CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 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) (i) Explain what is meant by an economy of scale. [3]

An economy of scale is where the increase in output leads to a reduction in average cost per unit (1), long run (1) they can be either internal or external (1).

(ii) Explain how economies of scale are likely to affect the price and output of a firm such as the supermarket. [4]

Bulk buying (1), benefit to supermarket – lower cost, lower price (1), higher output (1); benefit to supplier – large revenue (1).

(b) In the article the supermarket states that it helps the economy. Is this usually an aim of large businesses? [5]

Traditionally, large businesses are thought to want to maximise profits (1). Other alternative aims are recognised, for example: to increase sales, satisficing, managerial or behavioural aims (1). Increasingly, large companies are promoting the idea that they are concerned about the environment and the conservation of resources (1), as well as increased employment (1). Judgement on how these changes might be thought to be an example of helping the economy (1).

(c) The article says the supermarket 'acts as a monopsonist'. Analyse what this means and consider whether the article can be used as evidence to support the opinion that a monopsony is beneficial. [8]

Monopsonist: meaning a dominant buyer in a market. In most supply chain relationships, for example, between supermarkets and their suppliers – the long term sustainability of an industry requires that both buyer and supplier benefit – if there are no mutually beneficial gains from trade, ultimately trade and exchange will break down. The growth of the Fair Trade label and its organisation is evidence of how pressure from consumers can lead to improved contracts and prices for farmers in developing countries (2).

Can the article be used to support the view that it is a benefit? For suppliers; sometimes yes, as revenue can go up with large orders, but these may be withdrawn. So for suppliers it is not always a benefit (2).

For the supermarket; yes – it allows for lower input costs which may result in higher profits, which can in turn be used to fund capital investment and research (2).

For consumers; maybe because of lower prices but article says overall no benefit (2).

For an answer that concentrates on labour only, award max 13 marks.

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Section B

General comments for section B: **[25]**

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 (from a total of 25). They may be applied proportionally to parts of questions where the total is less than 25 marks:

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 Three in individual question notes).

14–15 Candidate demonstrates clear evidence of the ability to use relevant knowledge and facts and theories with accurate reference to the question presented 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, and 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 particularly complete.

Mark 18–25 (Linked to Level Four in individual question notes).

18–20 Where there is thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this knowledge in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and there should be 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 soundly structured answer so that the answer as a 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 significantly improved: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking – award marks for the content of the answer without being overly influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections by level:

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

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2 There is concern about conservation of the environment, prevention of waste and efficient use of resources. Economic theory is clear on how to allocate resources efficiently in a market but in reality such allocation is a problem.

Discuss this opinion. [25]

The definitive solution of economic theory should be explained in terms of productive and allocative efficiency. Candidates should then consider whether the market ever achieves such efficiencies. These efficiencies may be possible in a perfect market but the reality is that there will be inefficiencies due to market failures: excess profits, lack of information, externalities, merit goods, and public goods might all prevent the achievement of efficiency. Whether the efficiency can instead be achieved by government intervention should also be discussed. Candidates could debate what type of intervention might be suitable and whether the theory has any use. [25]

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

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

L2 (10–13) 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 the role of economic theory. It is likely that there will be no conclusion.

L1 (1–9) 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.

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3 A consumer's demand is sometimes influenced by advertising, and sometimes influenced by impulse buying. This means that the economic theories of consumer demand based on utility are of no relevance to a firm trying to determine its likely revenue.

Do you agree with this argument? [25]

Candidates should form a structured answer which first debates whether demand is influenced by advertising or impulse buying. Persuasive advertising/impulse buying could still be related to a belief in potential utility and could still be the result of a rational decision. Candidates should then consider the link between potential demand and revenue, mentioning elasticity. Firms hope to create an increase in demand by advertising. However, this may mean future demand is more unpredictable and, therefore, potential revenue more uncertain, than with known – maybe annual – expectations of change. [25]

L4 (18–25) For a thorough explanation of the terms, a clear discussion of the parts of the argument, including an analysis of utility, with a discussion of the conclusion of the argument.)

L3 (14–17) For a competent discussion which does not fully analyse the parts of the argument and does not fully develop a link leading to a conclusion but makes an attempt at an evaluation. (No analysis of utility L3 max).

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

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

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4 (a) Explain how a profit-maximising firm will choose the quantity of labour it employs. [12]

Candidates should comment on the availability of labour and the relative cost of the labour. This can be explained using demand and supply analysis or MRP analysis. Lower marks are awarded customarily for D and S analysis. [12]

L4 (18–25) For a good explanation of the theory, with a mention of the difference between perfect and imperfect competition. (7–8 D and S)

L3 (14–17) For either a competent explanation but unclear diagrams, or an unconvincing explanation but with a competent attempt at a comparative diagram.(5–6 D and S)

L2 (10–13) For a limited attempt, most probably without a clear explanation of the theory. (3–4)

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. (1–2 D and S)

(b) Governments sometimes aim to reduce the level of unemployment. Discuss whether this necessarily results in a conflict between this aim and other government macroeconomic aims. [13]

A discussion of the main aims of government policy, with a judgement as to whether there might be any conflict. Accept any relevant suggestion, for example, increased employment might increase spending, which might put pressure on prices and conflict with stable price aim. Non-conflict should also be mentioned, for example, increased employment might aid growth. [13]

L4 (18–25) For a reasoned and clear discussion, logically presented, either one conflict fully presented, or two conflicts briefly presented together with non-conflict.

L3 (14–17) For a fair but undeveloped discussion, but with an accurate reference to the question. One conflict less fully presented together with non-conflict.

L2 (10–13) For a limited discussion with little comment, concentrating on one side only.

L1 (1–9) For an answer which has some basic correct facts, but includes irrelevancies and errors of theory.

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5 (a) Explain what is meant by a country's national income multiplier and <u>two</u> reasons why the value of the multiplier might fall. [12]

An explanation of the multiplier; it might fall because injections decrease or withdrawals increase, or a combination of the two with a net decrease in the value of the multiplier. [12]

L4 (18–25) For a sound explanation with good application and a clear understanding of the principles involved. An explanation of changes to two of the components; C, G, T, I, S, M and E should be given and a comment on the overall balance on the multiplier should be mentioned.

L3 (14–17) For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance.

L2 (10–13) For a weaker explanation of the multiplier and poor comment on the overall change.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

(b) Discuss how a fall in national income might affect a country's standard of living. [13]

A discussion of the link between income levels and standard of living; decreased national income, decreased spending, possibly more unemployment, lower government revenue, lower feeling of well-being, fewer government services, lower profits for firms more closures. [13]

L4 (18–25) For a reasoned and clear discussion with the analysis logically presented with at least three consequences and a conclusion drawn.

L3 (14–17) For a fair but undeveloped discussion, possibly dealing with only two consequences, although still with a conclusion.

L2 (10–13) For a limited discussion with little comment and no conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

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6 (a) In a time of recession some people fear that their continued employment is uncertain. Explain how, according to liquidity preference theory, this might affect their demand for money. [12]

Expect transactions, precautionary and speculative explanations. Potential reductions in income might: reduce transactions, increase precautionary, or might reduce the wish to speculate with balance. It depends on individual perceptions, and the result is uncertain. Up to 6 marks for transactions and precautionary, 6 marks for speculative. [12]

L4 (18–25) For a sound explanation with a clear understanding of the principles involved and accurate diagrams showing how/why changes might occur.

L3 (14–17) For an accurate reference to the question but with a more limited explanation or briefer comment on change in demand and/or minor errors in the analysis. Diagrams should be accurate.

L2 (10–13) For a less competent explanation, little comment about change, errors in the diagrams, answer may not necessarily be logically presented.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

(b) Discuss how, in a closed economy, a fall in interest rates might affect consumers and producers. [13]

Candidates should analyse how the lowering of interest rates might encourage borrowing by firms/consumers, and might not encourage saving. It might help increase national income through increased investment or increased spending. [13]

L4 (18–25) For a sound discussion with good explanation of the analysis of interest rate changes and the effect on producers and consumers.

L3 (14–17) For a competent comment but with limited development of the analysis or a concentration on one group (producer/consumer), and a weaker discussion of the other group.

L2 (10–13) For a brief discussion of interest rate change and a weak application to both groups (producer/consumer).

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

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7 (a) It is sometimes claimed that the population of a developing country is always large. Is a large population the distinguishing feature of a developing country? [12]

Some developing countries have large populations, some do not. What is more significant is the rate of growth of the population. However, distinguishing features are more often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population. [12]

L4 (18–25) For a sound description with clear understanding of the characteristics and a clear conclusion.

L3 (14–17) For a competent description but with limited development, although some attempt will be made at a conclusion.

L2 (10–13) For a general description of only some of the factors and no conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Discuss whether economic growth is necessarily beneficial to a developing economy. [13]

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 (18–25) For a discussion of the overall effect of growth on development, presenting both positive and negative aspects, with a conclusion.

L3 (14–17) 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.

L2 (10–13) For a more descriptive account without much evaluation and without a conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

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GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 series

9708 ECONOMICS

9708/42 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) Table 1 shows GDP at factor cost. What is the difference between GDP at factor cost and GDP at market prices? [2]

To obtain market prices from factor cost, add indirect taxes (1) and deduct subsidies. Do not reward 'add direct tax' (candidates may present the reverse change by deducting taxes and adding subsidies) (2).

(b) (i) The extract says that India's telecom industry was crucial to growth because of its multiplier effect. With the help of a numerical example explain what economists mean by 'the multiplier effect'. [5]

An explanation of the multiplier effect commenting on change in national income as a result of a change in injection (2), an explanation of numerical example, 1 for formula, 1 for calculation, 1 for impact (3) (5 total).

(ii) Use the information to explain how India's telecom industry had a beneficial effect on the Indian economy. [5]

Fig. 1 mentions information access, healthcare, education, and government revenues. Candidates should give an explanation of these effects. The article, and Table 1, also give figures on contribution to GDP. Maximum 3 marks for one well-developed point (5).

(c) Consider how far the success of India's telecom industry has been because of the change from public sector monopoly to private sector competition. [8]

It depends how success is measured. Table 1 gives figures on revenues and on subscribers. Competition resulted in price wars, so the service was cheaper. However, the growth of subscribers was crucial for its success and this may be because they had cheaper phones; better technology, spread to rural areas so more business can be undertaken easily. The government still had fiscal policy to encourage the industry – so competition was not the only factor. Other factors not mentioned which could have led to the growth in telecoms include the increase in population, and the increase in income. Maximum 5 marks for one side of the argument, reserve one mark for a conclusion (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 marking range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

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

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

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

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

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

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

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

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

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

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

14–15 Where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have been presented by 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, and 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 particularly complete.

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 there should be 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 and structured answer so that the overall answer 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 a clear analysis, ample illustrations and a good attempt at considered evaluation.

Be positive in your marking and award marks for the context of the question without being overly 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

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2 'The analysis of marginal utility as an explanation of consumer equilibrium can only be related to the purchase of one good, cannot be used if incomes increase, and is not applicable if advertising causes a change in tastes. It is, in practice, not a useful guide to consumer behaviour'.

Assess this opinion. [25]

Candidates should consider the argument presented. They should explain the concept of consumer equilibrium and the construction of a demand curve using marginal utility. They should consider whether the theory only relates to one demand curve or whether it can be applied if the shape of the curve changes, or if the curve shifts. They should present a conclusion to the argument [25].

L4 (18–25) For a thorough explanation of equilibrium and utility and a consideration of the argument in the question. A reasoned conclusion should be presented.

L3 (14–17) For either a competent but more limited comment on both equilibrium and utility, and a comment about the change in the curve, or a full explanation but little comment on changes in the curve. There should still be some judgement on the conclusion in the question.

L2 (10–13) For an undeveloped explanation of equilibrium/utility with very little discussion of changes in the curve. It is likely that no overall comment on the conclusion will be given in the answer.

L1 (1-9) 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.

3 'The profitability of firms is a measure of their efficiency. The higher the profit, the greater the efficiency. High profits should, therefore, be encouraged.'

Do you support this argument? [25]

Candidates are asked to construct an argument. The elements in the argument must consist of (i) a statement of the meaning of efficiency and whether it is linked to a firm's profits, (ii) a consideration of whether the assertion is correct that the higher the profit, the greater the efficiency and (iii) whether, therefore, the conclusion in the statement is true [25].

L4 (18–25) For a clear explanation of efficiency, a clear assessment of the assertion in the quote and a reasoned conclusion.

L3 (14–17) For a competent explanation which does not fully analyse the meaning of efficiency nor fully explains efficiency and does not fully deal with the assertion concerning the link to profits or changes in profits. There will be some discussion, but the evaluation will not be extensive.

L2 (10–13) For an accurate though undeveloped explanation of efficiency, but with very little comment of the link to profits and no conclusion.

L1 (1–9) 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 will include irrelevancies. Errors of theory or omissions of analysis will be substantial.

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4 (a) Some top executives and some sports people are paid very high salaries. It is argued that this is inevitable as people are paid the market rate for the job. Use economic analysis to support this opinion. [12]

Candidates should give an explanation of the factors affecting wage rates. A comment on demand and supply, on marginal productivity, on skills, scarcity, and on rates in competitive industries. In the past we have asked for MRP to get L4, but with this question, MRP is not necessary for answers to achieve L4 [12].

L4 (9–12) For a sound explanation with clear understanding of the principles involved.

L3 (7–8) For a competent explanation but with limited development.

L2 (5–6) For a general explanation of only some of the factors.

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

(b) It is argued that the wage determination in imperfect markets leads to exploitation and that it is necessary and beneficial if the government intervenes in the determination of wage rates. Discuss whether there is any truth in this argument. [13]

Candidates should discuss whether or how exploitation occurs in imperfect competition. They should then discuss how the wage rate could be fixed to avoid exploitation. This might involve negotiation with a union, with a conciliation tribunal, or with government intervention. A solution may be reached without the need for governments. A conclusion should be presented [13].

L4 (9–13) For a reasoned discussion and a clearly structured answer with sound knowledge of the analysis, and with a conclusion.

L3 (7–8) For a discussion, but without such a full development, but still with a conclusion.

L2 (5–6) For a limited but acceptable attempt to describe the theory, but without any real development nor any conclusion.

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

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5 It was reported in 2012 that consumers should not be encouraged to save more and reduce their debts. Increased saving would result in a Keynesian 'paradox of thrift' which would not help economic growth. Instead consumers should spend money on new purchases. ***(Source: The Times 2011)***

(a) Explain and comment on what is meant by 'the paradox of thrift'. [12]

An explanation that states that a rise in the proportion saved (mps) in the time of recession will cause aggregate demand to fall and total income – and thus total savings – to fall. The paradox is that what is good for an individual may not necessarily be good for the economy as a whole. However, the paradox may not occur. A fall in demand may cause a fall in prices, which offsets the fall in demand; a rise in savings may cause a rise in bank reserves and increased lending and possibly lower interest rates and increased investment; a fall in demand at home may be compensated for by a rise in exports [12].

L4 (9–12) For a sound explanation of the paradox with a good application to the effect on increases in savings, and an understanding of the critique.

L3 (7–8) For an accurate explanation of the paradox but with a more limited comment on the critique.

L2 (5–6) For a weak explanation of the paradox and a poor comment on the critique.

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

(b) Discuss what is meant by economic growth and consider whether spending money on new purchases would necessarily help economic growth. [13]

A comment on the meaning of economic growth and its measurement, and a discussion on the effect of increased spending. Extra spending should increase a firm's revenue, which could allow investment, research, further production and economic growth. However, if there is limited spare productive capacity, extra spending might not result in further output but may instead result in rising prices, or increased imports with consequent effects on the balance of payments and long-term international competitiveness [13].

L4 (9–13) For a reasoned and clear discussion with the analysis logically presented with alternative possible outcomes included with a conclusion.

L3 (7–8) For a fair but undeveloped discussion, although still with a conclusion.

L2 (5–6) For a limited discussion with little comment, no alternative possible outcomes and/or no conclusion.

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

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6 (a) Explain the possible causes of unemployment and explain which is responsible for most of the unemployment in your country. [12]

An identification of the types of unemployment and a reasoned explanation of what is considered to be the most significant type of unemployment [12].

L4 (9–12) For a sound explanation with a clear understanding of at least four types of unemployment, together with a reasoned account of the most significant.

L3 (7–8) For an accurate but more limited explanation with a briefer account of what is considered to be the most significant type. Expect at least four types briefly explained, or three types more fully explained but with a weaker application.

L2 (5–6) For a correct but brief explanation of three types of unemployment, not necessarily logically presented; or a fuller explanation of two types with a poor application.

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

(b) 'When a government wishes to lower unemployment its only method of reducing it is by the use of fiscal policies'.

Do you agree with this opinion? [13]

An explanation of fiscal policies, which might increase demand and hence increase employment. There should then be a discussion of alternative monetary or supply-side policies to improve the incentive to work, increase skill provision, training, education – although these may be over a long term [13].

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

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

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

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

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7 (a) Too much labour but not enough capital. Is this the most significant difference between a developing and a developed economy? [12]

Some developing countries have a large working-age population, but not all this population is trained. It may be still the case that there is a relative abundance of labour to capital. However, distinguishing features are more often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population and age structure of the population. [12]

L4 (9–12) For a sound description with demonstrated clear understanding of the characteristics, and a clear conclusion.

L3 (7–8) For a competent description but with limited development, although there will be some attempt at a conclusion.

L2 (5–6) For a general description of only some of the factors, and no conclusion.

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

(b) Discuss whether GDP is a reliable measure of the difference in living standards between developing and developed economies. [13]

A discussion of the usefulness of GDP as an indicator of living standards. Consideration should also be given to other indicators, such as income per head, the distribution of income and other factors, some of which are measured by the HDI and some which are of a more social nature or involve political stability or justice and legal systems. A comment should be provided concerning the difficulties of comparison between different countries due to: culture, climate, subsistence sector, informal economy, distribution of income, exchange rates and purchasing power [13].

L4 (9–13) For a reasoned discussion and clearly structured answer, a full account of the difficulties of comparison and a conclusion.

L3 (7–8) For a discussion, but without such a full development and with a less elaborate account of the difficulties of comparison, but still with a conclusion.

L2 (5–6) For a limited but acceptable attempt to discuss the relevance of GDP but with limited alternatives and without any conclusion.

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

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CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 series

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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 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) (i) Explain what is meant by an economy of scale. [3]

An economy of scale is where the increase in output leads to a reduction in average cost per unit (1), long run (1) they can be either internal or external (1).

(ii) Explain how economies of scale are likely to affect the price and output of a firm such as the supermarket. [4]

Bulk buying (1), benefit to supermarket – lower cost, lower price (1), higher output (1); benefit to supplier – large revenue (1).

(b) In the article the supermarket states that it helps the economy. Is this usually an aim of large businesses? [5]

Traditionally, large businesses are thought to want to maximise profits (1). Other alternative aims are recognised, for example: to increase sales, satisficing, managerial or behavioural aims (1). Increasingly, large companies are promoting the idea that they are concerned about the environment and the conservation of resources (1), as well as increased employment (1). Judgement on how these changes might be thought to be an example of helping the economy (1).

(c) The article says the supermarket 'acts as a monopsonist'. Analyse what this means and consider whether the article can be used as evidence to support the opinion that a monopsony is beneficial. [8]

Monopsonist: meaning a dominant buyer in a market. In most supply chain relationships, for example, between supermarkets and their suppliers – the long term sustainability of an industry requires that both buyer and supplier benefit – if there are no mutually beneficial gains from trade, ultimately trade and exchange will break down. The growth of the Fair Trade label and its organisation is evidence of how pressure from consumers can lead to improved contracts and prices for farmers in developing countries (2).

Can the article be used to support the view that it is a benefit? For suppliers; sometimes yes, as revenue can go up with large orders, but these may be withdrawn. So for suppliers it is not always a benefit (2).

For the supermarket; yes – it allows for lower input costs which may result in higher profits, which can in turn be used to fund capital investment and research (2).

For consumers; maybe because of lower prices but article says overall no benefit (2).

For an answer that concentrates on labour only, award max 13 marks.

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Section B

General comments for section B: **[25]**

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 (from a total of 25). They may be applied proportionally to parts of questions where the total is less than 25 marks:

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 Three in individual question notes).

14–15 Candidate demonstrates clear evidence of the ability to use relevant knowledge and facts and theories with accurate reference to the question presented 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, and 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 particularly complete.

Mark 18–25 (Linked to Level Four in individual question notes).

18–20 Where there is thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this knowledge in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and there should be 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 soundly structured answer so that the answer as a 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 significantly improved: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking – award marks for the content of the answer without being overly influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections by level:

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

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2 There is concern about conservation of the environment, prevention of waste and efficient use of resources. Economic theory is clear on how to allocate resources efficiently in a market but in reality such allocation is a problem.

Discuss this opinion. [25]

The definitive solution of economic theory should be explained in terms of productive and allocative efficiency. Candidates should then consider whether the market ever achieves such efficiencies. These efficiencies may be possible in a perfect market but the reality is that there will be inefficiencies due to market failures: excess profits, lack of information, externalities, merit goods, and public goods might all prevent the achievement of efficiency. Whether the efficiency can instead be achieved by government intervention should also be discussed. Candidates could debate what type of intervention might be suitable and whether the theory has any use. [25]

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

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

L2 (10–13) 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 the role of economic theory. It is likely that there will be no conclusion.

L1 (1–9) 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.

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3 A consumer's demand is sometimes influenced by advertising, and sometimes influenced by impulse buying. This means that the economic theories of consumer demand based on utility are of no relevance to a firm trying to determine its likely revenue.

Do you agree with this argument? [25]

Candidates should form a structured answer which first debates whether demand is influenced by advertising or impulse buying. Persuasive advertising/impulse buying could still be related to a belief in potential utility and could still be the result of a rational decision. Candidates should then consider the link between potential demand and revenue, mentioning elasticity. Firms hope to create an increase in demand by advertising. However, this may mean future demand is more unpredictable and, therefore, potential revenue more uncertain, than with known – maybe annual – expectations of change. [25]

L4 (18–25) For a thorough explanation of the terms, a clear discussion of the parts of the argument, including an analysis of utility, with a discussion of the conclusion of the argument.)

L3 (14–17) For a competent discussion which does not fully analyse the parts of the argument and does not fully develop a link leading to a conclusion but makes an attempt at an evaluation. (No analysis of utility L3 max).

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

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

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4 (a) Explain how a profit-maximising firm will choose the quantity of labour it employs. [12]

Candidates should comment on the availability of labour and the relative cost of the labour. This can be explained using demand and supply analysis or MRP analysis. Lower marks are awarded customarily for D and S analysis. [12]

L4 (18–25) For a good explanation of the theory, with a mention of the difference between perfect and imperfect competition. (7–8 D and S)

L3 (14–17) For either a competent explanation but unclear diagrams, or an unconvincing explanation but with a competent attempt at a comparative diagram.(5–6 D and S)

L2 (10–13) For a limited attempt, most probably without a clear explanation of the theory. (3–4)

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. (1–2 D and S)

(b) Governments sometimes aim to reduce the level of unemployment. Discuss whether this necessarily results in a conflict between this aim and other government macroeconomic aims. [13]

A discussion of the main aims of government policy, with a judgement as to whether there might be any conflict. Accept any relevant suggestion, for example, increased employment might increase spending, which might put pressure on prices and conflict with stable price aim. Non-conflict should also be mentioned, for example, increased employment might aid growth. [13]

L4 (18–25) For a reasoned and clear discussion, logically presented, either one conflict fully presented, or two conflicts briefly presented together with non-conflict.

L3 (14–17) For a fair but undeveloped discussion, but with an accurate reference to the question. One conflict less fully presented together with non-conflict.

L2 (10–13) For a limited discussion with little comment, concentrating on one side only.

L1 (1–9) For an answer which has some basic correct facts, but includes irrelevancies and errors of theory.

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5 (a) Explain what is meant by a country's national income multiplier and <u>two</u> reasons why the value of the multiplier might fall. [12]

An explanation of the multiplier; it might fall because injections decrease or withdrawals increase, or a combination of the two with a net decrease in the value of the multiplier. [12]

L4 (18–25) For a sound explanation with good application and a clear understanding of the principles involved. An explanation of changes to two of the components; C, G, T, I, S, M and E should be given and a comment on the overall balance on the multiplier should be mentioned.

L3 (14–17) For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance.

L2 (10–13) For a weaker explanation of the multiplier and poor comment on the overall change.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

(b) Discuss how a fall in national income might affect a country's standard of living. [13]

A discussion of the link between income levels and standard of living; decreased national income, decreased spending, possibly more unemployment, lower government revenue, lower feeling of well-being, fewer government services, lower profits for firms more closures. [13]

L4 (18–25) For a reasoned and clear discussion with the analysis logically presented with at least three consequences and a conclusion drawn.

L3 (14–17) For a fair but undeveloped discussion, possibly dealing with only two consequences, although still with a conclusion.

L2 (10–13) For a limited discussion with little comment and no conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

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6 (a) In a time of recession some people fear that their continued employment is uncertain. Explain how, according to liquidity preference theory, this might affect their demand for money. [12]

Expect transactions, precautionary and speculative explanations. Potential reductions in income might: reduce transactions, increase precautionary, or might reduce the wish to speculate with balance. It depends on individual perceptions, and the result is uncertain. Up to 6 marks for transactions and precautionary, 6 marks for speculative. [12]

L4 (18–25) For a sound explanation with a clear understanding of the principles involved and accurate diagrams showing how/why changes might occur.

L3 (14–17) For an accurate reference to the question but with a more limited explanation or briefer comment on change in demand and/or minor errors in the analysis. Diagrams should be accurate.

L2 (10–13) For a less competent explanation, little comment about change, errors in the diagrams, answer may not necessarily be logically presented.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

(b) Discuss how, in a closed economy, a fall in interest rates might affect consumers and producers. [13]

Candidates should analyse how the lowering of interest rates might encourage borrowing by firms/consumers, and might not encourage saving. It might help increase national income through increased investment or increased spending. [13]

L4 (18–25) For a sound discussion with good explanation of the analysis of interest rate changes and the effect on producers and consumers.

L3 (14–17) For a competent comment but with limited development of the analysis or a concentration on one group (producer/consumer), and a weaker discussion of the other group.

L2 (10–13) For a brief discussion of interest rate change and a weak application to both groups (producer/consumer).

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

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7 (a) It is sometimes claimed that the population of a developing country is always large. Is a large population the distinguishing feature of a developing country? [12]

Some developing countries have large populations, some do not. What is more significant is the rate of growth of the population. However, distinguishing features are more often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population. [12]

L4 (18–25) For a sound description with clear understanding of the characteristics and a clear conclusion.

L3 (14–17) For a competent description but with limited development, although some attempt will be made at a conclusion.

L2 (10–13) For a general description of only some of the factors and no conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Discuss whether economic growth is necessarily beneficial to a developing economy. [13]

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 (18–25) For a discussion of the overall effect of growth on development, presenting both positive and negative aspects, with a conclusion.

L3 (14–17) 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.

L2 (10–13) For a more descriptive account without much evaluation and without a conclusion.

L1 (1–9) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

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