Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2017**

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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LEVELS OF RESPONSE MARKING DESCRIPTIONS

Please also see the mark scheme for each part of each essay, detailing the ranges of marks to be awarded for each Level, and some illustrative content.

Level	**Knowledge and understanding**	**Application**	**Analysis**	**Evaluation**
L4	detailed knowledge of relevant facts and theory perceptive understanding of the specific requirements of the question throughout the answer	relevant, apposite illustrations and specific examples are introduced to add depth and fullness to the answer recognises the underlying economic concepts and principles and applies these in relevant situations to develop the answer	detailed, precise and purposeful description, explanation and analysis using appropriate economic terms and concepts correctly and fluently draws clear, reasoned conclusions a sound, well-structured answer	critical evaluation of the issues, considering relevant information and economic principles distinguishes between facts, hypotheses and/or value judgements challenges assumptions of the question or model
L3	adequate knowledge of relevant facts and theory a reasoned understanding of the question's requirements shown in the answer	some appropriate relevant illustration or examples seen but they may be quite general or not very full applies theory and facts with accurate reference to the question to develop the answer	straightforward, satisfactory analysis: generally clear statements, supported by reasoned arguments including some specific economic terms and concepts draws some conclusions a functionally organised answer	partly complete evaluation of the issues in terms of either relevant information or economic principles attempt to distinguish between facts, hypotheses and/or value judgements attempt to comment on assumptions
L2	identifies some relevant facts and/or theory the answer overall has a general relevance to the question, showing some understanding	illustration may not be fully relevant and is superficial or overgeneralised an accurate application of some related theory or fact(s), with little or no development	some analysis present but limited by omissions, error(s), irrelevant details or unclear communication conclusions may not be drawn from it a disorganised answer	some evidence of an ability to evaluate, discriminate, or to make basic judgements, considering some relevant information
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

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Question	Answer	Marks
	Section A: Data Response	
1(a)	• group of companies/countries • acting together to fix output • and prices • selling the same good Any 3	**3**
1(b)	• It is not obviously a cartel but there is a market leader (Saudi Arabia) • over 35% world supply • output constant • with evidence from Fig.1	**4**
1(c)	• comment on Fig.2 • output has increased in 2013/14 (from text) • on D/S diagram S curve would move out • price would fall • information consistent with theory	**5**
1(d)	Winner in the short-run: • It has reduced the dependence on OPEC's oil supplies – reduces imports – and has begun to export resulting in an improved balance of trade / BOP. • Increased earnings in the USA leading to increased consumption – multiplier effect – recovery from financial crisis. (Maximum 4 marks) Loser in the long-run: • Cost of fracking may become higher (very expensive equipment) so costs become greater than world oil price – hence Saudi Arabia wants to allow the price to fall further. • Opposition to fracking (negative externalities) environmental lobby tries to curb supplies. • US$ may become too strong if its economy strengthens leading to more expensive oil for importing countries and a possible loss of markets to rival suppliers in OPEC and Russia. (Maximum 4 marks)	**8**

Question	Answer	Marks
	Section B: Essays The Essays are to be assessed using the Levels of Response approach, process and grid. The grid is generic so answers to all Essays are assessed against a common set of criteria. The mark scheme below includes some indicative content describing the most likely approaches and relevant arguments candidates may make in their answers, but there will be a large variety of relevant, valid responses seen. The mark scheme below also includes the mark bands to be used for each level for each question.	
2(a)	*Indifference curve theory shows the quantities of two goods bought as price changes; it requires a separate diagram for each good to show the quantity bought at each price. Utility theory compares the total and marginal utility to the price, the quantity bought can be shown on the same diagram.* **Level 4 (9–12 marks):** for a sound explanation of both budget lines and indifference curves and a clear link to the separate demand curve, sound explanation of link between utility, price and demand, with accurate clear diagrams and a clear understanding of the principles involved. **Level 3 (7–8 marks):** for an accurate reference to the question but with a more limited explanation, perhaps omitting a clear explanation of utility or a clear link to the demand curve, or with minor errors in the analysis or in the diagrams. **Level 2 (5–6 marks):** for a briefer explanation of the equilibrium position but with no link to the demand curve; or with inaccurate diagrams and weak explanation. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
2(b)	*Inferior goods would result in a different outcome when prices change from the outcome of a normal good, but they do not invalidate the underlying assumptions of the theory. Indifference curve theory can show more precisely why the difference occurs using income and substitution effects. Advertising does not necessarily invalidate the theory but it could be that persuasive advertising results in more being purchased at a higher price – this could still be explained using the theory as either utility is perceived as changing, or can be shown using the indifference curve diagrams. The assumptions have not changed.* **Level 4 (9–13 marks):** for a reasoned and clear discussion, logically presented dealing with income, substitution, inferior and advertising. **Level 3 (7–8 marks):** for a fair but undeveloped discussion probably concentrating on income, substitution of inferior goods or persuasive advertising, but still with a conclusion. **Level 2 (5–6 marks):** for a briefer discussion of both inferior and advertising. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
3(a)	*Description of transactions, precautionary and speculative with a suggestion as to the most important. It is likely that transactions would be the most important, but expect a reason for the choice.* **Level 4 (9–12 marks):** for a sound description and a clear understanding of the principles involved together with a reasoned conclusion for the choice of most important. **Level 3 (7–8 marks):** for a competent comment with limited development of 3 reasons – up to 7. Competent comment with a choice of most important but no explanation of why – 8. **Level 2 (5–6 marks):** for a correct description but undeveloped comment with no attempt to decide on the most important. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
3(b)	*Discussion of the theory that low interest rates encourages borrowing and spending, production and employment, higher interest rates deter borrowing, Higher than expected inflation could result in a rise in interest rates to stop prices rising further because of pressure from demand.* **Level 4 (9–13 marks):** for a sound discussion and a clear understanding of the principles involved and a reasoned conclusion. **Level 3 (7–8 marks):** for a competent comment with limited development, probably a brief mention of the possible link between inflation and interest rates. max 7 without a conclusion. **Level 2 (5–6 marks):** for a limited but acceptable attempt to consider the links. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
4	*Candidates should comment on the fact that in the factor market there may be a precise outcome in perfect competition but that wages are not solely determined by supply and demand when there is imperfect competition. They should then discuss how the outcome may be changed in the imperfectly competitive model to accommodate trade unions and the government.* **Level 4 (18–25 marks):** 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. Must have MRP to reach L4. **Level 3 (14–17 marks):** for a weaker critique of the statement but a competent explanation of imperfect market wage determination together with a conclusion. **Level 2 (10–13 marks):** for a correct but undeveloped analysis with only a brief comparison and no real conclusion. **Level 1 (1–9 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**

Question	Answer	Marks
5(a)	*Explanation of characteristics of developing countries with comment on GDP, industrial/agricultural structures, infrastructure, distribution of income, trading position, role of exports/imports, social indicators such as housing, health, education and a comment on the likely increase in population, population structure and use of resources.* **Level 4 (9–12 marks):** for a sound explanation with good illustrations and a clear understanding of the principles involved and a reasoned conclusion. **Level 3 (7–8 marks):** for a competent comment on both development and population. **Level 2 (5–6 marks):** for a correct explanation but undeveloped comment with only a brief mention of the problem of population growth. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
5(b)	*Discussion of health programmes, education programmes, income re-distribution, and structural change achieved through government spending, borrowing, taxation, multinational development, aid.* **Level 4 (9–13 marks):** for a reasoned and clearly structured answer covering a range of policies. **Level 3 (7–8 marks):** for a fair but undeveloped answer with limited number of policies considered. **Level 2 (5–6 marks):** for a limited but acceptable attempt to consider policies. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
6(a)	*Description of macroeconomic aims with relation to price stability, balance of payments, employment, income distribution.* **Level 4 (9–12 marks):** for a sound description with good illustration and a clear understanding of all four aims. **Level 3 (7–8 marks):** for an accurate but less developed description of four aims or a fuller description of three aims. **Level 2 (5–6 marks):** for a correct but very brief description of the aims of a fuller description of two of the aims. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
6(b)	*Discussion of link between investment and national income via multiplier, but also between income, demand and investment by the accelerator. Comment on possible differences due to differing injections, leakages, possible effect on prices rather than output of changes in investment.* **Level 4 (9–13 marks):** for a reasoned and clear discussion with accurate explanation of the theory with possible different outcomes together with a conclusion. **Level 3 (7–8 marks):** for a fair but limited discussion with less recognition of the possible different outcomes. **Level 2 (5–6 marks):** for a limited but acceptable attempt to consider part of the question, probably the multiplier effect, and with poor recognition of different outcomes. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
7	*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. This could be by persuasion (nudge theory) rather than by enforcement. Nudge theory, originally an ethical idea not a government manipulative tool, involves designing choices to encourage decision making in wider positive interests of society. But it can be used in government context. Government intervention itself sometimes creates inefficiency.* **Level 4 (18–25 marks):** 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. **Level 3 (14–17 marks):** for a competent explanation of the terms with accurate but limited discussion. **Level 2 (10–13 marks):** for a correct but undeveloped explanation with some attempt at analysis but only brief discussion with no conclusion. **Level 1 (1–9 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**

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Paper 4 Data Response and Essays **May/June 2017**

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LEVELS OF RESPONSE MARKING DESCRIPTIONS

Please also see the mark scheme for each part of each essay, detailing the ranges of marks to be awarded for each Level, and some illustrative content.

Level	**Knowledge and understanding**	**Application**	**Analysis**	**Evaluation**
L4	detailed knowledge of relevant facts and theory perceptive understanding of the specific requirements of the question throughout the answer	relevant, apposite illustrations and specific examples are introduced to add depth and fullness to the answer recognises the underlying economic concepts and principles and applies these in relevant situations to develop the answer	detailed, precise and purposeful description, explanation and analysis using appropriate economic terms and concepts correctly and fluently draws clear, reasoned conclusions a sound, well-structured answer	critical evaluation of the issues, considering relevant information and economic principles distinguishes between facts, hypotheses and/or value judgements challenges assumptions of the question or model
L3	adequate knowledge of relevant facts and theory a reasoned understanding of the question's requirements shown in the answer	some appropriate relevant illustration or examples seen but they may be quite general or not very full applies theory and facts with accurate reference to the question to develop the answer	straightforward, satisfactory analysis: generally clear statements, supported by reasoned arguments including some specific economic terms and concepts draws some conclusions a functionally organised answer	partly complete evaluation of the issues in terms of either relevant information or economic principles attempt to distinguish between facts, hypotheses and/or value judgements attempt to comment on assumptions
L2	identifies some relevant facts and/or theory the answer overall has a general relevance to the question, showing some understanding	illustration may not be fully relevant and is superficial or overgeneralised an accurate application of some related theory or fact(s), with little or no development	some analysis present but limited by omissions, error(s), irrelevant details or unclear communication conclusions may not be drawn from it a disorganised answer	some evidence of an ability to evaluate, discriminate, or to make basic judgements, considering some relevant information
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

Question	Answer	Marks
	Section A: Data Response	
1(a)	• More money leads to depreciation • Increase in S of money may lead to domestic inflation • US exports become relatively more expensive or imports relatively cheaper • This leads to fall in demand for US$ • And leads to a depreciation of the $ **(Maximum 4 marks)** OR • Increase in S of money lowers the rate of interest • encouraging more consumer or producer spending on imports • this leads to an increase in supply of US$ • and this leads to a depreciation of the $ **(Maximum 4 marks)** Candidates may gain 4 marks from an answer which combines elements of these two approaches. Accept other appropriate answers e.g. reduction in portfolio demand for US$ or capital outflows.	**4**
1(b)	Up to 2 marks for: • supply side, change in aggregate supply • e.g. deregulation, training Up to 2 marks for: • QE changes aggregate demand • e.g. increase in money supply, central bank purchase of bonds	**4**
1(c)	• 1 for description of population factor + 1 for analytical development, • 1 for description of oil price + 1 for analytical development • 1 for description of GDP data + 1 for analytical development. • 1 for impact of exchange rate changes + 1 for analytical development 3 × 2 marks	**6**
1(d)	Finance Minister: • regards QE as a primary tool • QE leads to lower interest rates • stimulates aggregate demand and economic growth Companies: • concentrate on consolidation/mergers not expansion • prefer supply side tools • QE distorts value of US$ • pension funds viewpoint Up to 4 marks for comments from Companies' / Pension funds Up to 4 marks for comments of Finance Minister. **(Maximum 6 marks)**	**6**

Question	Answer	Marks
Section B: Essays The Essays are to be assessed using the Levels of Response approach, process and grid. The grid is generic so answers to all Essays are assessed against a common set of criteria. The mark scheme below includes some indicative content describing the most likely approaches and relevant arguments candidates may make in their answers, but there will be a large variety of relevant, valid responses seen. The mark scheme below also includes the mark bands to be used for each level for each question.		
2	*(i) Explanation of indifference curves, equilibrium point, (ii) link between indifference curves and demand curve, (iii) discussion of how reduced price can affect equilibrium/demand for a luxury product, shift of budget line, income substitution effects, (iv) advertising, change in tastes would change the shape of the indifference curve.* **Level 4 (18–25 marks):** for an answer illustrating all the 4 elements of the question, equilibrium, construction of a demand curve, change in demand, and change in shape of indifference curve and a conclusion. No conclusion max. 22, 18–19 marks if 3 elements well done with a conclusion. **Level 3 (14–17 marks):** for a less developed answer that deals with 3 points. **Level 2 (10–13 marks):** for a limited answer that deals with only 2 points. **Level 1 (1–9 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**

Question	Answer	Marks
3(a)	*Motives for price leadership and/or price discrimination. Price leadership refers to a situation where prices and price changes are established by a dominant firm which other firms in the industry adopt and follow. When price leadership is used to facilitate collusion, the price leader will generally tend to set a price high enough so that the least cost-efficient firm in the market may earn some return above the competitive level. Price discrimination is the charging of different prices for the same product with same production costs. Conditions for price discrimination.* **Level 4 (9–12 marks):** for both terms explained, sound elaboration of both terms given **Level 3 (7–8 marks):** for both terms explained with briefer comment and elaboration **Level 2 (5–6 marks):** for an answer that concentrates on one term, with only brief mention of second term. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
3(b)	*Discussion of the various aims of the firm, profit maximising, behavioural, managerial, satisficing, and a consideration of whether profit maximising is the main aim and whether it is possible to calculate mc and mr.* **Level 4 (9–13 marks):** For a reasoned and well-argued discussion with clear explanation of a range of aims and comment on possibility of using mc=mr rule in reality together with a conclusion. Max. 11 if no critique of mc = mr rule. **Level 3 (7–8 marks):** For a clear but undeveloped discussion of profit maximisation plus one alternative developed in depth or 2+ briefly. **Level 2 (5–6 marks):** For a limited attempt to consider the question which concentrates on profit maximisation with limited reference to alternative aims. **Level 1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
4(a)	*Description of transactions, precautionary and speculative motives.* **Level 4 (9–12 marks):** for a sound description and a clear understanding of the principles involved for all three motives **Level 3 (7–8 marks):** for a competent comment with limited development of 3 motives, or a fuller development of two motives, **Level 2 (5–6 marks):** for a correct but brief description **Level 1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	*Analysis of the theory of wages distinguishing between perfect and imperfect markets and recognising that the success of a higher wage claim will depend on where the original wage level was and how much extra the claim was for. There is a bigger scope for wage claim success in imperfect competition.* **Level 4 (9–13 marks):** for an analysis of wage determination including a clear analysis of MRP and a clear comparison of perfect and imperfect markets recognising the comparison of the initial and the final wage level. There should be a conclusion. (Without MRP cannot reach L4) **Level 3 (7–8 marks):** for a weaker analysis and critique of the possibility of wage increases but a competent explanation of imperfect market wage determination. **Level 2 (5–6 marks):** for a correct but undeveloped analysis with only a brief discussion. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
5	*Explanation of meaning of GDP; analysis of effect of interest rates on investment, saving, spending, and link between these variables and GDP. Understanding of leakages and injections. Multiplier / accelerator.* **Level 4 (18–25 marks):** for a sound explanation and discussion with good illustrations and a clear understanding of the principles involved with accurate links and a reasoned conclusion referring to the question, explicitly. No conclusion max. 22. **Level 3 (14–17 marks):** for a competent explanation with an accurate but limited discussion without a full analysis of the links. **Level 2 (10–13 marks):** for a correct but undeveloped explanation with some attempt at analysis but only brief discussion. **Level 1 (1–9 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**
6(a)	*Developed countries: explanation of why they prevent development, e.g. protection of environment, costs of development. Developing countries: explanation of encouragement of development of rural areas, e.g. to increase employment, raising GDP.* **Level 4 (9–12 marks):** for a sound explanation and a clear understanding of the different issues involved in both circumstances. **Level 3 (7–8 marks):** for a competent comment but with limited elaboration of one side of the question. **Level 2 (5–6 marks):** for a correct explanation of some of the issues involved. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
6(b)	*Discussion of the weakness of using GDP can be partly overcome by using real GDP per capita but it omits social issues – education, health, sanitation, working hours – doesn't include unpaid work, informal economy, quality of goods, types of goods, environmental issues, distribution of income, sustainability. These qualitative factors are considered with other indicators.* **Level 4 (9–13 marks):** for a sound explanation and discussion with good illustrations and a clear understanding of the relevance of both types of data and a relevant judgement. **Level 3 (7–8 marks):** for a competent comment with limited development and discussion, brief recognition of importance of social factors. **Level 2 (5–6 marks):** for a correct explanation but undeveloped comment. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
7(a)	*Potential benefits of a competitive market: lower prices, greater output, greater allocative and productive efficiency, higher welfare, lower barriers to entry, reduced risk of price discrimination and predatory pricing, more internationally competitive. Potential limitations of monopolised markets: deadweight loss, inefficiencies Reward candidates who recognise the potential benefits of monopoly.* **Level 4 (9–12 marks):** for a sound explanation with good illustrations and a clear understanding of key features of market structures. **Level 3 (7–8 marks):** for a competent comment but with limited elaboration or comment on all the elements. **Level 2 (5–6 marks):** for a correct but undeveloped comment on two of the elements. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
7(b)	*Explain the meaning of efficiency and consider forms of market failure with examples, merit / demerit goods, public goods, information failure, natural monopoly (but **not** monopoly).* **Level 4 (9–13 marks):** for a thorough explanation and a reasoned discussion dealing with productive and allocative efficiency and 3 possible reasons for market failure, together with a judgement. **Level 3 (7–8 marks):** for a competent explanation and a reasoned discussion dealing with both aspects of efficiency and possible 2 reasons for market failure. **Level 2 (5–6 marks):** for a correct but undeveloped explanation with some attempt at analysis but only brief discussion. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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L3	adequate knowledge of relevant facts and theory a reasoned understanding of the question's requirements shown in the answer	some appropriate relevant illustration or examples seen but they may be quite general or not very full applies theory and facts with accurate reference to the question to develop the answer	straightforward, satisfactory analysis: generally clear statements, supported by reasoned arguments including some specific economic terms and concepts draws some conclusions a functionally organised answer	partly complete evaluation of the issues in terms of either relevant information or economic principles attempt to distinguish between facts, hypotheses and/or value judgements attempt to comment on assumptions
L2	identifies some relevant facts and/or theory the answer overall has a general relevance to the question, showing some understanding	illustration may not be fully relevant and is superficial or overgeneralised an accurate application of some related theory or fact(s), with little or no development	some analysis present but limited by omissions, error(s), irrelevant details or unclear communication conclusions may not be drawn from it a disorganised answer	some evidence of an ability to evaluate, discriminate, or to make basic judgements, considering some relevant information
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

Question	Answer	Marks
	Section A: Data Response	
1(a)	Any two: • no bonuses in public sector • private sector had bonuses so this increased differential • government policy to control economy/inflation	**2**
1(b)	• no truth • regular pay always rising, chart shows rate not absolute amount • rose at different rates • Up to 2 marks for: real pay fell except in 2008, small part of 2010, and end of 2014	**5**
1(c)	• wages always rising • in 2015 wages growth was higher than inflation • inflation down, productivity down • employment up • oil sales down	**5**
1(d)	Up to 2 marks for each relevant comment. Comments on effect on • demand • expenditure • GDP • international competitiveness • employment rates **(Maximum 8 marks)**	**8**

Question	Answer	Marks
	Section B: Essays The Essays are to be assessed using the Levels of Response approach, process and grid. The grid is generic so answers to all Essays are assessed against a common set of criteria. The mark scheme below includes some indicative content describing the most likely approaches and relevant arguments candidates may make in their answers, but there will be a large variety of relevant, valid responses seen. The mark scheme below also includes the mark bands to be used for each level for each question.	
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. Individual actions are not always best for society as a whole. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency. This could be by persuasion (nudge theory) rather than by enforcement. Nudge theory, originally an ethical idea not a government manipulative tool, involves designing choices to encourage decision making in wider positive interests of society. But it can be used in government context.* **Level 4 (18-25 marks):** for a thorough explanation and a reasoned discussion dealing with both aspects of efficiency and possible reasons for market failure/government intervention. A conclusion should be drawn. **Level 3 (14-17 marks):** for a competent explanation of the terms with accurate but limited discussion. **Level 2 (10-13 marks):** for a correct but undeveloped explanation with some attempt at analysis but only brief discussion with no conclusion. **Level 1 (1-9 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**

Question	Answer	Marks
3(a)	*Explanation of utility, assumption of given tastes, income, relation to price, equilibrium point and quantity purchased, result of changes in price to construct demand curve.* **Level 4 (9–12 marks):** for a reasoned and clear explanation, logically presented dealing with each point and an accurate explanation of the derivation of the curve. **Level 3 (7–8 marks):** for a fair but undeveloped explanation probably concentrating on the equilibrium condition but not fully explaining the shape of the whole curve. **Level 2 (5–6 marks):** for a briefer explanation, probably not fully explaining the equilibrium and with a link to only one point on the curve. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
3(b)	*Decrease in sales tax lowers price, shifts budget line. As the tax applies to all goods the budget line will shift outwards, not necessarily parallel. Reward a discussion of a reduction in tax/price on one good.* **Level 4 (9–13 marks):** for a reasoned and clear discussion, logically presented dealing fully with effect on demand for inferior and normal good. An inferior good that is also a Giffen good will result in a fall in demand. Clear conclusion. **Level 3 (7–8 marks):** for a fair but undeveloped discussion with probably some confusion over inferior good. Inferior good may result in a fall in demand if it is a Giffen good, but not otherwise. **Level 2 (5–6 marks):** for a briefer discussion with some inaccuracies. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
4(a)	*Explanation of terms, clear mention of short run, long run. Link between diminishing returns/marginal cost and marginal revenue. Explanation of possible increases in profit in the long run if there are economies of scale from expansion.* **Level 4 (9–12 marks):** for a sound explanation of the terms and a clear understanding of the principles involved, distinction between short/long run, link to profit. **Level 3 (7–8 marks):** for a competent explanation of the terms but a more limited development of the link to profit. **Level 2 (5–6 marks):** for a limited but acceptable attempt to consider both terms but probably with a concentration on the different types of economies of scale. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	*Explanation of perfect competition and monopoly and discussion of the analysis of price/output decisions. Price likely to be higher, output lower and profit higher in monopoly – unless economies of scale allow a reduced price in long run monopoly.* **Level 4 (9–13 marks):** for a sound explanation of the terms and a clear understanding of the principles involved, clear comparison of two market structures, conclusion. **Level 3 (7–8 marks):** for a competent explanation of the terms but a more limited development of the short/long run, or of the differences. **Level 2 (5–6 marks):** for a limited but acceptable attempt to consider both market structures but without any explicit comparison. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
5	*Analysis of difference between perfect competitive factor markets and imperfectly competitive markets. Wages may be increased by unions in imperfect markets without decreasing unemployment as long as it doesn't rise above point where mc=mr. This still leaves the firm with abnormal profit. Beyond this point, higher wages will result in a decrease in employment.* **Level 4 (18–25 marks):** 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. The conclusion about employment should be clearly stated. **Level 3 (14–17 marks):** for a weaker critique of the statement but a competent explanation of imperfect market wage determination together with a conclusion. **Level 2 (10–13 marks):** for a correct but undeveloped analysis with only a brief consideration of the employment position and no real conclusion. **Level 1 (1–9 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**

Question	Answer	Marks
6(a)	*Explanation of economic growth in terms of increase in output, shift in production possibility curve in a given time period. Comment on the nature of a developed country in terms of employment structure, average income level, relatively few poorer people, advanced technology, good infrastructure, high level of skill in the workforce, good social structure, trading position, role of exports/imports, population structure.* **Level 4 (9–12 marks):** for a sound explanation with good illustrations and a clear understanding of the principles involved and a reasoned conclusion. **Level 3 (7–8 marks):** for a competent comment with limited development, brief mention of population; max 7 without a conclusion. **Level 2 (5–6 marks):** for a correct but undeveloped comment with no attempt to deal with the explicit question asked. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
6(b)	*A discussion of its consequences in terms of employment, incomes, demand, international competitiveness, possible pressure on price increases, detrimental effects of growth, externalities, resource depletion.* **Level 4 (9–13 marks):** for a sound explanation of the analysis and a comment on advantages and disadvantages of growth. Structured answer with a conclusion. **Level 3 (7–8 marks):** for a competent explanation but with limited critique of advantages and disadvantages, or a concentration on the advantages of growth. **Level 2 (5–6 marks):** for a brief, correct explanation but with little critique. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
7(a)	*Comment on relative worth of using GDP. Weakness of using GDP can be partly overcome by using real GDP per capita but it omits social issues – education, health, sanitation, working hours – doesn't include unpaid work, informal economy, quality of goods, types of goods, long run v. short run, environmental issues, distribution of income, sustainability. These qualitative factors are considered with other indicators.* **Level 4 (9–12 marks):** for a sound explanation with good illustrations and a clear understanding of the principles involved and a reasoned conclusion. **Level 3 (7–8 marks):** for a competent comment with limited development. **Level 2 (5–6 marks):** for a correct explanation but undeveloped comment with no attempt to come to a conclusion. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
7(b)	*Distinction between the policies and comment on how changes in taxes and expenditure may affect income and the provision of facilities influencing standards of living.* **Level 4 (9–13 marks):** for a sound explanation with good illustrations and a clear understanding of the principles involved and a reasoned conclusion. **Level 3 (7–8 marks):** for a competent comment with limited development, fewer illustrations. **Level 2 (5–6 marks):** for a brief but correct analysis but hardly any critique and no conclusion. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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