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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.

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UNIVERSITY of CAMBRIDGE
International Examinations

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]

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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 elasiticities 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 elasiticities. Good discussion and application to the examples given. [9–12]

L3 For a more limited explanation of price discrimination, possibly not mentioning elasiticity 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 or 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]

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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. (6–9 for demand and supply only) [10–13]

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]

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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 an 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]

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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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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.

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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 alterative 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]

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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 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 alterative 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]

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