Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2018**

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.

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

Cambridge International will not enter into discussions about these mark schemes.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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ASSESSMENT OBJECTIVES

The skills listed below are what we expect candidates to be able to do. The marks in the mark scheme reward candidates who demonstrate these skills, so they are helpful to keep in mind if you have any doubts as to whether or not something is worthy of credit.

AO1 Knowledge and understanding	Demonstrate knowledge and understanding.
AO2 Application	Interpret and apply knowledge and understanding to information presented in written, numerical or graphical form.
AO3 Analysis	Analyse economic issues and arguments, using relevant economic concepts, theories and information, and communicate conclusions in a clear, reasoned manner.
AO4 Evaluation	Critically evaluate economic information, arguments, proposals and policies, taking into consideration relevant information and economic principles and distinguishing facts from hypothetical statements and value judgements.

LEVELS OF RESPONSE MARKING APPROACH

The essay questions in Section B are marked using Levels of Response. They carry a maximum mark of 25 each. Most of them are split into two parts, where part (a) is worth 12 marks and part (b) is worth 13 marks. However, some essays are set as a single question worth 25 marks.

Try not to 'bunch' marks, but use the whole mark range. Do not reserve (e.g.) high Level 4 marks 'just in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, then it must be rewarded appropriately. 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 skills described in the assessment objectives and not purely on the ability to itemise further facts from the content of the syllabus. All of the essays test the four assessment objectives above.

LEVELS OF RESPONSE MARKING PROCESS

There are two steps that need to be taken in awarding the mark for the essay questions:

Step 1: Determine the level – start at the highest level and work down until you reach the level that best describes the answer. Use a 'best-fit' approach: which level does it most closely resemble overall, considering all of the assessment objectives on balance?

Step 2: Determine the mark within the level by considering the following:

- Consistently meets the criteria; clear evidence of the qualities of the level = at the top of the level
- Meets the level's criteria but with some slight inconsistency or some parts of the criteria not addressed = at the middle or above the middle of the level (depending on number of marks available)
- Just enough achievement for this level on balance = either below the middle or at the middle of the level (depending on number of marks available)
- Answer is on the borderline of this level and the one below, i.e. it there is only limited evidence it meets the criteria for this level = at the bottom of level

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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	AO1	AO2	AO3	AO4
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
1(a)	• No definite conclusion (1); • Generally positive but there are anomalies in the table, e.g. Greece has highest proportion who smoke but has a life expectancy, higher than Germany which has lower proportion smoking. UK has lowest proportion smoking but not the highest life expectancy (2).	**3**
1(b)	• If minimum price were above equilibrium price it would reduce demand; • The extent would depend on elasticity/ alcohol likely to have a relatively inelastic demand; • There could be a danger of price undercutting in an informal market; • Wider issues about effect on tax revenues/unemployment/welfare payments/possible export effects should be mentioned briefly.	**4**
1(c)	Positive supportive factors: Table shows countries with high per capita incomes do have high life expectancy rates at birth. Assumption is that higher life expectancy increases well-being. The information mentions higher levels of education, housing, health care – development of medicine to lower heart disease, diabetes and lung disease. Negative factors: Life style of richer countries – high smoking rates, high alcohol consumption, high sugar intakes leading to poorer health and a reduction in life expectancy. Conclusion: Wellbeing not just linked to income though too little income negates it. Income level of $10 000 is arbitrary and subjective. Higher satisfaction maybe due to socio-economic factors such as strong family support, growing own fruit and vegetables, healthier lifestyles.	**6**
1(d)	Indifference curve analysis states that as income increases consumers move to a new, 'higher' indifference curve and this gives more satisfaction. For normal goods the consumption would also increase as incomes increase. A diagram is not required but it is likely that candidates would explain the analysis with a diagram. Evidence is that higher incomes do not necessarily result in a higher proportion of the population smoking. The evidence is inconclusive whether a higher level of income for an individual resulted in an increased demand (as would be expected by the theory) as the figures are overall averages and show differences between countries rather than an increase in income in any one country.	**7**

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Question	Answer	Marks
2(a)	*Explanation of meaning of efficiency and explanation of the analysis which ensures an efficient optimum may be reached. Productive and allocative efficiency are intended. Its attainment is considered important as it makes the best use of resources and allocative efficiency ensures that no one can be made better off without someone being worse off.* **L4 (9–12):** for a thorough explanation dealing with productive and allocative efficiency and a comment on the importance of both concepts **L3 (7–8):** for a competent but less developed explanation of the terms with accurate but limited comment on the importance **L2 (5–6)**: for a correct but brief explanation with some attempt at analysis possibly with only one type of efficiency correctly elaborated, no comment on importance **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**12**
2(b)	*Individual actions are not always best for society as a whole. Discussion of reasons for market failure and hence the necessity/desirability of government intervention to achieve efficiency. Intervention could be by persuasion (nudge theory) rather than by enforcement, by designing choices to encourage decision-making in wider positive interests of society. Government intervention may thus be necessary, but it might not be sufficient to overcome inefficiency as there can be inefficiency in government through lack of information.* **L4 (9–13):** for an accurate discussion of market failure, with examples and a conclusion about the need for government intervention and whether such intervention is a sufficient solution **L3 (7–8):** for a more limited discussion of the reasons for market failure and the need for the government but without a comment on whether such intervention is sufficient to overcome market failure **L2 (5–6):** for a brief analysis of market failure with few examples and no conclusion about necessity or sufficiency **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**13**

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Question	Answer	Marks
3(a)	*Explanation of distinction mentioning barriers to entry, ability to control prices, information, whether products are identical, numbers of firms. Diagrams can be in either perfect competition or monopoly relating average revenue to average cost at maximum profit output. Supernormal possible in short run in perfect competition will be competed away in long run by entry of new firms and increase in supply.* **L4 (9–12):** for clear distinction between the markets, clear diagram and clear explanation of increased competition and normal profit in the long run through increased supply **L3 (7–8):** for a less developed answer mentioning only some of the different criteria for the markets, or not fully explaining the short and long run position **L2 (5–6):** for a briefer explanation, or an inaccurate diagram, or an omission of the long run position **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**12**
3(b)	*Discussion of alternative aims; behavioural, managerial, satisficing. These will not occur in perfect competition. Prisoner's dilemma involves cooperation for maximum benefit so requires the ability to trust other participants in decision-making.* **L4 (9–13):** for a clear comment on two different aims and a consideration of the second part of the question **L3 (7–8):** for a weaker comment on two aims and a briefer comment on the second part of the question **L2 (5–6):** for a brief undeveloped answer about the aims and very scant comment on the second part of the question **L1 (1–4):** 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	*Candidates should consider each part of the statement. The theory of wage determination should be explained and a comment given on how the outcome may be affected by the existence of trade union bargaining, by minimum wages affecting the supply, by large monopsonies forcing down wages from the competitive level. A conclusion of the possible usefulness of the theory should be given.* **L4 (18–25):** for a critique of the statement and a thorough explanation of the analysis of wage determination with a clear comment on how unions, minimum wages and large monopsonistic businesses may be incorporated into the theory. There should be a conclusion and a well-structured answer. Must have MRP to reach L4. **L3 (14–17):** for a weaker critique of the statement mentioning either all three elements less rigorously or two elements more fully. There should still be a competent explanation of imperfect markets together with a conclusion. **L2 (10–13):** for a correct but undeveloped analysis with much briefer critique of the statement. Max 11 without a conclusion. **L1 (1–9):** 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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Question	Answer	Marks
5(a)	*Structural unemployment arises from changes in the pattern of demand in an economy and is usually focused upon specific industries or geographical areas. It can also be caused by the introduction of new technology acting as a substitute for labour. Frictional (or search) unemployment arises due to imperfect information in the labour market. Workers are unemployed primarily due to the time taken to find a new job. Both types have a negative impact on an economy but it is generally assumed that structural unemployment will have a long-term impact and impose higher costs on society compared with frictional unemployment which normally lasts a relatively short time. Hence, it may be concluded that structural unemployment is likely to cause the greater negative impact.* **L4 (9–12):** for a clear explanation of both types of unemployment and their main differences. A conclusion as to which type has the greater negative effect, supported by an appropriate rationale **L3 (7–8):** for a clear explanation of the differences between both types of unemployment and a conclusion which is stated rather than supported by an appropriate rationale **L2 (5–6):** for a clear distinction between both types of unemployment but no comment on the effect on the economy **L1 (1–4):** 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	**12**

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Question	Answer	Marks
5(b)	*Supply side polices are government policies that attempt to alter the level of aggregate supply directly rather than through changes in aggregate demand. They can be market oriented or through direct government intervention. Interventionist policies might include: education and training. Market policies might include taxation; reduction in unemployment benefits – these policies would aim to increase labour geographical/occupation mobility and enable specific focus on unemployment caused by changes in the pattern of demand. Alternative policies such as Keynesian demand management policies would not be suitable because they would lack focus and may cause problems in those areas which are not experiencing high unemployment. However, supply-side policies often take a long time and they are frequently costly.* **L4 (9–13):** for a discussion of the extent of the effectiveness of supply-side polices with some attempt to compare alternative demand management policies and some attempt to identify potential problems such as, the long time period needed for success or the high cost of intervention. There should be a conclusion. **L3 (7–8):** for an analysis of how different supply-side policies would work and some attempt to explain why they would be the most appropriate strategy to solve structural unemployment. Max 7 if no conclusion **L2 (5–6):** for an answer that identifies a range of alternative supply-side policies but does not explain how these policies would work to solve the particular problem of structural unemployment, and no comparison or conclusion **L1 (1–4):** 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.	**13**

Question	Answer	Marks
6(a)	*There are many definitions of the money supply. The narrow definition includes notes and coins in circulation and balances held by the commercial banks at the central bank. The more commonly used broad definition includes notes and coins in circulation and bank deposits. Bank deposits represent the largest part of the money supply. Commercial banks create new bank deposits every time they grant a loan. It is profitable for banks to create loans, so banks often have a significant effect on the broad definition of the money supply. However, there are limits to the ability of banks to create new deposits. These might include: the willingness of borrowers to borrow; leakages of funds (loans not re-deposited); the need for banks to maintain a safe amount of liquid assets; restrictions upon lending imposed by governments.* **L4 (9–12):** for an answer that recognises that there are a number of limitations to the ability of commercial banks to create new deposits. Should refer to at least two reasons why commercial banks' ability to influence the money supply might be limited **L3 (7–8):** for an answer that analyses how banks can create money by granting loans and why banks have an incentive to do this. Might also refer to the importance of the bank credit multiplier **L2 (5–6):** for an answer that recognises that there are different definitions of the money supply and that the most important measure includes bank deposits which also account for the biggest proportion of this measure **L1 (1–4):** 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	**12**

Question	Answer	Marks
6(b)	*Candidates should explain what quantitative easing means and how it is used to influence interest rates and the money supply. Links should then be established between these changes and changes in the level of employment and the rate of inflation. Some discussion should then be applied to possible short-run effects on the economy and also some potential long-run effects. In each case candidates are expected to evaluate key relevant factors and draw a conclusion in relation to the statement under consideration.* **L4 (9–13):** for an answer that attempts to distinguish between short-run effects on the level of employment and the potential long-run effects on inflation. Evaluative comment should be used to decide how far the candidate agrees with the statement and a relevant conclusion should be provided **L3 (7–8):** for an answer that critically analyses the way in which quantitative easing is supposed to work and how it might have worked in practice **L2 (5–6)**: for an answer that explains what quantitative easing means and how it can be used to influence interest rates and possibly the money supply **L1 (1–4):** 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	**13**

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Question	Answer	Marks
7	*The statement refers to developed and developing economies and some performance indicators. Candidates should clearly explain the difference between these terms. Answers should also recognise the links between developed and developing economies and the indicators. It should be recognised that although key performance indicators might be similar, it is often for different reasons and these reasons should be explained. Key elements of developing economies should also be identified to support the conclusion that significant differences between the two types of economy remain, regardless of the similarity of the performance indicators.* **L4 (18–25):** for an answer that attempts to discuss key differences between developed and developing economies which do not necessarily relate to performance indicators. A conclusion should be produced which emerges out of the discussion **L3 (14–17):** for an answer that analyses the relation between different indicators and different types of economy. For example, causes of balance of payments deficits in developing economies are likely to be significantly different from those in a developed economy. This should be examined in relation to at least two indicators mentioned **L2 (10–13):** for an answer that provides a basic description of the terms developed and developing and the possible differences in inflation unemployment and balance of payments deficits **L1 (1–9):** 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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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	**AO1**	**AO2**	**AO3**	**AO4**
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
1(a)	• education • healthcare • social welfare **1+1**	**2**
1(b)	• up to 2 for a diagram – showing maximum price • up to 2 for comment – effect on consumers → shortages • up to 2 for elaboration of monopoly situation (diagram + comment) **2+2+2**	**6**
1(c)	**Developed explanations of problems** • up to 3 for costs of distribution higher → lower production, less competitive prices • up to 3 for transport problems prevent business expansion → inefficient production, higher costs, lower profits **Max 5 marks**	**5**
1(d)	• up to 4 for explaining direct effect of improved infrastructure e.g. education, healthcare, social welfare, transport, electricity → improves workforce skills/workforce health/reduces costs of production/improves efficiency. This leads to increases in Indonesia's productivity outwards shift of Indonesia PPF/LRAS/AD and increase in overall economic capacity. • up to 3 for discussion about the impact on either short term GDP growth as infrastructure spending may boost AD in SR stimulating actual growth but there may be an opportunity cost or long term GDP. as in the LR capacity will increase and there is potential increase in GDP but AD will have to rise to prevent unemployment. **4+3**	**7**

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Question	Answer	Marks
Section B: Essays The Essays are to be assessed using the Levels of Response approach, process and generic grid of descriptions. The descriptions in the grid are generic so that answers to all Essays are assessed against a common set of criteria. The mark scheme for the Essays includes indicative content describing the likely approaches and relevant arguments candidates may make in their answers, but there will be a variety of relevant, valid responses seen. The mark scheme also includes the mark bands to be used for each level for each question.		
2(a)	*The marginal rate of substitution between two goods is the 'linking' concept. Explanation of utility theory and indifference curves. Because of diminishing marginal utility, the MRS is not constant and this explains the shape of the indifference curve.* **L4 (9–12 marks)** For a reasoned and clear explanation of the concepts together with diagrams to illustrate them. Explicit reference to the linkage required. **L3 (7–8 marks)** For a competent comment but with a limited elaboration of the two concepts, or a reasoned and clear explanation of one concept and limited mention of the other. **L2 (5–6 marks)** For a superficial explanation concentrating on general concepts with only limited relevant reference to the question. **L1 (1–4 marks)** For an answer which has a few basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
2(b)	*Indirect tax increases the relative price of a good and there will be both income and substitution effects. These must be shown using indifference curves. Discussion of relative size of income and substitution effects for normal and inferior goods.* **L4 (9–13 marks)** For a thorough explanation of the impact of the indirect tax on both types of good together with relevant diagrams. A discussion on the substitution and income effects of the tax increase. Maximum 11 if no conclusion. **L3 (7–8 marks)** For a competent explanation which does not fully analyse both types of goods. Full analysis of one type and limited analysis of the other. **L2 (5–6 marks)** For an accurate though undeveloped comment concentrating on only one type of good. **L1 (1–4 marks)** 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.	**13**

Question	Answer	Marks
3	*Explanation of oligopoly market structure, which gives rise to uncertainty and interdependence. Discussion of methods used to reduce these problems (Collusion, Non-price competition or Other) and the impact of these on the consumer.* **L4 (18–25 marks)** For discussion of the methods used in oligopolistic competition to reduce uncertainty and interdependence and which considers the likely impact on the consumer. Maximum 21 if no conclusion. **L3 (14–17 marks)** For a competent analysis and a more limited discussion of the methods used and their impact on the consumer. **L2 (10–13 marks)** For accurate though undeveloped explanation. **L1 (1–9 marks)** 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.	**25**

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Question	Answer	Marks
4(a)	*The demand for labour is derived from MRP (MPP X MR). The MRP includes the MR of selling the product so it is important to consider whether the firm is a price-taker (and hence facing a constant MR) or has a downward sloping MR curve.* **L4 (9–12 marks)** For an explanation of the derivation of the demand curve for labour and a comment on the effect of the difference of MR in 2 different types of product market. **L3 (7–8 marks)** For an explanation of the derivation of the demand curve for labour and its link to one type of product market. **L2 (5–6 marks)** For an explanation of the derivation of the demand curve for labour. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
4(b)	*Discussion of whether TU negotiations lead to (i) rising unemployment (ii) the circumstances in bilateral monopoly where a TU with sufficient power can negotiate both higher wages and higher employment or (iii) closed shop.* **L4 (9–13 marks)** For a thorough discussion of both situations. Maximum 11 no conclusion. **L3 (7–8 marks)** For a competent explanation a full analysis of one situation or a partial analysis of two sides. **L2 (5–6 marks)** For an accurate though undeveloped explanation concentrating on only one side. **L1 (1–4 marks)** 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.	**13**

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Question	Answer	Marks
5(a)	*Actual growth is an increase in the volume of goods and services produced. Firms increase their output, while consumption, investment and exports are increasing.* *Potential growth is an increase in the capacity of an economy to produce goods and services.* *Reference to short run and long run and comment on link to production possibility or aggregate demand.* **L4 (9–12 marks)** For a sound explanation of both terms and a clear understanding of the differences. **L3 (7–8 marks)** For an accurate explanation on one term and limited explanation of the other. **L2 (5–6 marks)** For an accurate explanation of one term or a weak explanation of both terms. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
5(b)	*A discussion of the benefits of economic growth e.g. rising GDP, improving standard of living, better health, longer lifespans.* *A discussion of the costs of economic growth e.g., pollution, congestion, increase in working hours.* **L4 (9–13 marks)** For a thorough discussion of both sides of the issue. Maximum11 if no conclusion. **L3 (7–8 marks)** For a competent comment which does not fully analyse both sides. An analysis of one side and limited analysis of the other. **L2 (5–6 marks)** For an accurate though undeveloped comment concentrating on one side. **L1 (1–4 marks)** 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.	**13**

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Question	Answer	Marks
6(a)	*Explanation of the causes of both terms and a consideration of how their causes may differ.* **L4 (9–12 marks)** For a sound explanation of two causes of recession and two causes of inflation and reference to how they may differ. **L3 (7–8 marks)** For a competent explanation of two causes of one term and one cause of the other. **L2 (5–6 marks)** For an explanation of one cause of each term or two causes of one term. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
6(b)	*A discussion of the role of monetary policy in correcting a recession and of alternative approaches.* **L4 (9–13 marks)** For a thorough discussion of monetary policy and at least one alternative. Maximum of 11, if no conclusion. **L3 (7–8 marks)** An analysis of monetary policy and awareness of another policy. **L2 (5–6 marks)** For an accurate though undeveloped explanation concentrating on only monetary policy. **L1 (1–4 marks)** 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.	**13**

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Question	Answer	Marks
7	*An explanation of productive and allocative efficiency. A discussion of the free market economy and its limitations. The role and limitations of government in controlling the market.* **L4 (18–25 marks)** For a discussion of both efficiencies which considers the effects of competition in achieving them. Two or more alternative forms of market failure and the application of government policies to reduce them. Maximum 21, if no conclusions. **L3 (14–17 marks)** For a discussion of efficiency with a single form of market failure. A brief reference to the need for government. **L2 (10–13 marks)** For an accurate though undeveloped explanation of efficiencies, market failure and/or government intervention. **L1 (1–9 marks)** 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.	**25**

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ECONOMICS **9708/43**

Paper 4 Data Response and Essays **May/June 2018**

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.

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

Cambridge International will not enter into discussions about these mark schemes.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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ASSESSMENT OBJECTIVES

The skills listed below are what we expect candidates to be able to do. The marks in the mark scheme reward candidates who demonstrate these skills, so they are helpful to keep in mind if you have any doubts as to whether or not something is worthy of credit.

AO1 Knowledge and understanding	Demonstrate knowledge and understanding.
AO2 Application	Interpret and apply knowledge and understanding to information presented in written, numerical or graphical form.
AO3 Analysis	Analyse economic issues and arguments, using relevant economic concepts, theories and information, and communicate conclusions in a clear, reasoned manner.
AO4 Evaluation	Critically evaluate economic information, arguments, proposals and policies, taking into consideration relevant information and economic principles and distinguishing facts from hypothetical statements and value judgements.

LEVELS OF RESPONSE MARKING APPROACH

The essay questions in Section B are marked using Levels of Response. They carry a maximum mark of 25 each. Most of them are split into two parts, where part (a) is worth 12 marks and part (b) is worth 13 marks. However, some essays are set as a single question worth 25 marks.

Try not to 'bunch' marks, but use the whole mark range. Do not reserve (e.g.) high Level 4 marks 'just in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, then it must be rewarded appropriately. 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 skills described in the assessment objectives and not purely on the ability to itemise further facts from the content of the syllabus. All of the essays test the four assessment objectives above.

LEVELS OF RESPONSE MARKING PROCESS

There are two steps that need to be taken in awarding the mark for the essay questions:

Step 1: Determine the level – start at the highest level and work down until you reach the level that best describes the answer. Use a 'best-fit' approach: which level does it most closely resemble overall, considering all of the assessment objectives on balance?

Step 2: Determine the mark within the level by considering the following:

- Consistently meets the criteria; clear evidence of the qualities of the level = at the top of the level
- Meets the level's criteria but with some slight inconsistency or some parts of the criteria not addressed = at the middle or above the middle of the level (depending on number of marks available)
- Just enough achievement for this level on balance = either below the middle or at the middle of the level (depending on number of marks available)
- Answer is on the borderline of this level and the one below, i.e. it there is only limited evidence it meets the criteria for this level = at the bottom of level

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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	AO1	AO2	AO3	AO4
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
1(a)	• income is a flow of money received at intervals • wealth is a stock of assets	**2**
1(b)	• equality is when people are treated the same (1) • equity is when people are treated fairly, but differently, having taken into account their different circumstances (1) • preventing tax evasion is treating everyone the same – equality, the amount of tax paid may be different depending on circumstances – equity (1) • more public services – depends on how the services are allocated – could be equality or equity; (1-2) • higher wages for lower paid –could be equality if dealing with the same job but different pay rates; may be equity if there is thought to be unfairness in current system of pay. (1)	**6**
1(c)	Tax havens assist global capitalism to work: Businesses need to be encouraged to take risks and innovation and thereby increase the size of national income through the investment multiplier. This creates employment through an increase in AD. More likely to undertake deals if tax is low. Effect of this is weakened if MNCs pay low wages and send profits to tax havens. Positive link: Tax havens are used by entrepreneurs/MNC's to shelter incomes from taxation. These incomes could be used as investments by the MNC's to create further wealth in countries where they operate. Negative link: Income inequalities are becoming greater between rich and poor in both developed and developing countries. Taxes create resentment and may prevent investment and impede economic growth.	**6**
1(d)	Governments face a shortfall in revenue. Therefore to cover government expenditure they need to borrow more because tax revenues are below potential. Education suffers, health care suffers. If the 'rich' do not pay sufficient tax there is an opportunity cost. Provision of welfare programmes, education, health provided by governments will be affected. Quote examples from text e.g. African countries. Governments incur administrative costs trying to recover tax which could be better spent on services. Government's macro-aims are affected e.g. capital outflows create balance of payments deficits. Governments may have to make welfare payments to unemployed workers if MNCs fail to invest profits back into the businesses where they were generated. But paying lower taxes could be profitable for companies who might then re-invest, research more and employ more people.	**6**

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Question	Answer	Marks
2(a)	*Margin is significant in relating the utility/satisfaction to the price in determining equilibrium quantity bought. Candidates can use either marginal utility theory or marginal changes on indifference curves related to budget lines.* **L4 (9–12):** for a clear explanation and a sound comment on the relation between the price and the satisfaction obtained, referring to more than one good **L3 (7–8):** for a less developed answer but which still refers to the equilibrium but probably concentrates on only one good **L2 (5–6):** for a brief attempt which does not clearly bring out the significance of the marginal analysis **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**12**
2(b)	*Social efficiency/allocative efficiency requires that marginal social costs and marginal social benefits are equal at the point of output. For productive efficiency to occur the firm is producing at its lowest average cost for the output concerned. (Not necessarily the lowest overall average cost).* **L4 (9–13):** for an understanding of the link of marginal to allocative efficiency and average to productive efficiency with a conclusion **L3 (7–8):** for a less accurate understanding – probably evidenced by a weak conclusion of the role of marginal and average in the different efficiencies **L2 (5–6):** for an unclear answer or one which concentrates on one of the efficiencies **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**13**

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Question	Answer	Marks
3	*Costs will increase initially as research is expensive but in the long run average costs would decrease. Candidates should explain how economies of scale affect costs. Market structure is likely to become more imperfect and this may lead to potentially higher profits and higher, not reduced, product prices. Small firms are unlikely to be able to afford the research.* **L4 (18–25):** for clear explanation of economies of scale; consideration of likely effect on prices and profits as industries become larger and the market more imperfect. Conclusion should be given to a reasoned answer **L3 (14–17):** for an answer that concentrates more on one side – either economies or the market structure: or a briefer explanation of both parts; a conclusion should still be given **L2 (10–13):** for a more limited answer probably concentrating on economies. Maximum 11 if no conclusion **L1 (1–9):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**25**

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Question	Answer	Marks
4(a)	*Theory predicts certain outcome based upon the demand (MRP) and cost/supply of labour. Explanation of determination of equilibrium output is required.* **L4 (9–12):** for a clear explanation of the theory and derivation of equilibrium position, a comment about possible changes in MRP or supply with a comment about the precision of the theory. 7–8 marks if demand/supply approach used **L3 (7–8):** for a briefer explanation of the theory without any comment on possible changes or without a comment on the precision of the theory. 5–6 marks if demand/supply approach used **L2 (5–6):** for a much less developed answer with no comment on the precision of the theory and vague mention about equilibrium. 3–4 marks if demand/supply approach used **L1 (1–4):** 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. 1–2 marks if demand/supply approach used	**12**
4(b)	*Candidates could discuss whether it is possible to determine precisely the MRP curve (or the demand curve), could discuss problems of measuring productivity. They could also discuss the problems of determining the marginal cost. These difficulties are accentuated, and the theory becomes even less realistic, when either trade unions or governments influence the determination of wages. There could be a range of outcomes depending on the bargaining strengths of each side.* **L4 (9–13):** for a reasoned and clear explanation with accurate development of theoretical difficulties. 7–8 marks if demand/supply approach used **L3 (7–8):** for a clear but undeveloped explanation which is limited to either the demand side or the supply side. 5–6 marks if demand/supply approach used **L2 (5–6):** for a limited attempt to consider the theory and with a greater concentration on the descriptive elements. 3–4 marks if demand/supply approach used **L1 (1–4):** 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. 1–2 marks if demand/supply approach used	**13**

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Question	Answer	Marks
5(a)	*Candidates will provide a clear definition of the term 'deflationary gap' supported by an accurate, clearly labelled supporting diagram which identifies the deflationary gap. Some attempt should be made to establish why this might cause economic problems such as high levels of unemployment, low levels of economic growth and low consumer/investor confidence.* **L4 (9–12):** for an answer that extends the range of reasons why a deflationary gap might produce negative outcomes, such as potential long run negative effects on expectations or the existence of a liquidity trap. Responses which attempt to locate possible positive effects, for example lower cost of living, improvement in the balance of payments, should also be rewarded. There should be a conclusion. **L3 (7–8):** for an answer that makes some attempt to analyse why a deflationary gap is likely to be associated with negative outcomes such as unemployment and/or low growth rates. **L2 (5–6):** for answer that describes what is meant by a deflationary gap and is supported by a reasonably accurate diagram. **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
5(b)	*Responses should indicate a clear understanding of what is meant by a budget deficit and the economic circumstances where governments would choose to use them. Reference should then be briefly made to the problems created by a deflationary gap and the links between these and the use of budget deficits. Some attempt should be made to discuss the effectiveness of using budget deficits and also some consideration of alternatives such as the reliance on the operation of market forces and/or the use of supply side policies.* **L4 (9–13):** for responses that recognise there are problems associated with deficit financing such as crowding out, long term effects on the price level. Higher level four responses will then consider alternative approaches such as supply side policies and/or market liberalisation. A conclusion should be provided. **L3 (7–8):** for responses that analyse the links between the use of budget deficits and deflationary gaps. Clear diagrams illustrating how deficits can be used to close the gap will be provided. Some attempt should be made to develop answers which recognise that budget deficits alone are unlikely to solve problems associated with negative expectations. **L2 (5–6):** for an understanding of the term budget deficit and how this might provide a solution to the problem of a deflationary gap. Answers will be descriptive and not go beyond linking the policy to key issues of unemployment and low growth rates. **L1 (1–4):** 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)	*Candidates should explain that the quantity theory of money uses an identity where total expenditure equals total income, and this can presented in the form MV = PT. Each variable should be explained and the key assumptions relating to V and T established. Then the direct link between changes in the money supply and the price level should be identified and discussed in relation to other economic policies which might be used to reduce inflation.* **L4 (9–12):** for an answer that attempts to evaluate the relevance of the theory to policies used to control inflation. Difficulties relating to how we measure the variables might be discussed and/or the effectiveness of polices based on this theory in relation to alternative policies **L3 (7–8):** for an answer that uses the formula to analyse the potential impact on the price level when the money supply increases and which recognises the importance of reducing the growth of the money in order to control inflation **L2 (5–6):** for an answer that states the formula and explains each variable and the assumptions which are made regarding V and T **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**12**
6(b)	*Answers should explain the nature of the Phillips curve and how it was derived. Discussion relating to the suggested 'trade off' between inflation and unemployment should be provided. Alternative explanations of the relationship between inflation and unemployment should also be considered, as well as an attempt to evaluate whether inflation can be controlled without raising the level of unemployment. A conclusion is required.* **L4 (9–13):** for an answer that discusses the contention and identifies alternative explanations of the relationship between inflation and unemployment. Some reference to problems with empirical evidence or the neglect of inflationary expectations might be discussed. A conclusion should be provided **L3 (7–8):** for an answer that analyses the relationship between inflation and unemployment and which provides an accurately labelled supporting diagram. Comments upon the particular shape of the curve and/or it was derived might also be made **L2 (5–6):** for answer that demonstrates knowledge of the relationship between inflation and unemployment as indicated by the Phillips curve **L1 (1–4):** 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	*Answers should clearly distinguish between economic growth and development and examine the extent to which economic growth relies solely on higher levels of investment. Alternative ways of achieving economic development should be discussed and the role of private sector investment as an alternative to government investment should also be considered. A conclusion should be drawn based on the preceding discussion.* **L4 (18–25):** for an answer that examines the extent to which economic development can only be achieved by economic growth and which discusses whether economic growth is the sole determinant of investment. A conclusion would be required **L3 (14–17):** for an answer that attempt to analyse the relationship between change in the level of investment and changes in growth and how this might impact on the level of development **L2 (10–13):** for an answer that provides a descriptive account of the difference between economic growth and economic development and the difference between government and private investment **L1 (1–9):** 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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