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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

9708 ECONOMICS

9708/41 Paper 4 (Data Response and Essays – Supplement), maximum raw mark 70

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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Section A

1 (a) Do not need a formal definition to gain 3 marks. Explanation of a recession in terms of a decline in output, a reduction in GDP, an increase in unemployment, decline in spending, decline in investment. [3]

(b) (i) The statement means that the rise in taxes does not increase the government's revenue as is anticipated and does not, therefore, increase the government's funds for expenditure. The distribution of the tax burden is not directed more to the higher income earners. [3]

(ii) Evidence in the charts: In the US during the 1980s the top rate was cut from 70% to 28% and the share of taxes paid by the top 1% rose from 17.6% to 27.5%.

- However, there is no evidence about what happened when tax rates were increased.
- there is also no statement about what the higher tax rates were intended to achieve.
- there is no statement about what happened to production and employment when taxes were high.

Up to 4 marks for evidence giving one side only. [6]

(c) The bank lowered interest rates. Lower interest rates would mean a reduction in the cost of borrowing with a potential increase in investment which would stimulate the economy. Candidates can explain the effect of investment/injection increases. Lower rates are also hoped to encourage spending maybe by an increase in credit. Buying bonds also puts more money into the economy with the hope that this would stimulate demand. [8]

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Section B

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

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

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

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

1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.

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

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

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

12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

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

14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra Illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

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

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

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

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

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

Corresponding marks for sub-sections.

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

2 (a) There should be an attempt to explain the meaning of economic efficiency and of market failure. Economic efficiency should be explained in terms of productive and allocative efficiency, market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities, merit goods and of the need for public goods. There should then be an attempt to discuss whether governments can overcome these market failures in order to increase efficiency. [25]

L4 For a thorough discussion of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented. (18–25)

L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. (14–17)

L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. (10–13)

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

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3 (a) Explanation of the two terms and an analysis of the link between the short run average cost curves reflecting diminishing returns, and the long run average cost curves reflecting economies of scale. [12]

L4 For a good explanation of both the terms with examples and a clear link between the short and long run. The diagram will be clear and accurate. Must provide a diagram to gain Level 4. (9–12)

L3 For a competent analysis of the terms maybe concentrating on economies of scale with a weaker link between the short run and long run, or no diagram of the link. (7–8)

L2 For a more limited analysis with no link or no diagram. (5–6)

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

(b) Discussion of the aims which are assumed for perfect competition, profit maximisation, and the aims which are possible for imperfect competition. One of these is profit maximisation but there are also other behavioural and managerial aims. [13]

L4 For a good discussion and comparison of the aims between the different market structures with a range of aims in imperfect markets. (9–13)

L3 For a competent explanation with either an undeveloped comment on a range of aims in imperfect markets or a fuller explanation of two aims. (7–8)

L2 For a limited discussion and only a brief comparison. (5–6)

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

4 Discussion of determinants of wages. Candidates should discuss the theoretical analysis and how it is moderated by the existence of unions and government regulations. Theoretical analysis without marginal revenue productivity approach has, in the past, not merited the full range of marks. [25]

L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and/or government policy.
(14–17 for demand and supply only with institutional factors and government policy) (18–25)

L3 For a competent explanation but with limited discussion of unions and/or government factors.
(10–13 for demand and supply) (14–17)

L2 For a correct but undeveloped theoretical analysis with no institutional factors or only very brief mention of these factors.
(6–9 for demand and supply) (10–13)

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

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5 (a) Explanation of meaning of GDP and description of methods of calculation. [12]

L4 For a sound explanation with good application and a clear understanding of the principles involved in the three methods of calculation. (9–12)

L3 For an accurate reference to the question but with a more limited explanation or minor errors in the analysis of three methods or a full account of two methods of calculation. (7–8)

L2 For an explanation of two methods perhaps with minor errors not necessarily logically presented. (5–6)

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

(b) Evaluation of comment. Consideration of the value of GDP but also of other factors which might be important but which are not included directly in GDP – health, housing, education, crime, income distribution etc. [13]

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

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

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

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

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6 **(a)** Explanation of the multiplier. [12]

L4 For a sound explanation with good application and a clear understanding of the principles involved. An explanation of G and T and I and E should be given and a comment on the overall balance on the multiplier should be mentioned. (9–12)

L3 For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance once G, T, X, M are included. (7–8)

L2 For a weaker explanation of the multiplier or with either G (but not T) or X (but not M) and no comment on the overall change. (5–6)

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

(b) Discussion of the effect of a change in the equilibrium through an injection. An increased injection could increase demand and put pressure on the use of resources which could cause inflation. A decrease in injections could reduce demand resulting in fall in sales and a possibility of increased unemployment. [13]

L4 For a reasoned and clear discussion with the analysis logically presented and a conclusion drawn. (9–13)

L3 For a fair but undeveloped discussion (possibly concentrating in one direction only). (7–8)

L2 For a limited discussion with little comment and no conclusion. (5–6)

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

7 The candidates should present an argument which considers the criteria which distinguish developed from developing countries; which discusses the significance of the protection of domestic industry and the role of investment; and which comments on the proposition that governments should place an emphasis on protection and investment. [25]

L4 For a thorough discussion of the range of distinguishing criteria, a competent discussion of the role of protection and investment and a reasoned conclusion. (18–25)

L3 For a competent discussion but with a more limited comment on the relative importance of protection and investment (to other alternatives). A conclusion should still be presented. (14–17)

L2 For an accurate though undeveloped discussion, limited attempt to mention the relative importance of protection and investment and no conclusion. (10–13)

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

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Section A.

1 (a) The Gross Domestic Product (GDP) measures the value of economic activity within a country. Strictly defined, GDP is the sum of the market values, or prices, of all final goods and services produced in an economy during a period of time. [3]
(For stating Gross Domestic Product 1 mark only)

(b) It means more available credit, easier to get; or credit at lower interest rates. This would be likely to increase national income by the multiplier process. (A descriptive reference to the process is sufficient; there is no need to use the actual term) [3]

(c) Use the figures for specific exchange rates, and figures for GDP – expect to see examples of emerging/developing countries compared with developed countries. But they are only selected countries, and for only two years and they are projections not actual figures. Exchange rate figures may mean exports become more difficult to sell. [6]
[Maximum 4 for one side of the argument only]

(d) An increase in domestic demand to encourage growth and export-led growth. 2 marks
Conflict? Different approaches but same aim of growth 2 marks
increase exports improves balance of payments and increases injections and GDP; increase domestic demand will also increase injections and help increase GDP. No conflict. 2 marks
Increase domestic demand may increase incomes and increase imports which may need to be offset by further export growth. A possible conflict. 2 marks
[8]

[A general description of fiscal and monetary policy; 2 maximum]

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Section B.

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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.

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

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

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

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

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

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

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

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

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

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

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2 Candidates need to explain the two terms, market failure and the meaning of the efficient use of resources, and then consider the argument. Market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities and of merit goods, and of the need for public goods. Economic efficiency should be explained in terms of productive and allocative efficiency.

Government intervention can be through regulation, taxation or subsidies.

There are negative and positive externalities from car use. Negative externalities include pollution. Positive externalities include less crowded public transport with greater comfort; benefits from the expenditure of the tax receipts. Unlike other positive externalities where subsidies have been used, it has never been suggested that subsidies ought to be used to increase the positive externalities from private car use. Any subsidies given are used to make alternative public transport more attractive. However, taxes have been used to decrease negative externalities. Taxing the use of cars is usually presented in the context of negative externalities to achieve allocative efficiency. Taxing production might not result in productive efficiency. [25]

L4 For a thorough explanation of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented [18–25]

L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. [14–17]
(L3 maximum if there is no mention of production and use of cars)

L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. [10–13]

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

3 (a) A rise in the price of a good: a demand schedule has price and quantity of one good bought against price; budget line diagrams have quantities of two goods – price is not on the axis; one cannot tell how demand will change with budget line unless you also show preference lines.

A rise in a consumer's income: similarity, both move parallel out for a rise in income; but cannot tell what will be bought unless have supply line – with demand – or preference lines with budget line. [12]

L4 For a sound discussion indicating the similarities/differences [9–12]

L3 For an accurate explanation but with a less clear comparison [7–8]

L2 For a general undeveloped explanation with little comparison. [5–6]

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

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3 (b) Analysis of equi-marginal principle which underlies an individual demand curve. The sum of individual demand curves form the market demand curve. Whether individual utilities can be added is debatable. [13]

L4 For a reasoned discussion linked to more than one good and clearly structured answer with a conclusion [9–13]
[Low L4 maximum if there is no mention of market demand]

L3 For a fair discussion but undeveloped answer but still with a conclusion [7–8]

L2 For a limited attempt which does not clearly determine the equilibrium position for more than one good and no conclusion. [5–6]

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

4 (a) Discussion of possible reasons for growth including large market demand, economies of scale, possible future profits, with a contrasting comment on reasons why it might not be advantageous to grow in size; diseconomies of scale, small market demand, specialised products/services. Allow a wider interpretation which discusses effects on consumers and in the economy. [12]

L4 For a sound discussion with contrasting explanations. [9–12]

L3 For an accurate explanation but with an emphasis on one side – possibly of economies of scale only. [7–8]

L2) For a general undeveloped explanation. [5–6]

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

(b) Explanation of the theory of profit maximisation. Candidates should then consider not only whether it is possible to calculate marginal revenue and marginal cost to achieve profit maximisation but also whether the firm might have alternative aims. Sales maximisation, behavioural, managerial, satisficing, market share aims might be mentioned. [13]

L4 For a reasoned discussion and clearly structured answer with a conclusion [9–13]

L3 For a fair discussion but undeveloped answer mentioning either only one part of the question or both parts but only limited mention of alternative aims, but still with a conclusion [7–8]

L2 For a limited but acceptable attempt to consider the question with very limited development of either part and no conclusion. [5–6]

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

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5 Candidates should explain the economic theory of wage determination (marginal revenue product) and compare the situation in perfect and imperfect competition. The theory indicates that wages are lower in an imperfect labour market especially if there is monopsony. The extent of the reduction varies depending on whether the labour market is considered with a perfect or imperfect product market. However, the comparative reduction in wage rates may be corrected, at least in part, by the strength of unions or by government legislation. [25]

L4 For a thorough explanation of the analysis of wage determination with a clear comparison of the two markets and a comment on trade unions and/or government policy. [18–25]
(14–17 for demand and supply only with institutional factors and/or government policy)

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

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

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

6 (a) Candidates should explain the different effects of an injection of investment and a withdrawal through saving by use of the multiplier process. Possible use of 'paradox' of thrift idea. [12]

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

L3 For an accurate explanation of the multiplier but with a more limited contrast of the difference between the investment and saving. [7–8]

L2 For a general explanation probably in descriptive form. [5–6]
[Maximum L2 if there is no mention of the multiplier]

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

(b) Candidates should analyse how lowering interest rates might help increase national income through increased investment or increased spending and then discuss whether lowering interest rates is the only policy available. [13]

L4 For a sound discussion with good explanation of the analysis of interest rate changes and a consideration of alternative fiscal measures with a conclusion [9–13]

L3 For a competent comment but with limited development of the analysis or undeveloped alternative policies and a weaker conclusion. [7–8]

L For a brief explanation and with a weak discussion of interest rates or weak alternative policy measures with no conclusion. [5–6]

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

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7 (a) The usual division of production is into primary, secondary and tertiary sectors. Developing economies move from a dependence on the agricultural sector through industrialisation. Along with this there is a growth in the service sector – industries relying on IT, call centres, tourism. The changes reflect changes in demand, income, urbanisation, government policy, comparative advantage and competitiveness. [12]

L4 For a clear explanation of why the relative importance of the productive sectors of the economy might change with good illustration or examples [9–12]

L3 For a less developed explanation with fewer examples [7–8]

L2 For a more general descriptive account with lack of comment on the causes of the change and with few examples [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) Economic growth involves greater production measured by changes in GDP/GNP. This could cause an increase in the standard of living, improved health, education and employment opportunities. There may be disadvantages. Poor working conditions, the growth of externalities, the careless depletion of resources. There may also still be questions of inequality in the distribution of income or whether the increased GDP is spent on things which might not give direct benefit e.g. military research. [13]

L4 For a discussion of the overall effect of growth on development presenting both positive and negative aspects with a conclusion. [9–13]

L3 For an analysis of the contribution of growth to development but with a concentration on either the positive or the negative aspects with a conclusion. [7–8]

L2 For a more descriptive account without much evaluation and without a conclusion. [5–6]

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

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(c) Use the figures for specific exchange rates, and figures for GDP – expect to see examples of emerging/developing countries compared with developed countries. But they are only selected countries, and for only two years and they are projections not actual figures. Exchange rate figures may mean exports become more difficult to sell. [6]
[Maximum 4 for one side of the argument only]

(d) An increase in domestic demand to encourage growth and export-led growth. 2 marks
Conflict? Different approaches but same aim of growth 2 marks
increase exports improves balance of payments and increases injections and GDP; increase domestic demand will also increase injections and help increase GDP. No conflict. 2 marks
Increase domestic demand may increase incomes and increase imports which may need to be offset by further export growth. A possible conflict. 2 marks
[8]

[A general description of fiscal and monetary policy; 2 maximum]

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

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

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

12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

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

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

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

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

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

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

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

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

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

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

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2 Candidates need to explain the two terms, market failure and the meaning of the efficient use of resources, and then consider the argument. Market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities and of merit goods, and of the need for public goods. Economic efficiency should be explained in terms of productive and allocative efficiency.

Government intervention can be through regulation, taxation or subsidies.

There are negative and positive externalities from car use. Negative externalities include pollution. Positive externalities include less crowded public transport with greater comfort; benefits from the expenditure of the tax receipts. Unlike other positive externalities where subsidies have been used, it has never been suggested that subsidies ought to be used to increase the positive externalities from private car use. Any subsidies given are used to make alternative public transport more attractive. However, taxes have been used to decrease negative externalities. Taxing the use of cars is usually presented in the context of negative externalities to achieve allocative efficiency. Taxing production might not result in productive efficiency. [25]

L4 For a thorough explanation of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented [18–25]

L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. [14–17]
(L3 maximum if there is no mention of production and use of cars)

L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. [10–13]

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

3 (a) A rise in the price of a good: a demand schedule has price and quantity of one good bought against price; budget line diagrams have quantities of two goods – price is not on the axis; one cannot tell how demand will change with budget line unless you also show preference lines.

A rise in a consumer's income: similarity, both move parallel out for a rise in income; but cannot tell what will be bought unless have supply line – with demand – or preference lines with budget line. [12]

L4 For a sound discussion indicating the similarities/differences [9–12]

L3 For an accurate explanation but with a less clear comparison [7–8]

L2 For a general undeveloped explanation with little comparison. [5–6]

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

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3 (b) Analysis of equi-marginal principle which underlies an individual demand curve. The sum of individual demand curves form the market demand curve. Whether individual utilities can be added is debatable. [13]

L4 For a reasoned discussion linked to more than one good and clearly structured answer with a conclusion [9–13]
[Low L4 maximum if there is no mention of market demand]

L3 For a fair discussion but undeveloped answer but still with a conclusion [7–8]

L2 For a limited attempt which does not clearly determine the equilibrium position for more than one good and no conclusion. [5–6]

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

4 (a) Discussion of possible reasons for growth including large market demand, economies of scale, possible future profits, with a contrasting comment on reasons why it might not be advantageous to grow in size; diseconomies of scale, small market demand, specialised products/services. Allow a wider interpretation which discusses effects on consumers and in the economy. [12]

L4 For a sound discussion with contrasting explanations. [9–12]

L3 For an accurate explanation but with an emphasis on one side – possibly of economies of scale only. [7–8]

L2) For a general undeveloped explanation. [5–6]

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

(b) Explanation of the theory of profit maximisation. Candidates should then consider not only whether it is possible to calculate marginal revenue and marginal cost to achieve profit maximisation but also whether the firm might have alternative aims. Sales maximisation, behavioural, managerial, satisficing, market share aims might be mentioned. [13]

L4 For a reasoned discussion and clearly structured answer with a conclusion [9–13]

L3 For a fair discussion but undeveloped answer mentioning either only one part of the question or both parts but only limited mention of alternative aims, but still with a conclusion [7–8]

L2 For a limited but acceptable attempt to consider the question with very limited development of either part and no conclusion. [5–6]

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

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5 Candidates should explain the economic theory of wage determination (marginal revenue product) and compare the situation in perfect and imperfect competition. The theory indicates that wages are lower in an imperfect labour market especially if there is monopsony. The extent of the reduction varies depending on whether the labour market is considered with a perfect or imperfect product market. However, the comparative reduction in wage rates may be corrected, at least in part, by the strength of unions or by government legislation. [25]

L4 For a thorough explanation of the analysis of wage determination with a clear comparison of the two markets and a comment on trade unions and/or government policy. [18–25]
(14–17 for demand and supply only with institutional factors and/or government policy)

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

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

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

6 (a) Candidates should explain the different effects of an injection of investment and a withdrawal through saving by use of the multiplier process. Possible use of 'paradox' of thrift idea. [12]

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

L3 For an accurate explanation of the multiplier but with a more limited contrast of the difference between the investment and saving. [7–8]

L2 For a general explanation probably in descriptive form. [5–6]
[Maximum L2 if there is no mention of the multiplier]

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

(b) Candidates should analyse how lowering interest rates might help increase national income through increased investment or increased spending and then discuss whether lowering interest rates is the only policy available. [13]

L4 For a sound discussion with good explanation of the analysis of interest rate changes and a consideration of alternative fiscal measures with a conclusion [9–13]

L3 For a competent comment but with limited development of the analysis or undeveloped alternative policies and a weaker conclusion. [7–8]

L For a brief explanation and with a weak discussion of interest rates or weak alternative policy measures with no conclusion. [5–6]

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

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7 (a) The usual division of production is into primary, secondary and tertiary sectors. Developing economies move from a dependence on the agricultural sector through industrialisation. Along with this there is a growth in the service sector – industries relying on IT, call centres, tourism. The changes reflect changes in demand, income, urbanisation, government policy, comparative advantage and competitiveness. [12]

L4 For a clear explanation of why the relative importance of the productive sectors of the economy might change with good illustration or examples [9–12]

L3 For a less developed explanation with fewer examples [7–8]

L2 For a more general descriptive account with lack of comment on the causes of the change and with few examples [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) Economic growth involves greater production measured by changes in GDP/GNP. This could cause an increase in the standard of living, improved health, education and employment opportunities. There may be disadvantages. Poor working conditions, the growth of externalities, the careless depletion of resources. There may also still be questions of inequality in the distribution of income or whether the increased GDP is spent on things which might not give direct benefit e.g. military research. [13]

L4 For a discussion of the overall effect of growth on development presenting both positive and negative aspects with a conclusion. [9–13]

L3 For an analysis of the contribution of growth to development but with a concentration on either the positive or the negative aspects with a conclusion. [7–8]

L2 For a more descriptive account without much evaluation and without a conclusion. [5–6]

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

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