits of monopoly with a conclusion [9–3]
- L3 For a competent comment on the analysis but with limited development of the discussion on monopolies and a weaker conclusion. [7–8]
- L2 For a brief explanation and with a weak discussion [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]
- 4** Explanation of the economic theory of wages and a comparison of the perfect and imperfect factor market. Wage rates will equal average product in perfect competition; wage rates will not be equal between different occupations. [25]
- L4 For a thorough analysis of theoretical wage determination with a clear discussion of the difference between the perfect market and imperfect market and a comment on the differences in wage rates. (14–17 for demand and supply only with institutional factors and government policy) [18–25]
- L3 For a competent explanation but with limited discussion of the perfect imperfect market comparison or with little comment on whether wage rates will become equal. (10–13 for demand and supply) [14–17]
- L2 For a correct but undeveloped theoretical analysis or with no comment on whether wage rates will become equal. (6–9 for demand and supply) [10–13]
- L1 For an answer which contains inaccuracies and only a few correct points [1–9]
(1–5 for demand and supply only)

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- 5 (a)** Explanation of public sector/government budget and meaning of deficit; comment on possible concerns over international standing, wasteful use of resources, inefficiencies, inability to raise finance, short term v long term. [12]
- L4 For a sound explanation of the analysis and a clear understanding with a conclusion [9–12]
- L3 For a competent comment but with limited development of the analysis and a weaker conclusion. [7–8]
- L2 For a brief explanation and with a weak comment on the possible problems and no conclusion [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]
- (b)** Discussion of the effects, one affects revenue, the other expenditure. Both aim to reduce the gap between revenue and expenditure. They affect different groups of people. Spending cuts may affect necessary services, be implemented unequally, be more readily applied to public sector provision. The amount of revenue generated by tax increases depends on the type of tax and, if indirect, on the elasticity of demand for the product. If the taxes are on income they may also affect hours worked detrimentally. [13]
- L4 For a sound discussion with good explanation of the analysis and a clear understanding of the similarities and differences [9–13]
- L3 For a competent comment but with more limited development of the differences [7–8]
- L2 For a brief explanation and with a weak discussion of the effects [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]
- 6 (a)** Explanation of the different causes of unemployment with a comment on the significance for the candidate's country. [12]
- L4 For a clear explanation with accurate development of at least four causes of unemployment and a comment on their own country [9–12]
- L3 For a clear explanation of at least three causes or more than three with undeveloped explanation or lack of comment on significance. [7–8]
- L2 For a limited attempt with little development of either causes or significance [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]

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- (b) Discussion of occupational distribution of the population of a developing/developed country and a consideration whether this is the most significant indicator of development. [13]

L4 For a sound discussion with good explanation of the characteristics with a conclusion. [9–13]

L3 For a competent comment but with limited development but still with a conclusion [7–8]

L2 For a brief explanation and with a weak discussion and no conclusion [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]

- 7 The figures give only GDP. They may lead to the conclusion that it is likely that the standard of living is higher in the US than in India, but not definitely. GDP does not include: non-marketed items (jobs done yourself, which is in the measure of economic welfare (MEW); the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being. [25]

L4 For a thorough explanation of the difficulties of using GDP, a comment on the figures given and how they might be used effectively. There should be a conclusion which should refer to the stimulus. [18–25]

L3 For a competent explanation which does not fully analyse the difficulties of using GDP but makes some attempt at evaluation and tries link the discussion to the stimulus. A brief conclusion should be stated. [14–17]

L2 For an accurate though undeveloped explanation with some attempt at analysis but no real attempt to link to the stimulus given. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant [1–9]

Cambridge
International
AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS

9708/04

Paper 4 Data Response and Essay

For Examination from 2016

SPECIMEN MARK SCHEME

2 hours 15 minutes

MAXIMUM MARK: 70

This document consists of **10** printed pages.



Section A

- 1 (a) Explain what is meant by 'collusion' and when it is most likely to occur in an industry. [4]

It is an agreement between firms; maybe to fix prices, maybe to fix output by quotas, maybe both. It could be an agreement on restricting advertising. It is most likely to occur when there is a small number of firms, where it is easy to monitor, where products are similar.

Two marks for definition; two marks for occurrence.

- (b) Analyse, using Table 1, whether price fixing benefited Procter & Gamble. [4]

Profits in 2010 were down compared with 2009, but they rose between 2006 and 2009. The dividend rose throughout the period. Revenue fluctuated but the overall trend was up – there is no information about prices – only about overall earnings which may be partly the result of cost changes.

One mark for comment on each of the above statements; one mark for development of any part.

- (c) Suggest why creating the advantage of large scale by 'integrating across its different businesses' might benefit a firm. [6]

Candidates could consider the advantages of integration, benefits of ordering, supply chain, administration, economies of scale, specialisation, use of resources, cost savings.

- (d) Is the evidence in the article sufficient to conclude that Procter & Gamble is working against the public interest? [6]

Comment on information – Profits were down in the last year but may have been down more if there had been no collusion. This may be regarded as against the public interest. However there is no information about cost saving, or about rivals' prices/profits/costs. In favour of the public interest it might be said that P&G does research, gets top place in a stated list for its innovations – whether the list is of value is uncertain. Packaging was reduced avoiding waste; and they obtained raw materials from sustainable sources; its brand names are popular with the public. A large firm may increase employment.

Up to four marks for one side of the argument.

Section B**Generic guidance for marking**

Individual questions in Section B have their own mark scheme. Below is general marking guidance, indicating the attributes which characterise the four different levels of response. Marking takes into account the greater time constraints for the two parts of the 12/13 mark questions compared with the 25 mark questions.

Level 4 (18–25 marks out of 25)
(9–13 marks out of 13)
(9–12 marks out of 12)

There is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There is an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions are formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples are introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations. Award up to the top of the level for an answer which, given the time constraint, could not be improved significantly; it will include a good attempt at considered evaluation.

Level 3 (14–17 marks out of 25)
(7–8 marks out of 12 or 13)

There is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question, though the illustration and development may not be very full.

There is evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements, but little if any critical comment on unstated assumptions.

Clear statements, supported by reasoned arguments are given and there is some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Award up to the top of the level when in line with the rest of the Level 3 descriptor and where the analysis is also sound and the answer is well-reasoned.

Level 2 (10–13 marks out of 25)
(5–6 marks out of 12 or 13)

There is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There is an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Presentation may not be clear or logical. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity. Award up to the top of the level when in line with the rest of the Level 2 descriptor and where the answer has clear relevance to the question, although the theory may be incompletely explained.

Level 1 (1–9 marks out of 25)
(1–4 marks out of 12 or 13)

The answer shows some knowledge but the meaning of the question may not have been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident. There may also be substantial omissions of analysis. Award within lower half of this level's marks where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context.

Section B

- 2 (a) Explain how a consumer should allocate expenditure in order to achieve maximum satisfaction and analyse how a rise in income might affect that allocation. [12]

Explanation of principle of achieving maximum satisfaction either by referring to marginal utility and equi-marginal utility alone or by relating these concepts to indifference curves. With marginal utility approach, a rise in income would shift the demand curve. It may, but need not necessarily, alter its slope. With indifference curves a rise in income would move the budget line outwards. The relation between the new budget line and a new indifference curve, and hence the amount of the goods demanded would depend on whether the good was a normal good or an inferior good.

Level	Description	Marks
4	Reasoned explanation linked to more than one good and a clearly structured answer with a conclusion about what happens as income rises depending on the type of good.	9–12
3	Fair explanation but undeveloped answer; possibly with no clarity about the equi-marginal utility ratio or no mention of different types of goods.	7–8
2	Limited attempt which concentrates on one good and does not clearly determine the equilibrium position for more than one good. Alternatively, the answer could mention more than one good but expresses it as a static model and does not consider income changes.	5–6
1	Answer has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	1–4
0	No creditable response.	0

- (b) Discuss how a government might achieve a more equal distribution of income. [13]

Discussion of different tax policies, of transfer payments, of subsidies and support.

Level	Description	Marks
4	Reasoned and well-argued discussion with accurate development of the alternative policies.	9–13
3	Clear but undeveloped discussion but one which still deals with more than one type of policy.	7–8
2	Limited attempt to consider the policies with a concentration on one policy, probably tax changes, only.	5–6
1	Answer has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial.	1–4
0	No creditable response.	0

- 3 In 2011, as a result of a recession, the governments of some countries reduced the wages that they paid to public sector workers. Trade unions organised mass demonstrations in protest.**

Discuss how the economic theory of wage determination in perfect competition can be adapted to explain such a situation. [25]

Candidates should recognise in their discussion of the theory of the determination of wages the role of demand, supply. Perfect competition theory (using marginal revenue productivity) can be adapted to include institutional factors - government and trades unions.

Level	Description	Marks
4	Thorough analysis of theoretical wage determination (using marginal revenue productivity) with a clear focus on how the theory may be adapted to reflect the role of unions and/or government policy together with a conclusion. (14–17 for demand and supply approach only with institutional factors and government policy)	18–25
3	Competent explanation but with a more limited focus of the significance of unions and/or government factors but still with a conclusion. (10–13 for demand and supply approach only)	14–17
2	Correct but undeveloped theoretical analysis with little comment about trades unions or government and with no conclusion. (6–9 for demand and supply)	10–13
1	Answer contains inaccuracies and only a few correct points. (1–5 for demand and supply only)	1–9
0	No creditable response.	0

4 The combination of rapid economic growth and inflation is no coincidence.*(Source: The Times)***(a) Explain why the rapid growth and high inflation might often occur at the same time.****[12]**

Explanation of meaning of economic growth and its effects on national income, consumer spending, government spending and firms' investment, or foreign demand for exports which may have become cheaper. The effect on aggregate demand which will increase could cause inflation – especially if there is a pressure on resources.

Level	Description	Marks
4	Sound explanation with good application and a clear understanding of the principles involved. An explanation of economic growth should be given and a comment on the possibility of inflation.	9–12
3	Accurate explanation but with a more limited development and comment on the possibility of inflation.	7–8
2	Weaker explanation, briefly sketched, with no real connection to inflation.	5–6
1	Answer has some basic correct facts but includes irrelevancies and errors of theory.	1–4
0	No creditable response.	0

(b) Assess what policies might be used by a government to control inflation without harming economic growth**[13]**

Analysis of fiscal and monetary policies which might be used together with a comment on their effectiveness.

Level	Description	Marks
4	Reasoned and clear discussion with the analysis logically presented and a conclusion drawn.	9–13
3	Fair but undeveloped discussion possibly concentrating on limited range of policies but still with a conclusion.	7–8
2	A more descriptive account with little evaluation and no conclusion.	5–6
1	Answer has some basic correct facts but includes irrelevancies and errors of theory.	1–4
0	No creditable response.	0

- 5 (a) **Explain what changes might occur to the age distribution and occupational structure of a population as an economy changes from developing to developed.**

[12]

Distribution: comment on the likely changes in the birth and death rates and in infant mortality. Occupational: The usual division of production is into primary, secondary and tertiary sectors. Developing economies move from a dependence on the agricultural sector through industrialisation. Along with this there is a growth in the service sector – industries relying on IT, call centres, tourism.

Level	Description	Marks
4	Clear explanation of the distributional changes and also of the changes in the relative importance of the productive sectors of the economy might change - with good illustration or examples.	9–12
3	Less developed explanation of both aspects or a competent explanation of one of the parts of the question.	7–8
2	A more general descriptive account with few examples and very brief explanation.	5–6
1	Answer has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	1–4
0	No creditable response.	0

- (b) **Assume that you have been given some statistics which indicate that a country has a high rate of unemployment and a dependency on international trade. Consider whether these statistics are sufficient to indicate whether that country may be classed as developing or developed?**

[13]

Discussion of the characteristics of a developing country. It may be that developing countries have a high rate of unemployment and a dependency on international trade but these are not the only defining features. It might also be true that a developed country has such characteristics. Candidates should present their case and draw a conclusion.

Level	Description	Marks
4	Discussion of the overall characteristics of a developing country, production, standard of living, income levels, with a comment on the two indicators mentioned and a conclusion.	9–13
3	Limited discussion but still with a conclusion and a comment on developed countries together with a conclusion.	7–8
2	More descriptive account without much evaluation and without a conclusion.	5–6
1	Answer has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	1–4
0	No creditable response.	0

- 6 In 2011, one of the UK's largest multinational banks announced it would reduce the number of people it employed by 43 000 – the equivalent size of a small town.

(Source: adapted from *The Times*)

(a) Analyse what might cause an increase in unemployment.

[12]

Analysis of the causes of an increase in unemployment. Although the information is essentially the same as the static causes of unemployment candidates should make some comment about the reasons for an increase in unemployment drawing attention to what might have changed to result in such an increase.

Level	Description	Marks
4	Sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment.	9–12
3	An accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained.	7–8
2	A correct but brief explanation of three types of unemployment not necessarily logically presented.	5–6
1	For an answer which has some basic correct facts but includes irrelevancies and errors of theory.	1–4
0	No creditable response.	0

(b) Evaluate the impact of an increase in unemployment on an economy.

[13]

Discussion of the likely impact of unemployment – reduced expenditure by consumers, but possibly increased expenditure by governments on training programmes, benefit schemes; reduced incomes, reduced rate of economic growth, social factors and impact of unemployment.

Level	Description	Marks
4	Sound discussion with good explanation of the possible outcomes with a conclusion.	9–13
3	Competent comment but with limited development but still with a conclusion.	7–8
2	Brief explanation and with a weak discussion and no conclusion	5–6
1	Answer has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	1–4
0	No creditable response.	0

- 7 The market system is not able to allocate resources efficiently. Governments are always able to achieve a better resource allocation than the market.**

To what extent do you agree with this opinion?

[25]

Candidates should explain what is meant by the market system, what is meant by resources and the meaning of efficiency. They should then discuss whether the areas of 'market failure' which prevent the achievement of an efficient allocation of resources mean that allocation by governments is always a preferred alternative. They should also comment on whether governments can also be inefficient, wasteful or make inappropriate choices.

Level	Description	Marks
4	Thorough explanation of the terms, a clear analysis of the link between them, a discussion of the possible outcome of market failure, with examples of types of market failure, and with a reasoned conclusion.	18–25
3	Competent explanation which does not fully analyse either the meaning of efficiency or give a full account of the likely market failure. There will be some discussion but the evaluation will not be fully developed or extensive. There should still be a conclusion.	14–17
2	Accurate though undeveloped explanation with some attempt at analysis but only limited evaluation.	10–13
1	Answer shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.	1–9
0	No creditable response.	0