Cambridge International AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2016**

MARK SCHEME

Maximum Mark: 70

Published

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) Primary down, secondary and tertiary up; candidates should give figures to support this; (3) comment on likely changes as countries develop – need to give reason why it might be typical (2) **[5]**

(b) Businesses suffer – profits could be reduced, investment limited, incomes and employment therefore reduced, consumers disadvantaged, government revenue reduced. But falling input costs are not necessarily bad. Export revenue may decline – depends on elasticity; balance of payment affected. It depends on whether there is a general price fall or a limited price fall. (one side, up to 4) **[5]**

(c) China consumes large proportion of imports of raw materials, (10 x as much as a % of GDP than other countries) so a fall in price of materials (suggested 50%) and fall in demand would support that opinion. Imports have declined. However not all manufacturing has declined and some imports of consumer durables will increase particularly if consumption spending increases. China might improve in the long run but the article does not stress this. **[4]**

(d) Candidates should make a reasoned attempt to consider any likely changes, not necessarily from the article, on employment, different incomes, standards of living, government tax revenue, rate of growth in the economy. Suggest up to 2 marks for each relevant suggestion. **[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 of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to level 1 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 2 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)

18–22 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.

23-25 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 Candidates are expected to consider the argument. First, what is meant by a perfect market system and whether it is possible. Secondly whether a complex modern economy inevitably leads to a concentration of market power, and thirdly, if this is so, whether it serves the public interest. Candidates may refute, or accept, the subsidiary conclusion about market power, or the final conclusion or both. **[25]**

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

L3 (14–17) For a competent but more limited comment on the whole argument or by concentrating on part of the argument – maybe the link between market power and public interest by discussing market failures.

L2 (10–13) For an undeveloped discussion of the argument concentrating on only one aspect and with no overall comment on the conclusion in the question.

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) Analysis of the meaning of utility and the analysis of the equi-marginal principle which underlies an individual demand curve. Equilibrium could be explained either with reference to marginal utility/price or by using indifference curves. **[12]**

L4 (9–12) For a reasoned analysis linked to more than one good and clearly structured answer which deals with a relation between utility, price and a given demand.

L3 (7–8) For a fair analysis of utility but an undeveloped answer which deals with more than one good but does not link equilibrium to demand.

L2 (5–6) For a limited attempt which does not clearly determine the equilibrium position for more than one good.

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 income and substitution effects and resulting demand. Both normal and inferior goods lead to consumers buying more of the product but not the same amount extra. Fewer items would be bought with a Giffen good. **[13]**

L4 (9–13) For an good discussion of income/substitution effects linked to normal, inferior and Giffen goods and clearly structured answer with a conclusion about what happens as prices change.

L3 (7–8) For a fair discussion but undeveloped answer probably dealing with two of the types of good, or not clearly distinguishing income and substitution effects but still with some comment about what happens when prices change.

L2 (5–6) For a limited attempt which does not determine the differences between the types of good or does not show the income and substitution effects.

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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4 The question presents an argument. Candidates should analyse whether the theory does explain differentials in wage rates, and discuss the conclusion that they should be accepted. There should be a conclusion to the candidate's argument. **[25]**

L4 (18–25) For a thorough analysis of theoretical wage determination with a clear discussion of each part of the argument, together with a comment on the conclusion of the argument. (14–17 for demand and supply only although the answer contains a full discussion of the argument)

L3 (14–17) For a competent explanation of wage theory but with a more limited discussion of the structure of the argument although the answer itself should come to a conclusion for higher marks. (10–13 for demand and supply)

L2 (10–13) For a correct but undeveloped theoretical analysis with scant comment about the structure of the argument, and no conclusion. (6–9 for demand and supply)

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

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5 (a) Analysis 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. It is more likely that economies of scale occurs in imperfect competition where large scale is possible. **[12]**

L4 (9–12) For a sound comment with good explanation of the analysis and a clear understanding of the difference. Economies of scale occur in imperfect competition, diminishing returns occur in both.

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

L2 (5–6) For a brief explanation and with a weak discussion 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) Candidates should consider whether perfect competition implies perfect knowledge and profit maximising. They should then consider whether these concepts may be found at all, or only sometimes, in monopoly, and if not, what other aims might exist. **[13]**

L4 (9–12) For a sound explanation of the analysis and a clear understanding with a conclusion (no conclusion 9 max).

L3 (7–8) For a competent comment but with limited development of the analysis and a weaker conclusion (no conclusion 7 max).

L2 (5–6) For a brief explanation of the concepts and a weak comment on the possibilities available in monopoly 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.

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6 (a) Explanation of the equilibrium level of income in terms of aggregate demand and supply or injections/withdrawals. Equilibrium can be at less than full employment. **[12]**

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

L3 (7–8) For a competent comment but with limited development of the analysis.

L2 (5–6) For a brief explanation of the elements of equilibrium but poor clarity in the answer.

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) Candidates should explain the meaning of the growth rate of an economy and consider what benefits it might bring in terms of employment, incomes, standards of living, trade and wealth. They should also comment on possible drawbacks in terms of environmental change, resource use, distribution of income. **[13]**

L4 (9–13) For a sound explanation of the analysis and a clear understanding with a conclusion (no conclusion 9 max).

L3 (7–8) For a competent comment but with limited development and a weaker conclusion (no conclusion 7 max).

L2 (5–6) For a brief explanation of the meaning of growth and a one-sided presentation of its effects and results 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 will be substantial.

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7 Candidates should explain what they would consider to be important to include–for example, output, health, housing, education, crime, income distribution. They should comment on the merit of using the value of GDP, HDI or MEW as indicators of quality of life. **[25]**

L4 (18–25) For an clear explanation of the issues to be included and a discussion of the Merits and drawbacks of using alternative indicators and a reasoned conclusion.

L3 (14–17) For a competent explanation of the issues but which do not provide a developed comment on alternative indicators. There will be some discussion but the evaluation will not be extensive.

L2 (1—13) For an accurate though undeveloped explanation of the issues and a limited reference to alternative indicators.

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 include irrelevancies. Errors of theory or omissions of analysis will be substantial.

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Section A

1 (a) Lower deposits, low interest rate, relaxing of planning regulations, monetary policy, export led growth, government scheme, fixed interest rates, increased demand for housing. (1 + 1) **[1]**

(b) It was thought to be an improvement because it would increase in demand, increase in growth, wealth effect, employment and incomes. Simple linkage e.g. demand increases leads to economic growth (max 3 +2 for further elaboration.) **[5]**

(c) Not necessarily linked to income growth, average house prices risen to seven times the average wage, there is an increase in debt which is excessive compared with incomes, creates inequality in wealth, might easily reverse – as in Spain and Netherlands – causing financial crisis, not stable in the long term. (5 marks for identifying contradictions +1 for conclusion.) **[6]**

(d) 2 marks for identifying aims, 3 marks for linking 2 models to an aim + 2 marks for second aim / models link **[7]**

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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).

18–22 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.

23–25 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.

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

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2 The answer should consider the initial proposition and comment on its validity. It should then identify and describe the necessary conditions for efficient resource allocation and consider whether it can be achieved by the market alone. **[25]**

L4 (18–25) For a reasoned and clear discussion with accurate development of theory and good explicit links to the statement together with reasoned evaluative comments and conclusions. Max 20 if no conclusion.

L3 (14–17) For a competent comment together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive.

L2 (10–13) For a brief explanation but weak or ill-explained links to the statement. The explanation will be undeveloped with some limited analysis.

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 include irrelevancies. Errors of theory or omissions of analysis will be substantial.

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3 (a) Explanation of consumer equilibrium, using indifference curves and budget lines, as point of maximum satisfaction with given income and given prices. Derivation of a point on the demand curve from the equilibrium point. The rest of the demand curve is only obtained by a change in the equilibrium. **[12]**

L4 (9–12) For a sound explanation of both budget lines and indifference curves and a clear link to the demand curve with accurate clear diagrams and a clear understanding of the principles involved.

L3 (7–8) For an accurate reference to the question but with a more limited explanation, includes a link to the demand curve, or with minor errors in the analysis or in the diagrams.

L2 (5–6) For a explanation of the equilibrium position but with no link to the demand curve; or with inaccurate diagrams and weak explanation.

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

(b) Taxes on goods would be likely to raise the price. A price rise of one or more goods is reflected in a change in the budget line (pivot from point on axis of good with no price change) with a subsequent change in equilibrium. The equilibrium change involves substitution and income effects. Substitution effect would be in the opposite direction to the price change. The income effect represented by a parallel shift of the budget line is in the same direction as the substitution effect for the normal good but in the opposite direction as the substitution effect for the inferior good. Candidates may analyse the effect of tax changes on the price of two goods. **[13]**

L4 (9–13) For a reasoned and clear discussion, logically presented dealing with income, substitution effects, normal, inferior goods.

L3 (7–8) For a fair but undeveloped discussion probably concentrating on income, substitution effects without mentioning different types of goods or vv with either a brief comment about the individual demand curve or no discussion about the market demand curve.

L2 (5–6) For a limited discussion with a lack of development of both income/substitution and normal/inferior goods.

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

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4 (a) Explanation of the theory of wages which deals with both supply and demand factors. In the short run given a similar demand, (mrp), the wage level would change if supply (and elasticities) were different in different occupations, similarly the wage level would be different with different demand (and elasticity) schedules. **[12]**

L4 (9–12) For a sound explanation of the analysis and a clear understanding of the principles involved in perfect markets, A link between the firm and market is required. (D/S only, no mrp, 7–8)

L3 (7–8) For a competent comment in a perfect market but with a limited development of the analysis. (D/S only, no mrp, 5–6)

L2 (5–6) For a correct explanation of a limited part of the analysis – perhaps concentrating on either demand or supply. (D/S only, no mrp, 3–4)

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. (D/S only 1–2)

(b) Analysis of wage theory in imperfectly competitive labour market. The fixing of a higher wage may lead to unemployment depending on its level compared with the original wage and the extent of 'exploitation' in the fixing of the original wage. **[13]**

L4 (9–13) For a sound consideration of the analysis and a clear understanding of the principles involved in imperfect markets. (D/S only, no mrp, 7–8)

L3 (7–8) For a competent comment of an imperfect market but with a limited development of the analysis or a recognition of only one possibility. (D/S only, no mrp, 5–6)

L2 (5–6) For a correct consideration but limited to part of the analysis. (D/S only, no mrp, 3–4)

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. (D/S only 1–2)

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5 (a) Explanation of maximum profit rule. Candidates should consider how a firm might move towards the point of maximum profit but also consider the meaning of normal profit and the possibility of less than – or more than – normal profit. The 'maximum' profit point is the best potential but does not always result in profits. A mention of alternative market structures would be valid. **[12]**

L4 (9–12) For a good explanation of the maximum profits rule, a consideration of super/normal and sub-normal profits; a mention of the situation in different market structures. (Max 10 if only 1 market structure)

L3 (7–8) For a competent analysis but with a weaker structure to the answer. A clear indication of the maximum profit position should be given but probably no mention, or very brief mention of alternative market structures.

L2 (5–6) For a more limited analysis with weak explanations.

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

(b) Discussion of the alternative objectives, influence in the market, behavioural theories, managerial theories, balancing of aims of different parts of the company, pricing according to other firms in the market rather than according to profit maximisation. **[13]**

L4 (9–13) For a sound discussion with clear understanding of the principles involved. 2 or more alternative objectives are explained with analysis of one of them. Different market structures may be implied by diagrams.

L3 (7–8) For an accurate reference to the question with discussion of 2 alternative objectives. Different market structures may be implied by diagrams.

L2 (5–6) For a discussion which contains minor errors or an undeveloped comment, not necessarily logically presented. Examines market structures not aims.

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

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6 Candidates should explain what they would consider to be important to include – for example, output, health, housing, education, crime, income distribution. They should comment on the merit of using the value of GDP as an indicator of quality of life and discuss other possible indicators. **[25]**

L4 (18–25) For an clear discussion of the merits and drawbacks of using GDP, a comment on alternative indicator(s) and reasoned evaluation and conclusions. (Max 20 if no conclusion.)

L3 (14 –17) For a competent explanation which does not fully analyse the drawbacks of using GDP or does not provide a developed comment on an alternative indicators. There will be some discussion but the evaluation will not be extensive.

L2 (10–13) For an accurate though undeveloped discussion of the use of GDP with very brief mention of its limitations – any reference to an alternative indicators would be a passing remark.

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 include irrelevancies. Errors of theory or omissions of analysis will be substantial.

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7 (a) Explanation of the differences between the birth rates, death rates, migration and between the proportion in primary, secondary and tertiary sectors in developed and developing countries. **[12]**

L4 (9–12) For a sound explanation of the analysis and a clear understanding of the possible differences between countries.

L3 (7–8) For a competent comment but with limited direct comparison.

L2 (5–6) For either a brief explanation of both the population structure and the employment composition or a competent comment on either population or employment with little comparison between different countries.

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) Consideration of the different causes of unemployment with a comment on the significance of the causes for the different types of development. **[13]**

L4 (9–13) For a clear consideration with accurate development of at least three causes of unemployment and a developed comparison for at least 1. A conclusion is drawn for max marks.

L3 (7–8) For a clear consideration of at least two developed causes of unemployment or more than two with undeveloped explanation or lack of comparison.

L2 (5–6) For a limited attempt with little development of either causes or significance.

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

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Section A

1 (a) The runway would benefit more than just those who use it. Development of idea of increased spending, trade, investment, jobs and how they might occur **[4]**

(b) Definition 2 comment on examples 2 **[4]**

(c) Motorway is used by people other than those who use airport, govt involved in large road projects–long term investment, general transport infrastructure, encouragement for economic growth, consideration of social factors. **[5]**

(d) Opinion–no firm statistics, initial proposal, needs more information; range of monetary value of benefits uncertain and very wide; general statement about extent of wider benefits; presumption that many airport user would travel by public transport; vague statement about pollution being within EU limits; comments on value of benefit being greater than other options is not matched by the figures produced from one alternative; no published information of comparative fares between alternative projects;

fact–they would pay compensation 25% above market rate for property; homes would be demolished–the actual number is debateable; there would be noise; more destinations would be served; cost would be lower than a completely new airport; conclusion. **[7]**

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

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

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

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

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

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

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

18–22 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.

23–25 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) Explanation of meaning of indifference with reference to extra utility lost/gained. Principle of diminishing marginal utility. Analysis of comparison of one indifference curve with another; and also comparison of utility with price. **[12]**

L4 (9–12) For a reasoned analysis dealing with the shape of curve, different curves and link to the price

L3 (7–8) For a fair analysis but undeveloped answer but still with a conclusion

L2 (6–6) For a limited attempt which does not clearly determine the link between two curves of the importance of marginal utility

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

(b) Both can be used to derive the change in consumer purchases; however, demand has price and quantity of one good bought, budget lines have quantities of two goods–price is not on the axis; cannot tell how demand will change with budget line unless also show preference lines and then need to link that to another diagram.

Indifference curves have a greater possibility of showing income and substitution effects and thus are more able to distinguish between normal, inferior and Giffen goods. **[13]**

L4 (9–13) For a sound discussion indicating the similarities/differences

L3 (7–8) For an accurate explanation but with a less clear comparison/discussion

L2 (6–6) For a general undeveloped discussion with little comparison.

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

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3 (a) Explanation of types of cost, possibility of reducing average cost through economies of scale, meaning of economies of scale, consideration of whether this always occurs. **[12]**

L4 (9–12) For a sound explanation/consideration of each cost and link to economies and comment on possible diseconomies.

L3 (7–8) For a competent but undeveloped consideration of different cost.

L2 (6–6) For a limited explanation with some errors and little discussion of diseconomies/

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 contestable markets and a consideration of what competition might be. Substitute alternative products should be mentioned.

Contestable markets require low barriers of entry/exit, perfectly contestable has costless entry.

Every market is contestable to some degree. Extent of contestability may affect conduct of firms in determining price and may affect productive efficiency. The greater the availability of information, the greater is the contestability. **[13]**

L4 (9–13) For a reasoned and well-argued discussion with accurate development of the analysis and a good application.

L3 (7–8) For a clear but undeveloped discussion but one which still tries to make an application.

L2 (6–6) For a limited attempt to consider the theory but with little application.

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 (a) Explanation of the theory of wages which deals with supply. If a diagram is used it should be backward bending reflecting income and substitution effects as wage rates rise. The need/wish to work rather than take holidays would be less if there is higher pay for holidays. Workers would not be so reluctant to take holidays. It would depend where the new rate falls on the curve as to whether fewer hours would be worked. The question only asks about supply, so do not expect mrp. **[12]**

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 a limited development of the analysis, for example poor explanation of the distinction between income and substitution effect.

L2 (6–6) For a correct explanation of a limited part of the analysis, with no income and substitution effect.

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) Analysis of wage theory in imperfectly competitive labour market. The fixing of a higher wage may lead to unemployment depending on its level compared with the original wage and the extent of 'exploitation' in the fixing of the original wage. **[13]**

L4 (9–13) For a sound explanation of the analysis and a clear discussion of the principles involved in imperfect markets. (D/S only, no mrp, 7–8)

L3 (7–8) For a competent comment of an imperfect market but with a limited development/discussion of the analysis or a recognition of only one possibility.(D/S only, no mrp, 5–6)

L2 (6–6) For a correct explanation of a limited part of the analysis with poor discussion (D/S only, no mrp, 3–4)

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. (D/S only 1–2)

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5 (a) Explanation of the link between growth, spending, demand, resource availability and pressure on prices. **[12]**

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

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

L2 (6–6) For a correct explanation but undeveloped comment, not necessarily logically presented

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

(b) Consideration of the value of GDP but also a discussion of other factors which might be important which are not included directly in GDP–health, housing, education, crime, income distribution. Difficulties of comparing different cultures, climates, levels of subsistence production, relative price changes. **[13]**

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

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

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

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

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6 Candidates should explain the link between injections and withdrawals and comment on the balance between them which forms an equilibrium. The process of change by the multiplier should be explained. They should recognise that there is an open economy with a government sector. Any reasoned discussion should be accepted. They might suggest the equilibrium changes because of tax changes, or government spending changes. Investment might change because of interest rate policy. The private sector may be influenced by regulative policy. They could also suggest that governments may encourage foreign investment or international trade. They need to relate the policy to the aim of the government to assess its merits. **[25]**

L4 (18–25) For a thorough discussion of the factors which are involved in the analysis of an equilibrium income involving public and private sectors in an open economy together with a discussion on the merits together with a reasoned conclusion.(weak or no conclusion 18 max).

L3 (14–17) For a competent discussion of the factors involved in an equilibrium. The multiplier will be explained well but the suggested relative importance of different policies will be brief. With a conclusion. Weak or no conclusion 15 max).

L2 (10–13) For an answer which concentrates on the first part of the question explaining what is meant by an equilibrium income; or for an answer with a weak analysis of equilibrium and the multiplier but also with a little discussion of the merits of different policies.

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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7 There are three elements to the question. What is meant in economics by efficiency? Is it likely that private developers use the term in the same way? Is it possible to achieve efficiency? Candidates should explain the meaning of allocative efficiency and productive efficiency; they should conjecture whether the private developers comments relate to profits rather than allocative/productive efficiency; they should discuss whether private firms achieve allocative/productive efficiency.They may mention polices that might be used to approach allocative efficiency when the market does not reflect that situation–subsidies, regulation, taxes. It might be possible to achieve productive efficiency but more difficult to measure and achieve allocative efficiency **[25]**

L4 (18–25) For a reasoned and clearly structured answer which gives an explanation of both types of efficiency and a discussion of the three elements to the question.

L3 (14–17) For a fair explanation but with a weaker or undeveloped discussion maybe dealing with two elements of the question.

L2 (10–13) For an answer which concentrates on the explanation but does not explore the discussion or deals very briefly with one part of the discussion.

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

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