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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the June 2004 question papers

9708 ECONOMICS

9708/01	Paper 1 Multiple Choice (Core), maximum raw mark 30
9708/02	Paper 2 Data Response and Essay (Core), maximum raw mark 40
9708/03	Paper 3 Multiple Choice (Extension), maximum raw mark 30
9708/04	Paper 4 Data Response and Essay (Supplement), maximum raw mark 70

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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 discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the June 2004 question papers for most IGCSE and GCE Advanced Level syllabuses.

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International Examinations

Grade thresholds taken for Syllabus 9708 (Economics) in the June 2004 examination.

	maximum mark available	minimum mark required for grade:		
		A	B	E
Component 1	30	24	22	16
Component 2	40	27	23	14
Component 3	30	22	19	13
Component 4	70	46	41	32

The thresholds (minimum marks) for Grades C and D are normally set by dividing the mark range between the B and the E thresholds into three. For example, if the difference between the B and the E threshold is 24 marks, the C threshold is set 8 marks below the B threshold and the D threshold is set another 8 marks down. If dividing the interval by three results in a fraction of a mark, then the threshold is normally rounded down.

June 2004

GCE AS LEVEL AND A LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9708/01

ECONOMICS
Paper 1 (Multiple Choice (Core))

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Question Number	Key	*Question Number*	*Key*
1	**A**	16	**D**
2	**B**	17	**B**
3	**D**	18	**C**
4	**C**	19	**D**
5	**A**	20	**A**
6	**D**	21	**D**
7	**C**	22	**B**
8	**D**	23	**D**
9	**A**	24	**B**
10	**A**	25	**B**
11	**B**	26	**B**
12	**C**	27	**C**
13	**B**	28	**C**
14	**B**	29	**C**
15	**A**	30	**B**

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June 2004

GCE AS LEVEL AND A LEVEL

MARK SCHEME

MAXIMUM MARK: 40

SYLLABUS/COMPONENT: 9708/02

ECONOMICS
Paper 2 (Data Response and Essay (Core))

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1 (a) What happened to the Consumer Price Index in Jamaica between 1988 and 2001? [2]

It rose (1), it was 14 times higher or equivalent use of data (1)

(b) Choose two product groups from table 1.
Explain for each group one possible reason for the difference in the weights between Jamaica and the UK.

Candidates are likely to choose from food, housing, household furnishings and transport. Reasons may relate to differences in needs, income, relative costs and tastes. Accept any sensible comment. (1) per identification of influence + (1) per explanation. **up to max. [4]**

(c) (i) Explain whether food and drink or transport contributed more to the monthly inflation rate in Jamaica in June 2001.

Food and drink contributed .392, while transport contributed 1.356 as weighted inflation (3), transport contributed more (1) over three times as much (1). Recognition of significance of weight or product price % increase to rate of inflation (1) **up to max. [4]**

(ii) Comment on the effect of the change in the price of housing and other housing expenses on the monthly Jamaican inflation rate in June 2001. [2]

These experienced a price fall (1) so would have reduced the inflation rate (1)

(d) Compare inflation in Jamaica and the UK between 1989 and 2000.

The pattern was not dissimilar falling from early high (1), although the points do not coincide exactly (1), the levels were much higher for Jamaica (1), Jamaica above 10%, UK below 10% (1). Either two conclusions or one conclusion with supporting data. A direct comparison must be made for credit. **up to max. [2]**

(e) Discuss whether inflation is always caused by government actions. [6]

Government action may contribute by increases in money supply, excessive government spending, increases in indirect taxes or reductions in direct taxation.
Other influences may be responsible such as wage increases, changes in spending behaviour, increased profit margins, falling exchange rates and rising input prices.
Up to 4 marks for each side with a 6 mark maximum.

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2 (a) An economy is faced by the exhaustion of an important natural resource at a time when it is introducing improved technology.
Explain how these events will affect the economy's production possibility curve. [8]

Improved technology gives greater efficiency and rising productivity(output per worker per time period) so should move the production possibility curve outwards, depending upon where the improvement impacts. The exhaustion of a resource should reduce an input and the resulting output and move the ppc inwards. The overall effect will depend on their relative strengths but results from the change in available inputs and their effect on production possibilities. These changes can be shown by diagrams.

Understanding of the ppc concept up to 2 marks
Awareness of the outcomes up to 4 marks
Balance of the effects/differentiated impact up to 2 marks

(b) Discuss whether the operation of a market economy always produces a desirable outcome. [12]

A properly functioning market economy should provide choice, quality and competition. It should make economic use of resources and avoid waste. It is an efficient system of resource allocation and has outperformed planned economies. However, it has drawbacks such as the production of externalities and demerit goods and the failure to provide public and merit goods.

Knowledge of the nature of the market system up to 4 marks
Justification of desirable outcome up to 6 marks
Discussion of the failings of the market economy up to 6 marks, subject to maximum of 8 in total for this and the previous line

3 (a) Increasing raw material costs cause the price of a good to rise.
Explain the effect of this price rise for the good on the markets for its substitute and complementary goods. [8]

Substitutes and complements may be described or analysed via XED. A price rise reduces the quantity demanded of the good itself. The demand for complementary goods will also decline, reducing their price. The higher price will make substitutes more demanded, causing their price and output to rise. Examples can illustrate this and demand and supply diagrams can show the process.

Understanding of complementary and substitute goods up to 3 marks
Description of the results of a price rise up to 3 marks
Analysis of the market effects up to 2 marks

(b) Discuss the usefulness to businesses of a knowledge of price elasticity of demand and income elasticity of demand. [12]

Price and income elasticity affect the response of quantity demanded to changes in the respective variables. For a firm this will affect its revenue and the markets it serves. It will use PED to help with pricing policy and YED to affect the level and nature of production. However estimates may be inaccurate, circumstances may change and there may be little use of or trust in the measures.

Understanding of the elasticity concepts up to 4 marks
Explanation of the uses of the concepts up to 6 marks
Discussion of the limitations in use up to 6 marks, subject to maximum of 8 in total for this and the previous line

Consideration of PED or YED alone gets 8 maximum

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4 (a) Explain how the determination of a floating exchange rate differs from that of a fixed exchange rate. [8]

Floating rates are fixed by the markets for foreign exchange and its value is the result of demand and supply changes. These are influenced by balance of payments positions and speculative flows. A fixed rate is determined by government action. It requires currency reserves which are employed to counteract market demand and supply forces. Downward pressure requires the purchase of the currency through the sale of foreign currencies. Diagrams may clarify the cases.

Knowledge of the basic systems	up to 2 marks
Explanation of the floating exchange rate	up to 3 marks
Explanation of the fixed exchange rate.	up to 3 marks

(b) Discuss the circumstances in which reducing the exchange rate and introducing quotas are effective policies to tackle a trade deficit. [12]

Devaluation is a deliberate lowering of the international exchange rate of a currency, while quotas involve the fixing of a maximum quantity of imports. Devaluation works by altering the prices of imports and exports. Its success requires the correct elasticities of demand, a responsive supply of domestic production and an absence of retaliation. Quotas physically limit imports and push up the market price by limiting supply of imports. They are effective even when demand is inelastic, when appropriate limits are chosen and when there is no retaliation.

Understanding of the concepts	up to 4 marks
Explanation of the operation of the policies	up to 6 marks
Discussion of the necessary conditions	up to 6 marks, subject to maximum of 8 altogether for this and the previous line

Consideration of devaluation or quota alone gets 8 maximum.

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June 2004

GCE AS LEVEL AND A LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9708/03

ECONOMICS
Paper 3 (Multiple Choice (Supplement))

UNIVERSITY of CAMBRIDGE
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Question Number	Key	*Question Number*	*Key*
1	**B**	16	**C**
2	**C**	17	**B**
3	**C**	18	**B**
4	**D**	19	**B**
5	**A**	20	**C**
6	**B**	21	**C**
7	**C**	22	**B**
8	**C**	23	**D**
9	**C**	24	**C**
10	**D**	25	**D**
11	**B**	26	**A**
12	**D**	27	**D**
13	**A**	28	**D**
14	**C**	29	**D**
15	**A**	30	**D**

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June 2004

GCE AS LEVEL AND A LEVEL

MARK SCHEME

MAXIMUM MARK: 70

SYLLABUS/COMPONENT: 9708/04

ECONOMICS
Paper 4 (Data Response and Essay (Supplement))

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General Comments:

The essay questions in section B 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.

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 should be evidence of an ability to identify facts, some ability at graphs, fair ability to apply known laws to new situations.
Expect 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. But 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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14 -17 (Linked to level 3 in individual question notes).

14 -15 Expect a good knowledge of the facts and theory of the question, dear 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 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 clearly be a reasonable 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, and do not expect any recognition of, or 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 Expect a thorough knowledge of the facts and theory with an excellent ability to describe and explain this in a precise, logical, reasoned manner. Expect an ability to query some of the assumptions in the question and clear evidence 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 examples apposite to the material discussed should be introduced as further evidence of the 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 maximum marks for sub-sections.

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

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Section A. Question 1.

a) Overtime reduced, health insurance taken from wages, higher unemployment, some on strike, stock market decline. **[1 each, to a max. of 3]**

b) i) employers wished to reduce costs, or profits were reduced
or employers could pass on extra cost to employee because of increase in unemployment.
[1 each, to a max. of 2]

ii) company may have had higher profit levels,
company may have produced product with inelastic demand so could raise price
cost of labour may have been a low % of total cost
there may have been an increase in demand for product
there may have been an increase in productivity
there was an effective trade union
there was a wish to end the strike

These are alternatives. Not all are required. **[1 each, to a max. of 3]**

c) There is uncertainty of the overall effect of the reduction in the incomes.
- It depends on whether a wider view of incomes is taken, including social security and other benefits.
- If the wider view is taken gains from stock market have to be included and these have declined.
- Depends on whether workers regard the change as short or long term. Depends on the proportion of workers that the change has affected.
- Do know that most of those affected were below management level – may therefore have been on lower incomes.
- Do not know level of unemployment before 2001, only that it is now 5.9%
- Do not know whether any jobs have been created, and what wage levels they paid.

[6]

d) Headline is concerned about lower earnings because of the likely reduction in consumer spending. Can explain effect of reduction in spending using the analysis of the multiplier showing how national income will change as a result. Maximum of 3 if no development of multiplier. **[6]**

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Section B.

2.a) Explanation of income role of income and price in the two effects. Indifference curves are not on the syllabus but budget lines are.

L4) For a reasoned and clear explanation with accurate development of theory. 9 - 12
L3) For a fair but undeveloped explanation. 7 - 8
L2) For a limited but acceptable attempt to consider the effects. 5 - 6
L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory. 1 - 4

b) Discussion of difficulties of interpreting marginal analysis. Measurement of utility, measurement of value of marginal unit, problem of relating marginal utility/price of various goods, difficulties of adding utilities. Pareto is not required but the principle of someone better off without anyone worse is on syllabus – as is cost benefit analysis.

L4) For a reasoned and clear evaluative comment. 9 - 13
L3) For a limited but acceptable attempt to consider the possible limitations of the theory. 7 – 8
L2) For a descriptive account of the theory of marginal utility. 5 - 6
L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory. 1- 4

3. 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. Collusion.

L4) For a thorough explanation of the theory, a clear analysis, with a discussion. 18 - 25
L3) For a competent explanation which does not fully analyse the theory but makes some attempt at evaluation. 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

Max L3 for consideration of one side only.

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4. Candidates need to state the assumptions on which they base their arguments. They may debate the relative skills of the two types of workers, and, therefore, how this might affect the supply. Some might argue the firefighters are more skilled, some the singer.
Changes in the demand resulting from changes in disposable income are not mentioned but as incomes rise, demand for entertainment is likely to rise. Demand for fire services is unlikely to depend as much on income changes.
Traditionally well-known entertainment figures commanding high salaries are represented as inelastic in supply but it has become more apparent how this is false as people are trained and promoted and the media manipulated.
Candidates could use either mrp or demand and supply analysis.
They could consider whether the theory takes account of imperfect competition, and whether it satisfactorily explains wage determination. They should debate whether the theory can accommodate institutional factors such as the role of government legislation and possible effect of demands for increased income by organised groups such as unions and how far these factors apply in the cases of entertainment and firefighters.

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 and a clear conclusion to the answer. 18 -25
(14 - 17 for demand and supply only with institutional factors and government policy)
L3) For a competent explanation but with limited discussion/anti-unstructured conclusion. 14-17. (10 - 13 for demand and supply)
L2) For a correct but undeveloped explanation but with no conclusion or attempt to deal with the argument in 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.a) Discussion of the meaning of market failure – monopoly, lack of information, externality, public goods. Consideration of whether congestion and resulting pollution and time delays can be classified in one of these categories.

L4) For a reasoned and clear discussion with accurate explanation of theory. 9 - 12
L3) For a fair but undeveloped discussion. 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

b) Analysis of changes that a government might implement through subsidies, taxation, regulation, ownership, provision.

L4) For a reasoned discussion and clear analysis. 9 - 13
L3) For a fair but undeveloped analysis. 7 - 8
L2) For a limited but acceptable attempt to consider the possible policies. 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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6.a) Explanation of effect of interest rate changes on investment, on saving, and on spending. Effect on possible changes in production, employment, income levels, but also effect on any existing inflationary tendencies.

Level 4) For a sound explanation with good illustrations and a clear understanding of the principles involved. 9 - 12
Level 3) For a competent comment with limited critical comment. 7 - 8
Level 2) For a correct description but undeveloped comment with limited attempt to elaborate the description. 5 - 6
Level 1) For an answer that has some basic correct facts but includes irrelevancies and errors of theory. 1 - 4

b) Discussion of the types of inflation and, therefore, of the policies possible which might include restricting imports, curbing spending, taxation policies, directives about wages.

L4) For a reasoned discussion and clear analysis. 9 - 13
L3) For a fair but undeveloped analysis. 7 - 8
L2) For a limited but acceptable attempt to consider the possible results of policies. 5 - 6
L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory. 1 - 4

7.a) Explanation and description of economic indicators such as GNP/GDP,
use of other indicators connected with social provision, education, health, (human development index)

Level 4) For a sound description with good illustrations and a clear understanding of the principles involved together with good critical comment. 9 - 12
Level 3) For a competent comment with limited critical comment. 7 - 8
Level 2) For a correct description but undeveloped comment with limited attempt to elaborate the description. 5 - 6
Level 1) For an answer that has some basic correct facts but includes irrelevancies and errors of theory. 1- 4

b) Policies in developed countries can affect developing countries through trade, or aid, or political agreements. Candidates could comment on import/export agreements, exploitation of labour for cheap production, international aid, voluntary aid in terms of skilled workers, medical help, governments encouragement of multinational companies in promoting development of resources.

L4) For a reasoned and clear evaluative comment. 9 - 13
L3) For a fair but undeveloped comment. 7 - 8
L2) For a limited but acceptable attempt to consider the possible results of a developed economy's policies. 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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