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Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the May/June 2015 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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Section A

1 (a) For a brief comment on a rise in output or shift in production possibility curve (1), further mark for an elaboration. Growth: an increase in the real level of net national product (national income) which can be indicated by an increase in GNP per capita. 2 marks for reasons – electricity shortage, low production, weak infrastructure, regulations, opposition by environmentalists. **[4]**

(b) Brief comment on problems reported by businesses,(1) not overcome as there was an even bigger gap between demand and supply in 2011–12, (1), evidence from figures (1). **[3]**

(c) Analysis suggests that profits will be high and that price will be above the cost of production. The monopolist can control prices or output, and is free to increase production/investment if it wishes. (2) Coal India controls 80% of production so could be classed as a monopoly. (1) Price controls have limited prices, profits and hence investment. Coal India cannot determine the price. Competition is from foreign suppliers and Coal India is unable to compete on price. (2) **[5]**

(d) Coal India is forced to sell coal at 70% below the market price. This results in an unprofitable situation and a lack of investment in new mines and technology despite massive coal reserves. Investment multiplier, and thus potential growth, is reduced. (3) Low price encourages demand – in 2012 10.3% or 12.9% above supply – but is not met. Imports are required. These are expensive (Indonesia doubled prices) and again cause another leakage to the economy lowering growth. (2) The excess demand is due to artificially low prices and may be reduced if prices were increased. However, this may not be detrimental as the increase in price would generate more spending and more injection into the economy.(2) If answer is about disadvantages only max 6. **[8]**

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Section B

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21–25 For an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation. Be positive in your marking, awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections

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 Explanation of meaning of efficient allocation and explanation of the analysis which ensures an efficient optimum may be reached. Distinction between productive and allocative efficiency. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency.

L4 (18–25) For a thorough explanation and a reasoned discussion dealing with both aspects of efficiency and possible reasons for government intervention. A conclusion should be drawn.

L3 (14–17) For a competent explanation of the terms with accurate but limited discussion. There should still be a conclusion.

L2 (10–13) For a correct but undeveloped explanation with some attempt at analysis but only brief discussion with 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 is mostly irrelevant.

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3 There are three aspects to consider. Candidates should explain utility theory and consumer equilibrium. They should then consider whether the theory allows for account to be taken of a change in income and whether the existence of imperfect markets and price fixing might be included in the theory. (Both can be included). They should then consider whether the overall conclusion of the argument is correct.

L4 (18–25) For a thorough explanation of the theory and a reasoned discussion of the results of a change in income and of imperfect markets. A conclusion should be given.

L3 (14–17) For a competent explanation of the theory but a more limited discussion of the other elements in the statement. Probably the income aspect will be better dealt with than the imperfect markets. There should still be a conclusion.

L2 (10–13) For a correct but undeveloped explanation of the theory and only a brief discussion of the other elements to the question. There will not be a 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 is mostly irrelevant.

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4 (a) Explanation of wage rates in a perfectly competitive industry. Explanations that focus on a D/S approach will not score as highly as for mrp approach.

L4 (9–12) For a sound explanation of theory and a clear understanding of the principles involved with a conclusion.
(7–8 for demand and supply only)

L3 (7–8) For a competent explanation with limited development but still with some mention of the market and with a conclusion.
(5–6 for demand and supply only)

L2 (5–6) For an undeveloped explanation with no reference to the market, nor a conclusion.
(3–4 for demand and supply only)

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

(b) Candidates should discuss the difference between perfect and imperfect markets, recognise that there would be a difference, in the theory, in the shape of the demand/supply/mc/mrp curves. Candidates should also discuss how institutional factors indicated mentioning that the outcome would depend on how high/low the maximum salary was and at what level the TU decided to ask for a higher rate of pay.

L4 (9–13) For a reasoned and clearly structured answer dealing with theory and institutional aspects.

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

L2 (5–6) For a limited but acceptable attempt to consider the possible differences.

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

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5 (a) Differentiation is branding of goods, advertising by brand names, to increase consumer loyalty and increase profits. Description of two market structures monopolistic competition, oligopoly and monopoly. (Duopoly is not on the syllabus).

L4 (9–12) For a reasoned explanation and clearly structured answer which deals with a good explanation of two market structures.

L3 (7–8) For a good explanation of differentiation but a less developed answer of the market structures; either because both are not well explained or one is well explained but the other quite weak.

L2 (5–6) For a limited attempt which explains differentiation but does not clearly explain either of the market structures.

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) Explanation of marginal cost, diminishing returns and economies of scale. There are three links to discuss m.c to diminishing returns; m.c to economies of scale; diminishing returns to economies of scale. There is a link in the short run between marginal cost and marginal product and thus to diminishing returns; there is only an indirect link between diminishing returns in the short run and economies of scale in the long run (via LRAC curve); there is a theoretical long-run marginal cost but it is not directly linked to economies of scale and the short run marginal cost is not linked to economies of scale.

L4 (9–13) For a sound explanation of the analysis and a clear understanding of the priniciples involved with a good attempt with a conclusion.

L3 (7–8) For a competent comment of all three concepts and brief referenced to links.

L2 (5–6) For a correct explanation of part of the analysis, with little or poor consideration of the links.

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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6 (a) Analysis and explanation of the working of the multiplier showing the link between investment and national income, recognising that there would be no leakages to taxes and imports in the closed economy. However, it may also be the case that if there were taxes the proportion of the taxation spent may be higher than the proportion of the private income spent.

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

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

L2 (5–6) For a general explanation probably in descriptive form.

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) The government might wish to influence the investment by using fiscal or monetary policy. It might also influence the investment of the private sector by regulation. It can use taxes or subsidies, interest rates, regulations or controls.

L4 (9–13) For a reasoned discussion and clearly structured answer with several alternative policies

L3 (7–8) For a competent discussion but with a more limited range of policies.

L2 (5–6) For a weaker attempt which may concentrate on only one type of policy, not present any drawbacks of that policy or not develop any wider analysis.

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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7 (a) Explanation of three main ways of calculating GDP; GDP by expenditure method measures the value of the goods and services produced in a country in a given time period (usually one year). Net national income by the income method is the sum of incomes to the factors including incomes earned abroad. Factor Cost + taxes – subsidies gives market prices. Gross – depreciation gives net.

L4 (9–12) For a sound explanation of the methods clear understanding of the principles. The three differences should be mentioned – between domestic/national; between factor cost/market price; between gross and net.

L3 (7–8) For a competent explanation with limited development and with a clear explanation of only one or two of the differences; or a weak explanation but three differences mentioned.

L2 (5–6) For an undeveloped explanation and with a mention of only one of the differences.

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

(b) Consideration of the characteristics of a developing country – it may be poor in level of infrastructure, level of health care, education, sanitation as well as in the average income level. The access to these may be because they are limited and the population is large, but a large population is not the main criterion of developing countries. Reducing the size of the population is not, therefore, necessarily the solution.

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

L3 (7–8) For a fair but undeveloped account possibly concentrating on limited range consideration of the meaning of ‘poor’ but still with a conclusion for 8. No conclusion, 7 max.

L2 (5–6) For a more descriptive account with little evaluation 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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Section A

1 (a) Overall world total grain supply was expected to be 3% lower due to adverse climate conditions which affected major suppliers.

Drought and heat wave
World demand increased 80+ million population increase
Grain was used to make bio-fuels.
Stocks declining therefore difficult to stabilise prices. **[3]**

(b) Prices rose so there was a potential increase in profits, but supply was variable. Both demand and supply showed an increased trend but there was a continued increase in consumption indicated by a "straight line" while production was more erratic with peaks and troughs resulting in periods of scarcity and surpluses.

Cost changes are unclear; there were stocks of cereals that were used but the overall effect is uncertain – it would depend partly on the elasticities of demand and supply.

Need some reference to both winners and losers for 4 marks. **[4]**

(c) Developing economies felt greater impact of price rises (50–70% of incomes spent on food). Scarcities (lower yields) meant some families had to ration consumption as prices increased. Prices more than doubled in some African countries.

Developed economies suffered losses of production due to climate but also faced competing demands for grain to make ethanol for car fuel. Impact of grain price increases was less (9% of incomes in USA spent on food).

No direct reference to numbers max 3 for one side well developed. **[5]**

(d) Any two aims can be chosen. Price stability; the effect would depend on the importance of cereal consumption in the price index. Employment; demand for cereals rose – this may affect employment and may reduce unemployment. Trade balance; there was a reduced home production in some areas and this would affect the balance of payments if the country relied on exports/imports of cereals. Growth; the variations in production and the growth of population together with higher prices may affect the economic growth of the country.

1 mark for identification of the macro aim and 3 marks for a consideration of the effect of cereal market on each aim – 2/3 for each developed aim 1 for conclusion. **[8]**

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Section B

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

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

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

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

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

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

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

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

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

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

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

Corresponding marks for sub-sections

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 (a) A rise in income will cause an increase in demand for a normal good; the extent of the increase will depend on the income elasticity and will vary between a necessary good and a luxury good. Rise in income will not cause a rise in demand for an inferior good but a switch away from the good.

L4 (9–12) For a sound description of the analysis and a clear understanding of the principles involved.

L3 (7–8) For a competent comment but with limited elaboration, probably of elasticity, and description of how equilibrium is achieved.

L2 (5–6) For a correct description of part of the analysis, with little development.

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) Structural – technological change results in mismatch between skills of unemployed workers and skills required for jobs; cyclical – not enough aggregate demand to provide enough jobs; seasonal – temporary depending on time of year. Increased income/demand will not necessarily reduce structural unemployment, especially if it has been caused by replacement of workers by machines; - may reduce cyclical unemployment and such a reduction can be encouraged by government fiscal and monetary policy; – may change seasonal unemployment by increasing demand depending on whether it is co-incidental with the season causing the unemployment.

L4 (9–13) For clear explanation of different types of unemployment and a reasoned and well-argued discussion of the effects on each. A reasoned conclusion should be drawn.

L3 (7–8) For a clear explanation but undeveloped discussion of the effects with a limited conclusion.

L2 (5–6) For a limited attempt at the explanation and without a discussion of each type of unemployment.

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

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3 (a) Explanation of profit maximisation, together with a diagram. Short run, monopoly likely to have a higher price, lower output, higher profit. Long run, ac may be lower due to economies of scale – may not result in lower price or lower profit.

L4 (9–12) For an accurate diagram and a sound explanation of the analysis with a clear contrast.

L3 (7–8) For a less accurate diagram or less competent explanation but with an attempt at the contrast between the markets.

L2 (5–6) For a correct explanation of part of the analysis, with little development.

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) Discussion whether firms decide to remain small and the different aims that a firm might have.

L4 (9–13) For with clear discussion of the reasons for small firms and two different aims. Syllabus mentions 'other objectives' and instances satisficing and sales maximisation. A reasoned conclusion is drawn.

L3 (7–8) For a clear discussion of the reasons for small firms and an undeveloped discussion of one alternative aim. Or, two alternative aims and a weaker comment on small firms. A limited conclusion is drawn.

L2 (5–6) For a limited attempt at both parts of the question.

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

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4 Candidates should comment on the fact that in the product market, prices are not solely determined by supply and demand when there is imperfect competition. They should then explain the theory of wages recognising that the perfectly competitive model is also changed to accommodate trade unions and the government.

L4 (18–25) For a critique of the statement and a thorough explanation of the analysis of wage determination with a clear comparison of perfect and imperfect markets, mentioning trade unions and the government. There should be a conclusion and a well-structured answer.
(14–17 for demand and supply only)

L3 (14–17) For a weaker critique of the statement but a competent explanation of imperfect market wage determination together with a limited conclusion.
(10–13 for demand and supply)

L2(10–13) For a correct but undeveloped explanation with only a brief comparison and no real conclusion.
(6–9 for demand and supply)

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

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5 (a) The indicator in the UK is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); this may not apply in every country so accept comments about a significant decline in economic activity spread across the country lasting more than a few months, falling GDP, lower production, falling incomes, rising costs of living. The cautiousness about spending can result in reduced demand and reduced production, negative multiplier effects. But so can inflation putting pressure on reduced incomes with reductions in unessential expenditures; uncertainty about employment and reduced investment reinforces the trend.

L4 (9–12) For a sound explanation of the analysis, including the multiplier and a clear understanding of the principles involved.

L3 (7–8) For a competent comment but with limited elaboration of the analysis and alternative causes of recession.

L2 (5–6) For a correct explanation of part of the analysis, with little development.

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) Discussion and analysis of government policies, fiscal, monetary, regulations and their effects on employment, output and growth.

L4 (9–13) For a reasoned discussion on different types of policy with a comment on how the policies will affect a recession. A reasoned conclusion is drawn.

L3 (7–8) For a competent discussion but with less development and less comment on how the policies affect a recession. A limited conclusion is drawn.

L2 (5–6) For a weaker attempt which gives only a brief discussion.

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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6 (a) Description of the meaning of growth and a consideration of its consequences in terms of employment, incomes, demand, international competitiveness, possible pressure on price increases, detrimental effects of growth, externalities, resource depletion.

L4 (9–12) For a sound description of the growth and an extended critique of advantages and disadvantages of growth with a reasoned conclusion.

L3 (7–8) For a competent description but with limited critique of advantages and disadvantages, or a concentration on the advantages of growth with a limited conclusion.

L2 (5–6) For a brief but correct description but hardly any critique.

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) Note that table shows growth rates not absolute levels of GDP, but even so, GDP is not a good indication of development. Developed countries have negative or low change in GDP; developing countries have high change in GDP. Candidates should mention other characteristics of developing countries and discuss the drawbacks of using GDP, which include – the lack of value of 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. Other indicators could be mentioned.

L4 (9–13) For a sound explanation of the characteristics and a thorough critique and discussion of the use of GDP with comment on the table.

L3 (7–8) For a competent comment but with limited discussion of the table and a good critique of the value of GDP.

L2 (5–6) For a correct explanation of the characteristics but scant reference to the table and only a brief discussion on GDP.

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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7 Candidates need to answer in terms of market failure and the meaning of the efficient use of resources and then consider the argument. Market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities, merit goods and of the need for public goods.

Government intervention can be through regulation, taxation, subsides, or ownership. Price policy should be to achieve economic efficiency. Economic efficiency should be explained in terms of productive and allocative efficiency. Neither is necessarily achieved simply because the government is involved in the production of the good or service.

L4 (18–25) For a thorough explanation of both efficiencies and market failures and a competent discussion of 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 comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a 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 efficiency/market failure. It is likely 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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Section A

1 (a) The charging of different prices to different customers for a product which has the same production costs. **[2]**

(b) The example given must be linked to an explanation which must involve the assumption of similar costs, the same time of sale but different prices. Departure time, day of week, month of year may involve different costs if overtime has to be paid or more seats made available. They may involve discrimination or may not if costs are not the same. Allow either if there is an explanation.
discrimination; discount card; adult/child ticket; (1)
non-discrimination; the route, rail operator, return journey time; standard/first class ticket; balcony seats/stalls seats; football games against different teams; (2) **[4]**

(c) Total market diagram showing output/price (1); two demand curves different elasticities showing different prices (2) labels (1). Or a single diagram showing first degree discrimination taking all consumer surplus. **[4]**

(d) Price discrimination needs different elasticities of demand – so there is a link to demand. (2) It also needs restricted supply to prevent competition and ensure separated markets – so there is a link to supply (2). Markets can be separated by ignorance or geography, but even if such separation occurs, it is not necessary to practise discrimination. **[4]**

(e) Discussion of advantages; for the firm of extra revenue, may enable continued production when otherwise firm would close; revenue can be used for research; for some consumers cheaper prices.
Disadvantages: may not be equitable; those who benefit from lower prices may not be the poorest; may cause inefficiency in use of resources; may involve extra administration costs for firm in separating markets. Up to 4 for development of one side. **[6]**

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Section B

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21–25 For an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation. Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections

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 (a) Accept any relevant two, for example, demand/supply; consumer utility; equilibrium of the firm; employment of labour.

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

L3 (7–8) For a competent comment but with limited elaboration and discussion of how equilibrium is achieved.

L2 (4–5) For a correct explanation of part of the analysis, with little development.

L1 (1–3) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Discussion of the meaning of economic welfare, reference to efficiency; benefits of competition. Reference to market failure; recognition that if market failure occurs, welfare may be increased by government intervention.

L4 (9–13) For a reasoned and well-argued discussion with clear explanation of welfare, efficiency, market failure and a conclusion.

L3 (7–8) For a clear but undeveloped discussion with weaker account of efficiency, market failure but still with a conclusion.

L2 (5–6) For a limited attempt to consider the question but without a balanced approach and with no conclusion.

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

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3 (a) Explanation of the Law of diminishing returns and economies of scale and a recognition that the two can be used together, diminishing returns in the short run and economies of scale in the long run.

L4 (9–12) For a sound explanation of the analysis and a clear understanding of the difference between short and long run.

L3 (7–8) For a competent comment but with more limited explanation of the link between the two and of the use of short and long run.

L2 (5–6) For a brief explanation and with a weak comment of the links.

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) Discussion of the various aims of the firm, profit maximising, behavioural, managerial, satisficing, and a consideration of whether these are all attempts to ensure the growth of the firm.

L4 (9–13) For a reasoned and well-argued discussion with clear explanation of different aims and their link to possible growth together with a conclusion.

L3 (7–8) For a clear but undeveloped discussion with weaker link to the desire for growth but still with a conclusion.

L2 (5–6) For a limited attempt to consider the question but without a balanced approach and with no conclusion.

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

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4 Discussion of the theory of wages. Imperfect markets would result in reduced employment and also lower wages compared with perfect markets. The investment may well cause factor substitution in favour of capital. However, productivity may go up as a result with possible beneficial effects on wages.

L4 (8–25) For a thorough explanation of the analysis of wage determination with a clear comparison between perfect and imperfect markets. Overall conclusion and well-structured answer.
(14–17 for demand and supply only)

L3 (14–17) For a competent explanation of imperfect markets but with limited discussion and comparison and imprecise conclusion.
(10–13 for demand and supply)

L2 (10–13) For a correct but undeveloped explanation with only a brief comparison and no real conclusion.
(6–9 for demand and supply)

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

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5 (a) There is a distinction between monetary policy and fiscal policy. Monetary policy involves measures to influence economic activity, specifically by manipulating the supplies of money and credit and by altering rates of interest. Fiscal policy influences the economy by the use of taxation and government spending. Supply side policy aims to influence aggregate supply. Supply side policies refer to factors affecting the quantity or quality of goods and services produced. This includes the level of productivity, investment in research, the training of labour. The factors can be influenced by provision of information, tax incentives, wage legislation, regulation, deregulation, trade incentives, encouragement of new businesses, increased competition, government spending.

L4 (9–12) For a sound explanation of the analysis and a clear understanding of any distinction.

L3 (7–8) For a competent comment but with more limited explicit explanation of the distinction.

L2 (5–6) For a brief explanation and with no explicit comment on any distinction.

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) Discussion of the meaning of 'changes in economic outlook' and use of monetary policy to influence demand, investment, inflation, employment.

L4 (9–13) For a reasoned and well-argued discussion with clear explanation of possible economic outlook changes and the relevance of monetary policy to them, with a conclusion.

L3 (7–8) For a clear but undeveloped discussion of economic outlook and with weaker link to the use of monetary policy still with a conclusion.

L2 (5–6) For a limited attempt to consider the question but without a balanced approach and with no conclusion.

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

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6 There are three parts to the argument. First, an explanation of labour and its link to resources. Second, an explanation of the meaning of economic welfare and a discussion of whether increases in welfare can only occur if labour supply increases. Third, a discussion of the particular case of a developing country that may have a rapidly growing population and, as a result, poverty, poor sanitation, poor health and education.

L4 (18–25) For a good explanation and a thorough discussion of all parts of the argument together with a conclusion.

L3 (14–17) For a competent explanation which does not fully explore the argument but makes some attempt at evaluation with a conclusion.

L2 (10–13) For an accurate though undeveloped explanation of the terms and a limited attempt to evaluate the argument with no real attempt to draw a 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 is mostly irrelevant.

7 (a) Investment is determined by the rate of interest, the cost and efficiency of capital equipment, changes in consumer demand and expectations.

L4 (9–12) For a good explanation with a comment on at least three determinants and their significance.

L3 (7–8) For a fair explanation but undeveloped answer covering either two of the determinants.

L2 (5–6) For a limited but acceptable attempt to consider the determinants but with little development.

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

(b) Changes in investment affect the level of GDP – the multiplier should be used to explain how this happens. Investment may increase economic growth. Discussion of the possible consequences in terms of employment, incomes, demand, international competitiveness, possible pressure on price increases, detrimental effects of growth, externalities, resource depletion.

L4 (9–13) For a reasoned and well-argued explanation of the multiplier with a clear discussion of at least three possible economic consequences with a conclusion on whether the change is always beneficial.

L3 (7–8) For a clear but undeveloped explanation of the multiplier and a weaker discussion of the consequences or a fuller discussion of two consequences but still with a conclusion on whether the change is beneficial.

L2 (5–6) For a limited attempt to consider the question but without a balanced approach and with no conclusion.

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

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