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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level and GCE Advanced Subsidiary Level

MARK SCHEME for the May/June 2006 question paper

9708 ECONOMICS

9708/04 **Paper 4**

Maximum mark 70

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does 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*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

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

CIE is publishing the mark schemes for the May/June 2006 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE
International Examinations

Section A

1 **(a)** Identification of the letters and brief explanation of the term, including comment about the relevance of 'per capita'. **[2]**

(b) **(i)** The reasons for the situation in Africa mentioned in the article should be stated, exports fallen, foreign aid fallen, increased illness, subsidies in other countries to support industry there. **[4]**

(ii) There should then be a discussion on any possible link between Africa and the other countries. A link may be possible for foreign aid, and for the fall in prices of exports if subsidies have encouraged home production in Europe. It may also be possible that the lack of aid has prevented medical care and hospitals and thus led to increased illness. These possible links to other countries need not have been caused simply because there was a boom there though. **[4]**

(c) Comment on changes in output, prices, income, employment, investment, government revenues, imports. **[4]**

(d) Information includes GDP per capita which is useful, and on government support for local industries. A comment on the value of economic indicators is required and the difficulty of relying on GDP alone for a comparison of living standards. Comment on other measures and the condition of housing, education, employment, medical care would be relevant. Some indication of this could be gained from the HDI index which is given, but only selected countries are stated, and there is no average for Europe. The index figures are a guide however. **[6]**

Section B

2 The answer should be in three parts. It should first identify and describe the necessary conditions for efficient resource allocation. It should then consider if these conditions are able to be created by the government and whether it is true that these are not possible in the private sector of the economy. Thirdly, the answer should debate whether, in the light of the findings of section two of the essay, the conclusion in the statement is correct.

L4) For a reasoned and clear discussion with accurate development of theory and good links to the statement covering all time parts including a reasoned conclusion. ***[18 - 25]***

L3) For a clear description and structure although a 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. ***[14 - 17]***

L2) For a correct explanation of efficient allocation but weak or ill-explained links to the statement. The explanation will be undeveloped with some attempt at analysis but only limited evaluation and the conclusion will not be drawn. ***[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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3 (a) Candidates should explain marginal utility and then develop the theory of diminishing marginal utility. Money has a diminishing marginal utility as does any good according to some. There are, though, exceptional goods where marginal utility increases as the quantity used/owned increases; some would argue money is in this category. Whether it is possible to add utilities for different people to calculate total welfare is debateable, as is the possibility of comparing total utilities between people. A sub-conclusion on this section is required and then the argument should be related to the second part of the statement. If money does have diminishing utility the total happiness would be increased in theory – although even in theory it is not really possible to add utilities and form a social welfare function. In practice changes in satisfaction are pure guesswork and optimum distribution through government policy is unlikely.

L4) For a sound explanation of each part and a clear understanding of the principles involved. ***[9 - 12]***

L3) For a competent comment but with limited elaboration of the analysis. ***[7 - 8]***

L2) For a correct explanation of part of the analysis. Candidates might explain only two of the parts of the statement. ***[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 ways to improve equality of incomes and wealth. Policies which could be mentioned include tax changes, implementation of different transfer payments, subsidies, foreign aid, government expenditure on employment, industry.

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 theory with a concentration on one policy only, probably tax changes. ***[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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4 Discussion of the link between large organisations and imperfect markets. Candidates should then discuss the extent to which there is competition in imperfect markets. Many imperfect markets do have competition, and in practice, even monopoly does. A sub-conclusion on this part of the statement should be made.

A discussion should then follow on whether small businesses are more in tune with consumers' needs. The conclusion to this will depend on the outcome of the first part and could involve comment on consumer and producer sovereignty.

L4) For a reasoned and clear discussion with accurate development of theory and good links to the argument together with a reasoned conclusion. ***[18 - 25]***

L3) For a clear description together with limited elaboration of the analysis or imprecise links to the argument. There will be some discussion but the evaluation will not be fully developed or extensive. ***[14 -17]***

L2) For a correct explanation but weak or ill-explained links to the argument. The explanation will be 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]***

5 **(a)** Explanation of benefits of rural development: employment, income generation, prevention of decline of area, regional cohesion, community ties.

L4) For a sound explanation and a clear understanding of the different elements involved. ***[9 - 12]***

L3) For a competent comment but with limited elaboration. ***[7 - 8]***

L2) For a correct explanation of some of the elements involved. ***[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 extent to which exploitation would destroy existing environments, cause overcrowding, congestion, pollution, negative externalities. A consideration of the short-run/long-run position and a comment on the possible differences between rural and urban areas or between the situation in developed/developing countries could be given.

L4) For a reasoned and well argued discussion with accurate development of the characteristics. ***[9 - 13]***

L3) For a clear but undeveloped discussion but one which still deals with both economic and social indicators. ***[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]***

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6 **(a)** Explanation of comparison of changes in interest rates against prospective yields of investment, short-term v long-term considerations.

L4) For a sound explanation of the analysis and a clear understanding of the principles involved. ***[8 - 10]***

L3) For a competent comment but with limited elaboration of the analysis. ***[6 - 7]***

L2) For a correct explanation of part of the analysis. ***[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 link between investment and output via the multiplier and subsequent effect on further investment via the accelerator.

L4) For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved with a reasoned conclusion. ***[12 - 15]***

L3) For a competent comment concentrating on one element – probably the multiplier. ***[9 - 11]***

L2) For a limited discussion of the analysis but with only very brief development of the ideas. ***[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]***

7 **(a)** Explanation of the calculation of the MRP. MRP derived from MPP and MR. Theory would compare MRP with supply to determine wage, but the outcome differs in perfect competition from that in imperfect competition. Wage is below MRP/MW in imperfect competition – sometimes said to be 'exploitation' – and there is an even bigger difference if there is imperfect competition in the product market.

L4) For a sound explanation of the analysis and a clear understanding of the principles involved in both perfect and imperfect markets. ***[8 - 10]***

L3) For a competent comment using both perfect and imperfect markets but with a limited development of the analysis. ***[6 - 7]***

L2) For a correct explanation of a limited part of the analysis – perhaps concentrating on either perfect or imperfect markets. ***[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 theory of determination of output in a profit maximising firm. Assumption of profit maximisation needs to be stated for the first part of the analysis. In perfect competition the firm will cease production if the average revenue falls below the average variable cost in the short run. It will cease production in the long run if average revenue stays below average total cost. In imperfect competition the same reasoning applies but the long-run may be over a longer period and the firm may have other aims than profit maximisation.

L4) For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved. Reasoned comments should be given. ***[12 - 15]***

L3) For a competent comment but with only more simplistic perfect competition case. ***[9 -11]***

L2) For a correct, but non-developed discussion of the 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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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 dear 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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