

Cambridge
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AS & A Level

Cambridge International Examinations
Cambridge International 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