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 2019**

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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Generic Marking Principles

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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

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Level	AO1	AO2	AO3	AO4
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
1(a)	**What evidence is there in the article to suggest that loyalty cards make markets imperfectly competitive?** • Create barriers to competition by reducing switches in demand, • Costs of scheme funded by higher prices • not affordable by smaller firms – high initial costs, $60m for one supermarket, • Causes confusion of information leading to imperfect knowledge.	**4**
1(b)	**Analyse why a profit maximising retailer might be interested in the link between utility, consumers' loyalty and price elasticity of demand.** • Loyalty will mean consumers do not change suppliers, this might create a lower price elasticity of demand, (1) • Explain price elasticity (1) • With lower price elasticity can subsequently raise prices with resulting higher profits – depending on cost changes (2)	**4**
1(c)	**Consider whether there is conflicting evidence in the article about the effectiveness of loyalty cards which offer price discounts.** Evidence for the effectiveness of cards: • Cards enable retailers to find out about consumer wants and target promotions; • Article also says retailers recognise the importance of price and can offer discounts through cards. (2) In contrast to that it also says • Price is not most significant factor in determining choice; • Also there is no loyalty if buying is based on habit, or has low emotional involvement. (2) Conclusion: seems to be some conflict. (1)	**5**
1(d)	**Discuss how the idea of rationality is used in the indifference curve theory of consumer behaviour.** Explanation of indifference curves. General description without link to rationality max 4 Consumer knows combinations between which there is indifference, this is a rational calculation which remains constant over the curve, Consumer knows satisfaction levels and which combination is preferred to another, Consumer rationally compares satisfaction to price, and buys to achieve maximum satisfaction Consumer can compare two goods using rational deductions.	**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)	**Explain the meaning of and whether there is a link** **(i) between externalities and public goods** **(ii) between transfer payments and the poverty trap.** *Meaning of externality and public goods (4), link? Existence of externalities can be found with public goods which are not provided by the market. (2); meaning of transfer payments and poverty trap (4) link? Poverty can be relieved by transfer payments. Finding work but only on a low income may result in withdrawal of transfer payment and cause return to poverty (2)* **L4 (9–12 marks)** For a sound explanation of all four concepts and conclusion about the two links. **L3 (7–8 marks)** For weaker explanation of four concepts or sound explanation of three concepts and conclusion about at least one of the links. **L2 (5–6 marks)** For a sound explanation of two of the concepts but little comment about the link. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
2(b)	**Consider whether the existence of externalities in production means that it is impossible to achieve an optimal allocation of resources.** *Explanation of meaning of efficiency allocation and explanation of the analysis which ensures an efficient optimum may be reached. Allocative efficiency is intended. Allocative efficiency ensures that no one can be made better off without someone being worse off. Individual actions are not always best for society as a whole and externalities (market failure result). Discussion of necessity/desirability of government intervention to achieve efficiency. This could be by taxes, subsidies, regulation, information provision, ownership, persuasion (nudge theory) rather than by enforcement.* **L4 (9–13 marks)** For an accurate discussion of externalities and market failure, with examples and a conclusion about the need for and methods of government intervention. Expect at least three methods. **L3 (7–8 marks)** For a more limited discussion of the externalities and market failure and more limited range of methods governments can use to overcome market failure. Expect at least two methods. **L2 (5–6 marks)** For a brief analysis of externalities and very scant coverage of methods to correct them. Expect at least one method. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**
3(a)	**Explain what is meant by 'the principal–agent problem' and analyse why it is likely to be found in some market structures and not others.** *The owner of the business (principal) is not necessarily taking the decisions about its operation. This is done by managers (the agent). There may be difference between the aims and objectives of the two. Unlikely to occur in perfect competition, firms are too small; or monopolistic competition. Occurs in larger firms, usually with shareholders in oligopoly and monopoly.* **L4 (9–12 marks)** For clear explanation of the 'problem' and a comment on why it occurs in some market structures and not others. **L3 (7–8 marks)** For a less developed explanation but with a judgement on where the 'problem' may exist. **L2 (5–6 marks)** For a briefer explanation, or an inaccurate description of market structures, unclear judgement. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

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Question	Answer	Marks
3(b)	**Explain what is meant by a contestable market and discuss whether a firm in a contestable market necessarily aims to maximise its profit.** *Contestable market is one with zero entry and exit costs. No barriers to entry and no barriers to exit, such as contractual agreements. For a market to be perfectly contestable, industry technology would be readily available to potential entrants. This makes the market potentially competitive and aims other than profit maximising might exist. Discussion of alternative aims; behavioural, managerial, satisficing, limit pricing.* **L4 (9–13 marks)** For a clear explanation of contestable market, and aim of perfectly competitive firm with two alternative aims. Good structure to the answer. **L3 (7–8 marks)** For a weaker comment either the explanation of contestable, or the perfectly competitive aim or only one alternative aim. **L2 (5–6 marks)** For a brief undeveloped answer with lack of clarity about contestable and the alternative aim. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**
4	**'A rise in wages and salaries will increase the costs of production, decrease profits, cause inflation and is detrimental.'** **Discuss whether the economic theory of wage determination supports the view that an increase in the level of wage rates is detrimental for the firm and for the worker.** *Candidates should consider each part of the statement. The theory of wage determination should be explained. Do a rise in wages necessarily decrease profits, cause inflation and would it be detrimental to the firm and worker. Comment should be given on how the outcome may be affected by changes in productivity, changes in the demand for the product, the existence of trade union bargaining, a minimum wage affecting the supply, by large monoposonies forcing down wages from the competitive level. There should be a conclusion and a well-structured answer* **L4 (18–25 marks)** For a critique of the statement and a thorough explanation of the analysis of wage determination with a clear comment on effect on firm and worker depending on what changes prompted the rise in wages. **L3 (14–17 marks)** For a weaker critique of the statement with weaker structure on how wage rises affect the firm and worker. Or a good account of the effect on either the firm or the worker. **L2 (10–13 marks)** For a correct but undeveloped analysis with much briefer critique of the statement. **L1 (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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Question	Answer	Marks
5(a)	**Distinguish between the internal value of money and the external value of money and consider whether there is a link between these two values.** *Answers should explain that the internal value of money will be determined by inflation and subsequent purchasing power and the external value will be determined by the foreign exchange value of the domestic currency. Links between the two values should be discussed. For example, an increase in inflation might lead to a fall in the exchange rate, therefore a fall in the internal value might be associated with a fall in the external value.* **L4 (9–12 marks)** For an answer which attempts to discuss how a change in the internal value of money might affect the external value and vice versa. Good responses will provide at least two examples and consider changes in both directions. Might also discuss the strength of the links. **L3 (7–8 marks)** For an analysis of what might affect each of the two types of value and a limited attempt to identify why a change in one value might lead to a change in the other value. **L2 (5–6 marks)** For an explanation of what is meant by internal and external value of money and establishing a clear distinction between the two. **L1 (1–4 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.	**12**

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Question	Answer	Marks
5(b)	**'Policies which attempt to control the internal value of money will automatically make it difficult to control the external value of money.' Discuss the view that this statement is only partially correct.** *Policies which attempt to control the internal value of money will include all policies used to control inflation. These might include monetarist, Keynesian demand pull and Keynesian cost push. Different policies would be expected to have a different impact on the external value of money. The response should use analysis to establish the links between the policies and their impact and make some attempt to discuss whether such policies automatically make it difficult to control the external value of money.* **L4 (9–13 marks)** For an answer which attempts to evaluate how far the statement under consideration can be described as 'only partially' correct. There should also be a discussion relating to whether these policies will 'automatically' make it difficult to control the external value of money. Examples and evidence should be provided to form a conclusion. **L3 (7–8 marks)** For an answer which analyses why policies identified to control the internal value will have some impact on the external value. For example, an increase in interest rates to help control demand pull inflation might lead to an increase in exchange rates due to short term capital inflows. **L2 (5–6 marks)** For an answer which explains alternative policies to control inflation and recognises that these policies will have an effect on the external value of money. **L1 (1–4 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.	**13**

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Question	Answer	Marks
6	**'The failure of the policy of quantitative easing (QE) to solve problems associated with an economic recession illustrates the weakness of monetary transmissions mechanisms in particular and monetary policy in general.'** **Critically evaluate this statement.** *Quantitative Easing should be explained and the problems generally associated with an economic recession should be clearly identified. The links between Quantitative Easing and the monetary transmissions mechanism should be established and these links should be further extended to allow a discussion of the effectiveness of monetary policy on real variables such as income, output and employment. Evaluative comment and a conclusion should be provided to assess the accuracy of the statement.* **L4 (18–25 marks)** For an answer which focuses upon each of the four elements referred to in the statement and makes an attempt to assess the extent to which problems associated with a recession might be solved by the use of Quantitative Easing. Evaluative comment should produce a conclusion/judgement regarding the success/failure of Quantitative Easing **L3 (14–17 marks)** For an answer which attempts to link each element of the statement and provides some analysis of how/why these elements are linked. Diagrams might be used to illustrate how the monetary transmissions works and how this might address the problems associated with a recession **L2 (10–13 marks)** For a correct explanation of each of the key elements of the statement but no attempt to link these elements to address the specific question **L1 (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
7(a)	**Assess the impact of foreign direct investment (FDI) on developing economies.** *Answers should clearly identify what is meant by foreign direct investment (FDI) and should demonstrate an awareness of its special importance regarding developing economies. Links between FDI and multinational corporations should also be referred to. The focus should be upon the impact of FDIs on developing economies. This focus would examine both positive and negative impacts on key areas of a developing economy such as: growth; employment; infrastructure; balance of payments; environment.* **L4 (9–12 marks)** For an attempt to evaluate how far FDI proceeds to create a net positive effect on relevant key indicators of development such as economic growth, productivity, employment and foreign trade. A conclusion should look at whether the overall net effect of FDI could be considered beneficial **L3 (7–8 marks)** For a detailed analysis of the how foreign direct investment might impact on undeveloped economies. Analysis should focus upon a comparison between the potential positive and potential negative effects of FD **L2 (5–6 marks)** For a brief, undeveloped answer which describes the potential impact on a few economic issues but does not provide any supporting analysis **L1 (1–4 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.	**12**

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Question	Answer	Marks
7(b)	**It is often stated that the problem of 'a vicious cycle of poverty' exists in developing countries.** **Explain what this means and discuss how this problem might be solved.** *A clear explanation of the connections between low incomes, low savings, low investment and low growth rates should be provided. Responses might also refer to the cycle of poverty relating to development which refers to links between low income, low levels of education, low productivity. The effectiveness of alternative measures introduced to break these cycles should be discussed.* **L4 (9–13 marks)** For a comparison of alternative solutions and some attempt made to evaluate the likely effectiveness of different approaches. A wide range of measures might be discussed including: supply side policies; use of overseas aid; promote export led growth; increase productivity in the primary sector; incentives to increase savings; direct government intervention. **L3 (7–8 marks)** For a more detailed examination of the nature of a cycle of poverty should be provided with an attempt to analyse why the cycle continues and why it is difficult to introduce policies which might break the cycle. Possible solutions based on analysis should be provided **L2 (5–6 marks)** For knowledge and understanding of what is meant by a 'cycle of poverty' in relation undeveloped countries but no attempt to analyse why the cycle occurs. **L1 (1–4 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.	**13**

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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

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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)	**Identify two ways in which kiranas compete for customers.** Must be distinct points: • exotic / fresh produce / quality • government intervention • prime locations • credit facilities • home delivery • sourcing products not normally stocked • local knowledge **2 × 1 marks**	**2**
1(b)	**What can be concluded about the groceries and vegetables trade in India from Fig. 1.1?** Candidates can write about the type of store and / or the composition of the grocery / vegetable trade. For example: • Online grocers least used, more for groceries than vegetables • Stalls and kiranas most used, vegetables the most common closely followed by grocery and vegetable sales, relatively few groceries-only customers • Supermarkets the second most-used with limited vegetables sales • Home delivery kirana customers more grocery-heavy, in contrast to those who visit the shops and stalls. **5 × 1 mark**, based on Fig. 1.1	**5**
1(c)	**Use economic analysis to suggest the market structure in which kiranas operate and explain how equilibrium is reached by a firm in such a market.** **1 mark** for identification of Monopolistic Competition **Up to 2 marks** for explanation / characteristics **Up to 3 marks** for analysis of Monopolistic Competition short run **or** long run equilibrium. If wrong market structure identified allow up to 3 marks for analysis of short run or long run equilibrium of the market chosen. Diagrams are not essential.	**6**

Question	Answer	Marks
1(d)	**Discuss how it might be possible for supermarkets in India to compete with the stalls and kiranas.** **Up to 4 marks** for analysing why it might be possible: • Supermarkets can enjoy economies of scale, reduces LRAC and therefore prices allowing them to compete. • For example can spread the cost of advertising across multiple stores to increase their demand, can buy products in bulk and so enjoy lower unit costs, can use specialisation of labour. • Credit facilities, delivery quality. **Up to 4 marks** for analysing why it might not be possible: • Many good sites already occupied by kiranas, therefore a barrier to location. • Small shops compete on knowledge, convenience and personal relationships, hence still attract consumers. • Large proportion of India's population lives in rural villages and may be many kilometres from supermarkets. • Average incomes for many are low therefore idea of weekly / monthly shop is limited and therefore limits supermarket demand. **1 mark** for a conclusion. **NOTE: max. 7 marks**	**7**

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	**Explain what is meant by 'market failure' and consider how far government intervention can reduce market failure.** *Market failure explained in terms of lack of knowledge, externalities and inefficiency, (productive and allocative) public goods and their effect on price and output produced. A discussion of the forms of government intervention regulation, state provision and taxation / subsidies and the degree to which they can reduce market failure. The limits of government knowledge limiting the beneficial outcome.* *Note: merit and / or demerit goods are one form of market failure; positive and / or negative externalities are one form of market failure.* **L4 (18–25 marks)** For a thorough explanation of 2 forms of market failure. A discussion of 2 forms of government intervention and how successful that intervention might be. A conclusion is drawn (Max. 21 no conclusion) . **L3 (14–17 marks)** For a thorough explanation of 1 form of market failure and 1 form of government intervention and how successful that intervention might be. **Or** A limited explanation of 2 forms of market failure and 2 forms of government intervention **L2 (10–13 marks)** For a limited explanation of 1 form of market failure and 1 form of government intervention or which focusses only on market failure. **Or** An answer which is largely descriptive. **L1 (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 contains irrelevancies and errors of theory.	**25**

Question	Answer	Marks
3(a)	**A recent newspaper article commented on the fact that a pharmaceutical company charged customers in the United States (US) US $800 per treatment whilst it charged customers in Egypt US $80 for the same treatment.** **Explain why the company might follow this policy and what conditions are necessary to allow the policy to be successful.** *An explanation of price discrimination – marginal revenue (MR) differs between markets with the same marginal cost (MC). Explanation of the conditions necessary for its successful implementation, price maker, barriers between markets and differing price elasticity of demand.* **L4 (9–12 marks)** For an explanation of how the firm benefits from charging differing prices in different markets and the 3 conditions necessary for price discrimination. **L3 (7–8 marks)** For an answer which explains how a firm benefits from charging differing prices in different markets and a limited explanation of the necessary conditions. **L2 (5–6 marks)** For a limited description of both aspects of the question. **Or** An answer that explains price differences rather than Price Discrimination. **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**
3(b)	**Discuss whether oligopolistic industries always operate against the interests of consumers.** *Oligopoly behaviours e.g. collusion, price fixing, barriers to entry preventing competition. But benefits for consumers, e.g. new product development, economies of scale, price discrimination, price wars.* **L4 (9–13 marks)** For a comprehensive discussion of at least 2 factors in favour and 2 factors against the consumers' interest. Max. 11 if no conclusion. **L3 (7–8 marks)** For a largely one-sided discussion of factors for or against. **Or** A limited two sided discussion. **L2 (5–6 marks)** For a limited discussion of oligopoly. **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.	**13**

Question	Answer	Marks
4(a)	**Analyse how an individual consumer's demand curve for a product is derived and consider how this may be linked to its market demand.** *Candidates can use either a marginal utility or an indifference curve approach.* *Marginal Utility: explanation of marginal and total utility, the equi-marginal equilibrium, the change in price of one good and the resultant establishment of the new equilibrium and its consequence for demand.* *Indifference Curve: explanation of the shape of an indifference curve and a budget line, the point of tangency to establish demand, followed by a change in price and change in quantity, linked to an individual's demand curve.* *The aggregation of individual's demand curves to make the market demand curve.* **L4 (9–12 marks)** For a sound explanation of marginal utility, and the link to equi-marginal equilibrium. The effect of a change in price on demand for a good linked to an individual demand curve and hence the aggregation of individual demand to construct a market demand curve. **Or** For an accurate analysis of an indifference curve map and budget line tangency. Change in price shifting budget line and impact on individual demand curve and hence the aggregation of individual demand to construct a market demand curve. **L3 (7–8 marks)** For a sound explanation of marginal utility, and the link to equi-marginal equilibrium. The effect of a change in price on individual demand. **Or** For an accurate analysis of an indifference curve map and budget line tangency. Change in price shifting budget line and impact on individual demand curve. **L2 (5–6 marks)** For a limited explanation of equilibrium. **Or** For an explanation of an indifference curve map and budget line tangency. **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**

Question	Answer	Marks
4(b)	**Use indifference curve analysis to distinguish between the effect of an increase in income on a consumer's demand for a normal good and an inferior good.** *Analysis to show the effect of an outward shift in the budget line on the demand for a normal (positive) good and inferior (negative) good.* **L4 (9–13 marks)** For a thorough analysis of the effect of an increase in income on both normal and inferior goods. **L3 (7–8 marks)** For a thorough analysis of the effect of an increase in income on **either** a normal **or** an inferior good. (This may be shown indirectly through a change in real income following a price fall.) **L2 (5–6 marks)** For an explanation of a normal good and an inferior good with some link to indifference curves. **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.	**13**

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Question	Answer	Marks
5	**Cyclical and structural unemployment are the most common types of unemployment.** **Explain the causes of these types of unemployment and assess the effectiveness of government policies to reduce them.** *An analysis of the cause of cyclical unemployment – lack of aggregate demand and structural unemployment – a lack of demand for a particular good or service.* *Fiscal, monetary and supply-side policies need to be identified and analysed and linked to the structural or cyclical unemployment.* **L4 (18–25 marks)** For a thorough explanation of the causes of both types of unemployment. Two policies chosen need to be analysed and explicitly linked to these types of unemployment with an assessment of their effectiveness. A conclusion is required. (Max. 21 no conclusion.) **L3 (14–17 marks)** For a limited explanation of the causes of two types of unemployment and a limited analysis of two policies. **L2 (10–13 marks)** For an accurate description of the two types of unemployment and a description of government policies. **L1 (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 contains irrelevancies and errors of theory.	**25**

Question	Answer	Marks
6(a)	**The US Federal Reserve pursued a policy of quantitative easing (QE) for several years.** **Explain how the quantitative easing affects the level of economic activity in a country.** *The injection of money into the economy to boost spending. The central bank creates new money electronically to buy financial assets like government bonds. This cash injection lowers the rate of interest and boosts asset prices, which increases wealth and supports spending, increasing AD and stimulating employment and growth.* **L4 (9–12 marks)** For a thorough explanation of QE and the effects on the money supply and interest rates and the consequences of lower interest rates or the wealth effect of higher bond prices and its effect on 2 forms of economic activity (e.g. unemployment, investment, econ growth, exchange rates / balance of payments or inflation). **L3 (7–8 marks)** For a sound explanation of QE. The effect on the money supply and interest rates and the consequence of lower interest rates on 1 form of economic activity. **L2 (5–6 marks)** For a limited description of QE and a brief link to economic activity. **Or** A good description of QE but no clear link to economic activity. **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**

Question	Answer	Marks
6(b)	**Discuss how far (i) an increase in wages and (ii) a loss of business confidence might affect the rate of interest.** *Identification of the relevance of increases in wages on the transaction and precautionary for money (liquidity preference (LP)) and the effect on interest rates. The effect of a fall in confidence on the demand for money.* **L4 (9–13 marks)** For a thorough discussion of the effect of an increase in wages on the different components of LP and the effect of a decrease in business confidence on the LP curve and the effect on the rate of interest. The changes may be considered individually or simultaneously. Max. 11 if no conclusion. **L3 (7–8 marks)** For a good explanation of either wages or business confidence on the LP curve and on the rate of interest. **Or** A limited explanation of both wages and business confidence. **L2 (5–6 marks)** For a limited explanation of wages **or** deteriorating business confidence on LP. **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. **Max. L2** for a good explanation based on other approaches.	**13**
7(a)	**Explain what is meant by actual economic growth and potential economic growth.** *A definition of actual economic growth (SR) in terms of an increase in real gross domestic product per annum. Potential economic growth (LR) as the change in economic capacity which may or may not be immediately utilised. Use of the production possibility frontier (PPF) to explain actual and potential economic growth. An appropriate AS & AD analysis is acceptable. Keynesian 45° diagram.* **L4 (9–12 marks)** For a thorough explanation of both terms. **L3 (7–8 marks)** For a thorough explanation of one term and a description of the other. **L2 (5–6 marks)** For a limited description of both terms. **Max 5 marks** for an accurate explanation but the terms and explanations are mismatched. **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**

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Question	Answer	Marks
7(b)	**'Health, education and savings are the most important factors in determining long-term development in developing countries.' Comment on this statement.** *Links between the 3 factors and development.* *Relevance of other factors in developing countries. For example foreign trade, trade substitution, FDI, infrastructure, technology, social and environmental elements.* *It is the interplay between the factors which leads to greater or lesser success.* **L4 (9–13 marks)** For a good discussion of the contribution of the three factors health, education and savings to economic development and a discussion of the role played by other factors in promoting economic development. The links between the factors e.g. which leads to reinforcement of the individual effect. Max. 11 if no conclusion. **L3 (7–8 marks)** For a discussion of the contribution of the three factors health, education and savings mentioned above to economic development. **and / or** a limited discussion of other factors. **L2 (5–6 marks)** For a limited description of 2 of the 3 factors affecting economic development. **Or** A limited description of other factors. **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.	**13**

Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/43**

Paper 4 Data Response and Essays **May/June 2019**

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.

Cambridge International is publishing the mark schemes for the May/June 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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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

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Level	AO1	AO2	AO3	AO4
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
1(a)	**What evidence is there in the article to suggest that loyalty cards make markets imperfectly competitive?** • Create barriers to competition by reducing switches in demand, • Costs of scheme funded by higher prices • not affordable by smaller firms – high initial costs, $60m for one supermarket, • Causes confusion of information leading to imperfect knowledge.	**4**
1(b)	**Analyse why a profit maximising retailer might be interested in the link between utility, consumers' loyalty and price elasticity of demand.** • Loyalty will mean consumers do not change suppliers, this might create a lower price elasticity of demand, (1) • Explain price elasticity (1) • With lower price elasticity can subsequently raise prices with resulting higher profits – depending on cost changes (2)	**4**
1(c)	**Consider whether there is conflicting evidence in the article about the effectiveness of loyalty cards which offer price discounts.** Evidence for the effectiveness of cards: • Cards enable retailers to find out about consumer wants and target promotions; • Article also says retailers recognise the importance of price and can offer discounts through cards. (2) In contrast to that it also says • Price is not most significant factor in determining choice; • Also there is no loyalty if buying is based on habit, or has low emotional involvement. (2) Conclusion: seems to be some conflict. (1)	**5**
1(d)	**Discuss how the idea of rationality is used in the indifference curve theory of consumer behaviour.** Explanation of indifference curves. General description without link to rationality max 4 Consumer knows combinations between which there is indifference, this is a rational calculation which remains constant over the curve, Consumer knows satisfaction levels and which combination is preferred to another, Consumer rationally compares satisfaction to price, and buys to achieve maximum satisfaction Consumer can compare two goods using rational deductions.	**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)	**Explain the meaning of and whether there is a link** **(i) between externalities and public goods** **(ii) between transfer payments and the poverty trap.** *Meaning of externality and public goods (4), link? Existence of externalities can be found with public goods which are not provided by the market. (2); meaning of transfer payments and poverty trap (4) link? Poverty can be relieved by transfer payments. Finding work but only on a low income may result in withdrawal of transfer payment and cause return to poverty (2)* **L4 (9–12 marks)** For a sound explanation of all four concepts and conclusion about the two links. **L3 (7–8 marks)** For weaker explanation of four concepts or sound explanation of three concepts and conclusion about at least one of the links. **L2 (5–6 marks)** For a sound explanation of two of the concepts but little comment about the link. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
2(b)	**Consider whether the existence of externalities in production means that it is impossible to achieve an optimal allocation of resources.** *Explanation of meaning of efficiency allocation and explanation of the analysis which ensures an efficient optimum may be reached. Allocative efficiency is intended. Allocative efficiency ensures that no one can be made better off without someone being worse off. Individual actions are not always best for society as a whole and externalities (market failure result). Discussion of necessity/desirability of government intervention to achieve efficiency. This could be by taxes, subsidies, regulation, information provision, ownership, persuasion (nudge theory) rather than by enforcement.* **L4 (9–13 marks)** For an accurate discussion of externalities and market failure, with examples and a conclusion about the need for and methods of government intervention. Expect at least three methods. **L3 (7–8 marks)** For a more limited discussion of the externalities and market failure and more limited range of methods governments can use to overcome market failure. Expect at least two methods. **L2 (5–6 marks)** For a brief analysis of externalities and very scant coverage of methods to correct them. Expect at least one method. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**
3(a)	**Explain what is meant by 'the principal–agent problem' and analyse why it is likely to be found in some market structures and not others.** *The owner of the business (principal) is not necessarily taking the decisions about its operation. This is done by managers (the agent). There may be difference between the aims and objectives of the two. Unlikely to occur in perfect competition, firms are too small; or monopolistic competition. Occurs in larger firms, usually with shareholders in oligopoly and monopoly.* **L4 (9–12 marks)** For clear explanation of the 'problem' and a comment on why it occurs in some market structures and not others. **L3 (7–8 marks)** For a less developed explanation but with a judgement on where the 'problem' may exist. **L2 (5–6 marks)** For a briefer explanation, or an inaccurate description of market structures, unclear judgement. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
3(b)	**Explain what is meant by a contestable market and discuss whether a firm in a contestable market necessarily aims to maximise its profit.** *Contestable market is one with zero entry and exit costs. No barriers to entry and no barriers to exit, such as contractual agreements. For a market to be perfectly contestable, industry technology would be readily available to potential entrants. This makes the market potentially competitive and aims other than profit maximising might exist. Discussion of alternative aims; behavioural, managerial, satisficing, limit pricing.* **L4 (9–13 marks)** For a clear explanation of contestable market, and aim of perfectly competitive firm with two alternative aims. Good structure to the answer. **L3 (7–8 marks)** For a weaker comment either the explanation of contestable, or the perfectly competitive aim or only one alternative aim. **L2 (5–6 marks)** For a brief undeveloped answer with lack of clarity about contestable and the alternative aim. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**
4	**'A rise in wages and salaries will increase the costs of production, decrease profits, cause inflation and is detrimental.'** **Discuss whether the economic theory of wage determination supports the view that an increase in the level of wage rates is detrimental for the firm and for the worker.** *Candidates should consider each part of the statement. The theory of wage determination should be explained. Do a rise in wages necessarily decrease profits, cause inflation and would it be detrimental to the firm and worker. Comment should be given on how the outcome may be affected by changes in productivity, changes in the demand for the product, the existence of trade union bargaining, a minimum wage affecting the supply, by large monoposonies forcing down wages from the competitive level. There should be a conclusion and a well-structured answer* **L4 (18–25 marks)** For a critique of the statement and a thorough explanation of the analysis of wage determination with a clear comment on effect on firm and worker depending on what changes prompted the rise in wages. **L3 (14–17 marks)** For a weaker critique of the statement with weaker structure on how wage rises affect the firm and worker. Or a good account of the effect on either the firm or the worker. **L2 (10–13 marks)** For a correct but undeveloped analysis with much briefer critique of the statement. **L1 (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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Question	Answer	Marks
5(a)	**Distinguish between the internal value of money and the external value of money and consider whether there is a link between these two values.** *Answers should explain that the internal value of money will be determined by inflation and subsequent purchasing power and the external value will be determined by the foreign exchange value of the domestic currency. Links between the two values should be discussed. For example, an increase in inflation might lead to a fall in the exchange rate, therefore a fall in the internal value might be associated with a fall in the external value.* **L4 (9–12 marks)** For an answer which attempts to discuss how a change in the internal value of money might affect the external value and vice versa. Good responses will provide at least two examples and consider changes in both directions. Might also discuss the strength of the links. **L3 (7–8 marks)** For an analysis of what might affect each of the two types of value and a limited attempt to identify why a change in one value might lead to a change in the other value. **L2 (5–6 marks)** For an explanation of what is meant by internal and external value of money and establishing a clear distinction between the two. **L1 (1–4 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.	**12**

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Question	Answer	Marks
5(b)	**'Policies which attempt to control the internal value of money will automatically make it difficult to control the external value of money.' Discuss the view that this statement is only partially correct.** *Policies which attempt to control the internal value of money will include all policies used to control inflation. These might include monetarist, Keynesian demand pull and Keynesian cost push. Different policies would be expected to have a different impact on the external value of money. The response should use analysis to establish the links between the policies and their impact and make some attempt to discuss whether such policies automatically make it difficult to control the external value of money.* **L4 (9–13 marks)** For an answer which attempts to evaluate how far the statement under consideration can be described as 'only partially' correct. There should also be a discussion relating to whether these policies will 'automatically' make it difficult to control the external value of money. Examples and evidence should be provided to form a conclusion. **L3 (7–8 marks)** For an answer which analyses why policies identified to control the internal value will have some impact on the external value. For example, an increase in interest rates to help control demand pull inflation might lead to an increase in exchange rates due to short term capital inflows. **L2 (5–6 marks)** For an answer which explains alternative policies to control inflation and recognises that these policies will have an effect on the external value of money. **L1 (1–4 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.	**13**

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Question	Answer	Marks
6	**'The failure of the policy of quantitative easing (QE) to solve problems associated with an economic recession illustrates the weakness of monetary transmissions mechanisms in particular and monetary policy in general.'** **Critically evaluate this statement.** *Quantitative Easing should be explained and the problems generally associated with an economic recession should be clearly identified. The links between Quantitative Easing and the monetary transmissions mechanism should be established and these links should be further extended to allow a discussion of the effectiveness of monetary policy on real variables such as income, output and employment. Evaluative comment and a conclusion should be provided to assess the accuracy of the statement.* **L4 (18–25 marks)** For an answer which focuses upon each of the four elements referred to in the statement and makes an attempt to assess the extent to which problems associated with a recession might be solved by the use of Quantitative Easing. Evaluative comment should produce a conclusion/judgement regarding the success/failure of Quantitative Easing **L3 (14–17 marks)** For an answer which attempts to link each element of the statement and provides some analysis of how/why these elements are linked. Diagrams might be used to illustrate how the monetary transmissions works and how this might address the problems associated with a recession **L2 (10–13 marks)** For a correct explanation of each of the key elements of the statement but no attempt to link these elements to address the specific question **L1 (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
7(a)	**Assess the impact of foreign direct investment (FDI) on developing economies.** *Answers should clearly identify what is meant by foreign direct investment (FDI) and should demonstrate an awareness of its special importance regarding developing economies. Links between FDI and multinational corporations should also be referred to. The focus should be upon the impact of FDIs on developing economies. This focus would examine both positive and negative impacts on key areas of a developing economy such as: growth; employment; infrastructure; balance of payments; environment.* **L4 (9–12 marks)** For an attempt to evaluate how far FDI proceeds to create a net positive effect on relevant key indicators of development such as economic growth, productivity, employment and foreign trade. A conclusion should look at whether the overall net effect of FDI could be considered beneficial **L3 (7–8 marks)** For a detailed analysis of the how foreign direct investment might impact on undeveloped economies. Analysis should focus upon a comparison between the potential positive and potential negative effects of FD **L2 (5–6 marks)** For a brief, undeveloped answer which describes the potential impact on a few economic issues but does not provide any supporting analysis **L1 (1–4 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.	**12**

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Question	Answer	Marks
7(b)	**It is often stated that the problem of 'a vicious cycle of poverty' exists in developing countries.** **Explain what this means and discuss how this problem might be solved.** *A clear explanation of the connections between low incomes, low savings, low investment and low growth rates should be provided. Responses might also refer to the cycle of poverty relating to development which refers to links between low income, low levels of education, low productivity. The effectiveness of alternative measures introduced to break these cycles should be discussed.* **L4 (9–13 marks)** For a comparison of alternative solutions and some attempt made to evaluate the likely effectiveness of different approaches. A wide range of measures might be discussed including: supply side policies; use of overseas aid; promote export led growth; increase productivity in the primary sector; incentives to increase savings; direct government intervention. **L3 (7–8 marks)** For a more detailed examination of the nature of a cycle of poverty should be provided with an attempt to analyse why the cycle continues and why it is difficult to introduce policies which might break the cycle. Possible solutions based on analysis should be provided **L2 (5–6 marks)** For knowledge and understanding of what is meant by a 'cycle of poverty' in relation undeveloped countries but no attempt to analyse why the cycle occurs. **L1 (1–4 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.	**13**

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