CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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Cambridge is publishing the mark schemes for the May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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Section A

1 (a) Use the information to explain how macroeconomic changes can be linked to microeconomic decisions. [5]

5 marks for effects. Those mentioned in the text of how public sector decisions have an impact on private sector firms include – reduced investment, lower profits, reduced demand, not possible to raise prices, public sector employment reduced causing a decline in confidence, fear of job losses, and possible reductions in expenditure, reduced research etc.

(b) Analyse with the aid of a diagram, showing costs and revenue for a monopoly, what is likely to happen to the firm's profits when there is a fall in demand in the industry due to a recession [5]

Average revenue (ar) shifts back, marginal revenue (mr) shifts back, output declines to a new marginal cost (mc)/mr point, price falls. It is likely that profits will fall, although this might be a reduction in supernormal profit rather than a loss. Diagram: 1 for labels, 1 for shift of one curve (normally the ar one), 1 for correct change in output. 2 for explanation.

(c) Suggest, using the concept of income elasticity of demand, why the decline in profits was less severe during the recession in the food industry than in the leisure industry. [4]

It is likely that the food industry deals in more essential products, with lower income elasticity, possibly, and less effect on sales and revenue. This might explain the differences in changes in profit although it is uncertain how the relative costs in leisure and food were affected.

(d) Do you support the opinion in the information that a recession is likely to be worse for firms with a high proportion of fixed costs than firms with a higher proportion of variable costs? [6]

Explanation of differences between fixed and variable costs. Possibly the situation may be worse if the fixed costs form a high proportion of the costs and cannot be covered nor, in the short run, avoided. (Theory assumes fixed costs paid for before production and only need to cover variable costs. Practice probably is that fixed costs are paid monthly. But either way still have to pay for fixed costs) However, it depends on the level of profits. Firms with lower fixed costs may still be affected badly if the profit levels were not high. Reserve one mark for a conclusion.

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Section B

General Comments

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.

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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.

Level	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 It is important that an economy makes the most efficient use of its resources. This can only be done if firms are allowed to increase in size. Government regulation of firms should, therefore, be minimised.

Discuss whether you agree with this statement. [25]

Candidates are expected to consider the argument. First, what is meant by resources and whether the premise is correct about their use; second, if it is correct, whether this can be achieved only by larger firms and thirdly whether the conclusion is correct. Candidates may refute, or accept, the subsidiary conclusion about larger firms, or the final conclusion or both.

L4 For a clear consideration of each stage of the argument in the question. A reasoned conclusion should be presented. (18–25)

L3 For a competent but more limited comment on the whole argument or by concentrating on part of the argument – maybe the link between resource use and large firms perhaps by discussing economies of scale; or of the final part of the argument about the role of the government. (14–17)

L2 For an undeveloped discussion of the argument concentrating on only one aspect and with no overall comment on the conclusion in the question. (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) Explain how the quantity of labour employed and the wage rate are determined by a firm in a perfectly competitive labour market. [12]

Explanation of wage determination using marginal revenue product or demand and supply for perfect competition only. Candidates should show the link between the market and the firm. Conventionally we have not given as high a mark for D/S approach as for mrp approach.

L4 For a sound explanation of theory and a clear understanding of the principles involved linking the market and the firm. (9–12)
(7–8 D/S only)

L3 For a competent explanation with limited development but still with some mention of the link between the market and the firm. (7–8)
(5–6 D/S only)

L2 For an undeveloped explanation with no link to the market. (5–6)
(3–4 D/S only)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
(1–2 D/S only)

(b) Discuss why wage rates might be different in practice from those in a perfectly competitive labour market. [13]

Candidates should recognise the fact that most markets are imperfect which, in the theory, would affect the shape of the demand/supply/mc/mrp curves. In practice, candidates should also discuss institutional factors such as the role of government legislation and possible effects of the demands for increased incomes by organised groups such as unions.

L4 For a reasoned and clearly structured answer dealing with theory and institutional aspects. (9–13)
(7–8 D/S only)

L3 For a fair but undeveloped answer maybe concentrating on either the theory or the institutions or commenting on both but only briefly. (7–8)
(5–6 D/S only)

L2 For a limited but acceptable attempt to consider the possible differences. (5–6)
(3–4 D/S only)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
(1–2 D/S only)

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4 Governments often suggest that there has been an improvement in the standard of living in their economy and support their statement by referring to a range of economic indicators. One of the indicators they use is GDP. Discuss whether GDP is a reliable indicator of changes in the standard of living in an economy. [25]

The indicator mentioned is GDP. Rising GDP is used to suggest that the standard of living has risen. However, GDP does not include – non marketed items (jobs done yourself), this is in MEW; the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being.

L4 For a thorough explanation of the difficulties of using GDP. There should be a conclusion which should refer to the stimulus. (18–25)

L3 For a competent explanation which does not fully analyse the difficulties of using GDP but makes some attempt at evaluation and a brief conclusion should be stated. (14–17)

L2 For an accurate though undeveloped explanation with some attempt at analysis but no real attempt to draw a 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 is mostly irrelevant. (1–9)

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5 (a) What distinguishes a developed economy from a developing economy? [12]

Description of the different economic characteristics in terms of an increase in national income, productive capacity, occupational distribution, or in terms of HDI and standards of living with a mention of population growth, education, health, income distribution.

L4 For a sound description with clear understanding of the principles involved and a clear explicit distinction drawn. (9–12)

L3 For a competent description but with limited development and explicit distinction. (7–8)

L2 For a general description of only some of the factors and vague distinction. (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) Developing economies are often keen to encourage industrial development in rural areas. Developed economies, by contrast, often prevent industrial development in rural areas.

Discuss why there might be this difference in policies. [13]

Candidates should mention the likely possibility that developing countries rely on the primary sector and this can be cause wide fluctuations in income and disguised unemployment. Industrialisation might increase employment, make a more secure base for income, encourage the use of resources, decrease poverty in urban areas. Developed countries, by contrast, have a desire to preserve rural areas, are concerned about externalities of production in some areas, wish to use the advantage of economies of scale in urban areas.

L4 For a good explanation with a reasoned discussion of the different approaches and clearly structured answer which reaches a conclusion. (9–13)

L3 For a fair discussion but undeveloped answer which does not present a well-structured reasoned response. (7–8)

L2 For a limited but acceptable attempt to consider the different approaches but with little development 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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6 (a) Explain how a fall in interest rates might influence the level of investment and, as a result, national income. [12]

Explanation of comparison of a fall in interest rates against prospective yields of investment, short-term v long-term considerations. Show link between investment and national income with an explanation of the multiplier.

L4 For a sound explanation of both parts of the question, – interest/investment; investment/income – and a clear understanding of the principles involved. (9–12)

L3 For a competent comment but with limited elaboration of the analysis although the multiplier should be mentioned. (7–8)

L2 For a correct explanation of either the link between interest and investment but with no mention of the multiplier process; or a very poor link between interest and investment but a brief description of the multiplier. (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) Discuss, with reference to liquidity preference theory, whether interest rates are the main determinant of consumers' demand for money. [13]

Discussion of the analytical reasons why consumers demand money according to liquidity preference; transactions, precautionary, speculative motives. Interest may only affect transactions and precautionary marginally – high rates may encourage some temporary saving in 'on-demand' accounts. Precautionary demand has been weakened by use of credit cards – expenditure on credit cards may be influenced by interest charges. Interest rates do affect speculative demand. There is an inverse relationship – except where there is a 'liquidity trap'.

L4 For a sound discussion with good application and a clear understanding of the principles involved. (9–13)

L3 For an accurate reference to the question but with a more limited discussion and minor errors in the analysis. (7–8)

L2 For a correct discussion but undeveloped comment, 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)

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7 (a) A newspaper reported that 'unemployment had risen for the third consecutive month.' What might be the cause of a rise in unemployment? [12]

Explanation of the causes of unemployment.

L4 For a sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment. (9–12)

L3 For an accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained. (7–8)

L2 For a correct but brief explanation of three types of unemployment 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) Discuss whether achieving a fall in the level of unemployment should be the main macroeconomic aim of a government. [13]

Discussion of the main macro aims of the government with a reasoned argument about which should have the priority.

L4 For a reasoned and clear discussion, logically presented, dealing with the possible conflicts between the policies. A conclusion should be presented. (9–13)

L3 For a fair but undeveloped discussion, with limited reference to possible conflicts but with a conclusion. (7–8)

L2 For a limited discussion with little development and no conclusion. (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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Section A

1 (a) Explain what is meant by collusion and when it is most likely to occur in an industry. [4]

It is an agreement between firms; maybe to fix prices, maybe to fix output by quotas, maybe both. It could be an agreement on restricting advertising. It is most likely to occur when there is a small number of firms, where it is easy to monitor, where products are similar. Two marks for definition; two marks for occurrence.

(b) Analyse, using Table 1, whether price fixing benefited Procter and Gamble. [4]

Profits in 2010 were down compared with 2009, but they rose between 2006 and 2009. The dividend rose throughout the period. Revenue fluctuated but the overall trend was up – there is no information about prices – only about overall earnings which may be partly the result of cost changes. One mark for comment on each; one mark for development of any part.

(c) Suggest why creating the advantage of large scale by 'integrating across its different businesses' might benefit a firm. [6]

Candidates could consider the advantages of integration, benefits of ordering, supply chain, administration, economies of scale, specialisation, use of resources, cost savings.

(d) Is the evidence in the article sufficient to conclude that Procter and Gamble is working against the public interest? [6]

Comment on information – Profits were down in the last year but may have been down more if there had been no collusion. This may be regarded as against the public interest. However there is no information about cost saving, or about rivals' prices/profits/costs. In favour of the public interest it might be said that P&G does research, gets top place in a stated list for its innovations – whether the list is of value is uncertain. Packaging was reduced avoiding waste; its brand names are popular with the public. A large firm may increase employment. Up to four marks for one side.

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Section B

General Comments

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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.

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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.

Level	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 (a) Explain how a consumer allocates expenditure according to the principle of equi-marginal utility and analyse how a change in income might affect that allocation. [12]

Explanation of principle of marginal utility and equi-marginal utility allocation. A change in income would shift the demand curve, depending on the nature of the good (normal/inferior). It may, but not necessarily, alter its slope. Candidates should mention both a rise and fall in income, quantity bought will change. Movements along the supply curve will cause price changes so the equilibrium utility/price ratio will change.

L4 For a reasoned explanation linked to more than one good and clearly structured answer with a conclusion about what happens as income rises and falls. (9–12)

L3 For a fair explanation but undeveloped answer; possibly with income moving in one direction with comment on effect on price/utility ratio. Or mention of rise and fall in income but unclear link to price/utility ratio. (7–8)

L2 For a limited attempt which does not clearly determine the equilibrium position for more than one good or which does determine that but expresses it as a static model and does not consider income changes. (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) Discuss how a government might achieve a more equal distribution of income. [13]

Discussion of different tax policies, of transfer payments, of subsidies and support.

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 policies with a concentration on one policy, probably tax changes, 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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3 In 2011, as a result of a recession, the governments of some countries reduced the wages that they paid to public sector workers. Trade unions organised mass demonstrations in protest.

Discuss how the economic theory of wage determination in perfect competition can be adapted to explain such a situation. [25]

Candidates should recognise in their discussion of the theory of the determination of wages the role of demand and supply. Perfect competition theory (using mrp) can be adapted to include institutional factors, government, and trade unions.

L4 For a thorough analysis of theoretical wage determination with a clear focus on how the theory may be adapted to include unions and/or government policy together with a conclusion. (18–25)
(14–17 for demand and supply only with institutional factors and government policy)

L3 For a competent explanation but with a more limited focus of the significance of unions and/or government factors but still with some conclusion. (14–17)
(10–13 for demand and supply)

L2 For a correct but undeveloped theoretical analysis with little comment about government and/or trade unions. (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)

4 The combination of rapid economic growth and inflation is no coincidence.
(Source: The Times)

(a) Explain why the rapid growth and high inflation might often occur at the same time. [12]

Explanation of meaning of economic growth and its effects on national income, consumer spending, government spending and firms' investment, or foreign demand for exports which may have become cheaper. The effect on aggregate demand which will increase could cause inflation – especially if there is a pressure on resources.

L4 For a sound explanation with good application and a clear understanding of the principles involved. An explanation of economic growth should be given and a comment on the possibility of inflation. (9–12)

L3 For an accurate explanation but with a more limited development and comment on the possibility of inflation. (7–8)

L2 For a weaker explanation, briefly sketched, with no real connection to inflation. (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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(b) Discuss what policies might be used by a government to control inflation. [13]

Analysis of fiscal and monetary policies which might be used together with a comment on their effectiveness.

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 on limited range of policies but still with a conclusion. (7–8)

L2 For a more descriptive account with little evaluation and no conclusion. (5–6)

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

5 (a) Explain what changes might occur to the age distribution and occupational structure of a population as an economy changes from developing to developed. [12]

Distribution: comment on the likely changes in the birth and death rates and in infant mortality. Occupational: The usual division of production is into primary, secondary and tertiary sectors. Developing economies move from a dependence on the agricultural sector through industrialisation. Along with this there is a growth in the service sector – industries relying on IT, call centres, tourism.

L4 For a clear explanation of the distributional changes and also of the changes in the relative importance of the productive sectors of the economy might change – with good illustration or examples. (9–12)

L3 For a less developed explanation of both aspects or a competent explanation of one of the parts of the question. (7–8)

L2 For a more general descriptive account with few examples and very brief 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)

(b) Assume that you have been given some statistics which indicate that a country has a high rate of unemployment and a dependency on international trade. Discuss whether these statistics are sufficient to indicate whether that country may be classed as developing or developed? [13]

Discussion of the characteristics of a developing country. It may be that developing countries have a high rate of unemployment and a dependency on international trade but these are not the only defining features. It might also be true that a developed country has such characteristics. Candidates should present their case and draw a conclusion.

L4 For a discussion of the overall characteristics of a developing country, production, standard of living, income levels, with a comment on the two indicators mentioned and a conclusion. (9–13)

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L3 For more limited discussion but still with a conclusion and a comment on developed countries together 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)

6 In 2011, one of the UK's largest multinational banks announced it would reduce the number of people it employed by 43 000 – the equivalent size of a small town. Unemployment in the UK reached nearly 3 million in 2011.

(Source: adapted from The Times)

(a) Analyse what might cause an increase in unemployment in a country. [12]

Analysis of the causes of an increase in unemployment. Although the information is essentially the same as the static causes of unemployment candidates should make some comment about the reasons for an increase in unemployment drawing attention to what might have changed to result in such an increase.

L4 For a sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment. (9–12)

L3 For an accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained. (7–8)

L2 For a correct but brief explanation of three types of unemployment 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) Discuss what impact an increase in unemployment is likely to have on an economy. [13]

Discussion of the likely impact of unemployment – reduced expenditure by consumers, but possibly increased expenditure by governments on training programmes, benefit schemes, reduced incomes, reduced rate of economic growth, social factors and impact of unemployment.

L4 For a sound discussion with good explanation of the possible outcomes with a conclusion. (9–13)

L3 For a competent comment but with limited development but still with a conclusion. (7–8)

L2 For a brief explanation and with a weak discussion 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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7 The market system is not able to allocate resources efficiently.

Discuss this opinion. [25]

Candidates should explain what is meant by the market system, what is meant by resources and the meaning of efficiency. They should then discuss the areas of 'market failure' which prevent the achievement of an efficient allocation of resources.

L4 For a thorough explanation of the terms, a clear analysis of the link between them, a discussion of the possible outcome of market failure, with examples of types of market failure, and with a reasoned conclusion. (18–25)

L3 For a competent explanation which does not fully analyse either the meaning of efficiency or give a full account of the likely market failure. There will be some discussion but the evaluation will not be fully developed or extensive. There should still be a conclusion. (14–17)

L2 For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation. (10–13)

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. 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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9708 ECONOMICS

9708/43 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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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Cambridge is publishing the mark schemes for the May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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Section A

1 (a) Use the information to explain how macroeconomic changes can be linked to microeconomic decisions. [5]

5 marks for effects. Those mentioned in the text of how public sector decisions have an impact on private sector firms include – reduced investment, lower profits, reduced demand, not possible to raise prices, public sector employment reduced causing a decline in confidence, fear of job losses, and possible reductions in expenditure, reduced research etc.

(b) Analyse with the aid of a diagram, showing costs and revenue for a monopoly, what is likely to happen to the firm's profits when there is a fall in demand in the industry due to a recession [5]

Average revenue (ar) shifts back, marginal revenue (mr) shifts back, output declines to a new marginal cost (mc)/mr point, price falls. It is likely that profits will fall, although this might be a reduction in supernormal profit rather than a loss. Diagram: 1 for labels, 1 for shift of one curve (normally the ar one), 1 for correct change in output. 2 for explanation.

(c) Suggest, using the concept of income elasticity of demand, why the decline in profits was less severe during the recession in the food industry than in the leisure industry. [4]

It is likely that the food industry deals in more essential products, with lower income elasticity, possibly, and less effect on sales and revenue. This might explain the differences in changes in profit although it is uncertain how the relative costs in leisure and food were affected.

(d) Do you support the opinion in the information that a recession is likely to be worse for firms with a high proportion of fixed costs than firms with a higher proportion of variable costs? [6]

Explanation of differences between fixed and variable costs. Possibly the situation may be worse if the fixed costs form a high proportion of the costs and cannot be covered nor, in the short run, avoided. (Theory assumes fixed costs paid for before production and only need to cover variable costs. Practice probably is that fixed costs are paid monthly. But either way still have to pay for fixed costs) However, it depends on the level of profits. Firms with lower fixed costs may still be affected badly if the profit levels were not high. Reserve one mark for a conclusion.

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Section B

General Comments

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.

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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.

Level	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 It is important that an economy makes the most efficient use of its resources. This can only be done if firms are allowed to increase in size. Government regulation of firms should, therefore, be minimised.

Discuss whether you agree with this statement. [25]

Candidates are expected to consider the argument. First, what is meant by resources and whether the premise is correct about their use; second, if it is correct, whether this can be achieved only by larger firms and thirdly whether the conclusion is correct. Candidates may refute, or accept, the subsidiary conclusion about larger firms, or the final conclusion or both.

L4 For a clear consideration of each stage of the argument in the question. A reasoned conclusion should be presented. (18–25)

L3 For a competent but more limited comment on the whole argument or by concentrating on part of the argument – maybe the link between resource use and large firms perhaps by discussing economies of scale; or of the final part of the argument about the role of the government. (14–17)

L2 For an undeveloped discussion of the argument concentrating on only one aspect and with no overall comment on the conclusion in the question. (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) Explain how the quantity of labour employed and the wage rate are determined by a firm in a perfectly competitive labour market. [12]

Explanation of wage determination using marginal revenue product or demand and supply for perfect competition only. Candidates should show the link between the market and the firm. Conventionally we have not given as high a mark for D/S approach as for mrp approach.

L4 For a sound explanation of theory and a clear understanding of the principles involved linking the market and the firm. (9–12)
(7–8 D/S only)

L3 For a competent explanation with limited development but still with some mention of the link between the market and the firm. (7–8)
(5–6 D/S only)

L2 For an undeveloped explanation with no link to the market. (5–6)
(3–4 D/S only)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
(1–2 D/S only)

(b) Discuss why wage rates might be different in practice from those in a perfectly competitive labour market. [13]

Candidates should recognise the fact that most markets are imperfect which, in the theory, would affect the shape of the demand/supply/mc/mrp curves. In practice, candidates should also discuss institutional factors such as the role of government legislation and possible effects of the demands for increased incomes by organised groups such as unions.

L4 For a reasoned and clearly structured answer dealing with theory and institutional aspects. (9–13)
(7–8 D/S only)

L3 For a fair but undeveloped answer maybe concentrating on either the theory or the institutions or commenting on both but only briefly. (7–8)
(5–6 D/S only)

L2 For a limited but acceptable attempt to consider the possible differences. (5–6)
(3–4 D/S only)

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. (1–4)
(1–2 D/S only)

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4 Governments often suggest that there has been an improvement in the standard of living in their economy and support their statement by referring to a range of economic indicators. One of the indicators they use is GDP. Discuss whether GDP is a reliable indicator of changes in the standard of living in an economy. [25]

The indicator mentioned is GDP. Rising GDP is used to suggest that the standard of living has risen. However, GDP does not include – non marketed items (jobs done yourself), this is in MEW; the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being.

L4 For a thorough explanation of the difficulties of using GDP. There should be a conclusion which should refer to the stimulus. (18–25)

L3 For a competent explanation which does not fully analyse the difficulties of using GDP but makes some attempt at evaluation and a brief conclusion should be stated. (14–17)

L2 For an accurate though undeveloped explanation with some attempt at analysis but no real attempt to draw a 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 is mostly irrelevant. (1–9)

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5 (a) What distinguishes a developed economy from a developing economy? [12]

Description of the different economic characteristics in terms of an increase in national income, productive capacity, occupational distribution, or in terms of HDI and standards of living with a mention of population growth, education, health, income distribution.

L4 For a sound description with clear understanding of the principles involved and a clear explicit distinction drawn. (9–12)

L3 For a competent description but with limited development and explicit distinction. (7–8)

L2 For a general description of only some of the factors and vague distinction. (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) Developing economies are often keen to encourage industrial development in rural areas. Developed economies, by contrast, often prevent industrial development in rural areas.

Discuss why there might be this difference in policies. [13]

Candidates should mention the likely possibility that developing countries rely on the primary sector and this can be cause wide fluctuations in income and disguised unemployment. Industrialisation might increase employment, make a more secure base for income, encourage the use of resources, decrease poverty in urban areas. Developed countries, by contrast, have a desire to preserve rural areas, are concerned about externalities of production in some areas, wish to use the advantage of economies of scale in urban areas.

L4 For a good explanation with a reasoned discussion of the different approaches and clearly structured answer which reaches a conclusion. (9–13)

L3 For a fair discussion but undeveloped answer which does not present a well-structured reasoned response. (7–8)

L2 For a limited but acceptable attempt to consider the different approaches but with little development 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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6 (a) Explain how a fall in interest rates might influence the level of investment and, as a result, national income. [12]

Explanation of comparison of a fall in interest rates against prospective yields of investment, short-term v long-term considerations. Show link between investment and national income with an explanation of the multiplier.

L4 For a sound explanation of both parts of the question, – interest/investment; investment/income – and a clear understanding of the principles involved. (9–12)

L3 For a competent comment but with limited elaboration of the analysis although the multiplier should be mentioned. (7–8)

L2 For a correct explanation of either the link between interest and investment but with no mention of the multiplier process; or a very poor link between interest and investment but a brief description of the multiplier. (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) Discuss, with reference to liquidity preference theory, whether interest rates are the main determinant of consumers' demand for money. [13]

Discussion of the analytical reasons why consumers demand money according to liquidity preference; transactions, precautionary, speculative motives. Interest may only affect transactions and precautionary marginally – high rates may encourage some temporary saving in 'on-demand' accounts. Precautionary demand has been weakened by use of credit cards – expenditure on credit cards may be influenced by interest charges. Interest rates do affect speculative demand. There is an inverse relationship – except where there is a 'liquidity trap'.

L4 For a sound discussion with good application and a clear understanding of the principles involved. (9–13)

L3 For an accurate reference to the question but with a more limited discussion and minor errors in the analysis. (7–8)

L2 For a correct discussion but undeveloped comment, 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)

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7 (a) A newspaper reported that 'unemployment had risen for the third consecutive month.' What might be the cause of a rise in unemployment? [12]

Explanation of the causes of unemployment.

L4 For a sound explanation with a clear understanding of the principles involved dealing with at least four types of unemployment. (9–12)

L3 For an accurate but more limited explanation and minor errors in the analysis. Expect at least four types briefly explained, or three types more fully explained. (7–8)

L2 For a correct but brief explanation of three types of unemployment 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) Discuss whether achieving a fall in the level of unemployment should be the main macroeconomic aim of a government. [13]

Discussion of the main macro aims of the government with a reasoned argument about which should have the priority.

L4 For a reasoned and clear discussion, logically presented, dealing with the possible conflicts between the policies. A conclusion should be presented. (9–13)

L3 For a fair but undeveloped discussion, with limited reference to possible conflicts but with a conclusion. (7–8)

L2 For a limited discussion with little development and no conclusion. (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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