Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2020**

MARK SCHEME

Maximum Mark: 70

Published

Students did not sit exam papers in the June 2020 series due to the Covid-19 global pandemic.

This mark scheme is published to support teachers and students and should be read together with the question paper. It shows the requirements of the exam. The answer column of the mark scheme shows the proposed basis on which Examiners would award marks for this exam. Where appropriate, this column also provides the most likely acceptable alternative responses expected from students. Examiners usually review the mark scheme after they have seen student responses and update the mark scheme if appropriate. In the June series, Examiners were unable to consider the acceptability of alternative responses, as there were no student responses to consider.

Mark schemes should usually be read together with the Principal Examiner Report for Teachers. However, because students did not sit exam papers, there is no Principal Examiner Report for Teachers for the June 2020 series.

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

Cambridge International is publishing the mark schemes for the June 2020 series for most Cambridge IGCSE™ and Cambridge International A & AS Level components, and some Cambridge O Level components.

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Cambridge Assessment International Education – 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.

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

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	illustration may not be fully relevant and is superficial or overgeneralised	some analysis present but limited by omissions, error(s), irrelevant details or	some evidence of an ability to evaluate, discriminate, or to make basic judgements,

	the answer overall has a general relevance to the question, showing some understanding	an accurate application of some related theory or fact(s), with little or no development	unclear communication conclusions may not be drawn from it a disorganised answer	considering some relevant information
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

Question	Answer	Marks
1(a)	**What is meant by *nudge theory*?** Policies designed to influence behaviour by persuasion or example in order to achieve one of the main government economic policy aims.	**2**
1(b)	**Consider whether the information provides any evidence that nudge theory could increase an economy's GDP.** • paying taxes increases revenue which might be spent on projects to increase GDP • more people working reduces unemployment which increases income and might help economic growth • increasing saving for education might increase skill levels in the economy and improve productivity.	**6**
1(c)	**Distinguish between demand-side and supply-side policies and identify and explain <u>one</u> demand-side policy and <u>one</u> supply-side policy from the information.** Distinction (2) identify (2) explain (2) demand side – changes in tax rates, supply side – improving infrastructure, training, productivity, borrowing could be used to stimulate either demand or supply	**6**
1(d)	**The information is entitled 'In pursuit of well-being'. Discuss whether the information supports the idea that GDP is a good measure of well-being.** HDI is said to be a measure of well-being. Countries are ranked by HDI. Some countries with low HDI also have low GDP, but some with higher HDI do not have highest GDP. Examples should be given. But the GDP is not by per capita and does not use PPP. There is no real evidence that GDP is a comparable accurate measure of well-being.	**6**

Question	Answer	Marks
2	**Discuss whether competitive markets in the private sector are the best way to achieve an efficient allocation of resources.** Explanation of efficiency. Discussion of what is meant by competitive markets and whether this means only perfect competition. Efficiency is achieved in perfect competition but other competitive markets may not and individual actions are not always best for society as a whole. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency. **L4 (18–25 marks):** For an accurate discussion of efficiency, competition and market failure, with examples and a conclusion about the need for government intervention. No conclusion – maximum 21. **L3 (14–17 marks):** For a competent explanation of productive and allocative efficiency and more limited discussion of different competitive markets. Still expect a consideration of the reasons for market failure and the need for government. **L2 (10–13 marks):** For a briefer analysis of efficiency and of market failure with few examples and no comment about different types of competitive markets. No conclusion. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**
3(a)	**Explain what is meant by a 'consumer's equilibrium position' in indifference curve theory and how it can be used to form a demand curve.** Explanation of consumer equilibrium using indifference curves. Equilibrium position should be determined initially, then for a change in price. **L4 (9–12 marks):** For a sound explanation of the analysis and a clear comment on how a demand curve is formed. A clear understanding of the principles involved. **L3 (7–8 marks):** For an accurate reference to the question but with a more limited analysis probably without a good explanation of the construction of a demand curve. **L2 (5–6 marks):** For a briefer explanation of the analysis and equilibrium position but with no link to the demand curve. **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)	**One of the world's first filmed singing commercials advertised a soft drink. It stated that, for the same price, consumers would get twice as much of that drink than that of its major rival. This made it cheaper and was similar to a price reduction. Its rival responded by an advertising campaign stating that its own drink was superior to the first firm's inferior product.** **Discuss whether it is possible to use diagrams from indifference curve theory to illustrate how a consumer might react to these two advertising campaigns.** Analysis of income and substitution effects. The first drink could possibly be represented by a shift in the budget line for a price reduction. The consumer might substitute it for the rival drink. But the notion of a more superior drink might result in a negative income effect. **L4 (9–13 marks):** For a clear analysis of income and substitution effects and a reasoned account of the changes in consumer equilibrium using both effects. Accurate diagrams. **L3 (7–8 marks):** For a weaker analysis of the two effects or diagrams which contain slight inaccuracies. **L2 (5–6 marks):** For a poor analysis and weak diagrams confusingly presented. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
4	**'A firm is fully aware of market conditions and its best rational interest would be achieved by pursuing the clearly defined objective of maximising profits.'** **Consider whether this statement has any merit in different market structures.** Candidates should consider each of the assumptions. Is the firm aware of market condition, is its best interest achieved by maximising profits and in which market structure might that be true. **L4 (18–25 marks):** For a sound discussion of under what market structure the firm will be fully aware of market conditions, and whether it is always best to aim to maximise profits. Consideration of contestable markets, alternative aims, price leadership, lack of information, degrees of competition and lack of information. Maximum 21 no conclusion. **L3 (14–17 marks):** For a competent comment but with consideration of only part of the assumptions and a less developed analysis. **L2 (10–13 marks):** For a weak comment on the assumptions and only a brief explanation of alternative aims. **L4 (1–9 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**

Question	Answer	Marks
5	**After negotiation, the workers in an industry obtained from employers higher wage rates. The employers' spokesperson said 'the cost of the deal would have to be met through improved productivity or by reductions in other costs'.** **Analyse whether this deal can be incorporated into the economic theory of wages and consider the possible outcome for employment of such a deal.** Candidates should discuss how the theory might incorporate a negotiated wage rate and the effect of this on profits and employment. Discussion of how the improvement in productivity and reductions in costs might influence the outcome. **L4 (18–25 marks):** For recognition of the theory applied to imperfect competition and a discussion of the effect on profits and employment of fixing a wage above the market rate. Consideration of shifting the MRP curve and/or the cost curve. **L3 (14–17 marks):** For a competent explanation of the theory but with a more limited discussion of the shifts in MRP and/or costs. **L2 (10–13 marks):** For a correct but very brief analysis and some poor evaluation. **L4 (1–9 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant	**25**

Question	Answer	Marks
6(a)	**Explain what economists mean by an inflationary gap and discuss why this is considered to be an economic problem. Use a diagram(s) to support your answer.** A clear definition of the meaning of the term 'inflationary gap' will be supported by an accurate, clearly labelled supporting diagram which identifies the inflationary gap. Some attempt should then be made to consider why this might cause economic problems. References might be made to the negative effect on expectations, private investment, the exchange rates, savers and debtors plus any other relevant effects. **L4 (9–12 marks):** For an answer that explains the meaning of an inflationary gap and which refers to at least three potential negative effects. The relative importance of each identified effect should be considered. **L3 (7–8 marks):** For an answer that identifies at least two negative effects associated with an inflationary gap and considers their relative importance or analyses three potential impacts on the economy associated with an inflationary gap. **L2 (5–6 marks):** For an answer that describes what is meant by an inflationary gap and supports this with a reasonably accurate diagram and some brief comment regarding potential negative effects on the economy. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
6(b)	**How far would you agree that the use of monetary policy is the most effective way to solve the problem of an inflationary gap?** Responses should indicate a clear understanding of what is meant by monetary policy and alternative methods of monetary control should be explained. References should then be made to the problems associated with an inflationary gap and an attempt made to discuss the effectiveness of alternative monetary policies used to reduce an inflationary gap. The effectiveness of these polices should be evaluated and compared with alternative fiscal/supply side policies. **L4 (9–13 marks):** For a detailed explanation of why monetary policies might solve problems associated with an inflationary gap. At least two types of monetary policy should be considered. Alternative policy measures should then be explained and discussed. A conclusion should then consider the relative effectiveness of monetary policy options compared to fiscal/supply side alternatives. **L3 (7–8 marks):** For analysis of how monetary policy might work in order to reduce an inflationary gap. A clear diagram will be provided and problems associated with an inflationary gap will be identified. Only a brief comment will be provided regarding alternative policy approaches. **L2 (5–6 marks):** For an answer that focuses upon explaining what is meant by an inflationary gap and describes alternative monetary policy options but does not discuss the effectiveness of either monetary policy or alternative policy options. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
7(a)	**'Developing countries have low levels of productivity and a high dependency ratio.'** **Explain the meaning of these <u>two</u> characteristics and consider whether they are linked.** Candidates should provide clear explanation of the terms productivity and dependency ratio. It is essential that the characteristics of both terms are established within the context of undeveloped countries. Responses might suggest that the two terms are linked, for example high dependency ratio might be associated with low productivity or an increase in productivity might lead to a reduction in the death rate and a reduction in the birth rate, due to its effect on the overall level of increase of GDP. Alternatively, it could be argued that the two are not necessarily related. A range of alternative responses would be acceptable provided they are supported by an acceptable economic rationale. **L4 (9–12 marks):** an answer that clearly explains both characteristics in the context of an underdeveloped country and then discusses how each characteristic might be linked. Responses should examine links which work both ways, for example, why an increase in productivity might affect the dependency and vice versa. Different approaches are acceptable but a conclusion should be provided. **L3 (7–8 marks):** For a clear explanation of both characteristics and their relation to an underdeveloped economy. Some attempt to establish links between these characteristics but the argument will not be fully developed. **L2 (5–6 marks):** For a limited attempt to describe the two characteristics but only provides a brief explanation of their relevance to an underdeveloped economy. A brief outline of potential links might be described but not discussed. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	

Question	Answer	Marks
7(b)	**Assess the view that foreign direct investment remains the key to economic growth in developing countries.** Foreign direct investment should be explained referring specifically to the role of private multinational corporations (MNCs) including references to improving labour skills, building factories, promoting research and development. Economic growth should be clearly defined as the increase in real GDP in a specific time period. Alternative growth strategies such as export led growth, direct government investment, structural change might be considered. The importance of foreign direct investment should then be compared with the alternative strategies identified. **L4 (9–13 marks):** For an answer that clearly explains both characteristics in the context of an underdeveloped country and then discusses how each characteristic might be linked. Responses should examine links which work both ways, for example, why an increase in productivity might affect the dependency and vice versa. Different approaches are acceptable but a conclusion should be provided. **L3 (7–8 marks):** For a clear explanation of both characteristics and their relation to an underdeveloped economy. Some attempt to establish links between these characteristics but the argument will not be fully developed. **L2 (5–6 marks):** For a limited attempt to describe the two characteristics but only provides a brief explanation of their relevance to an underdeveloped economy. A brief outline of potential links might be described but not discussed. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	

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Marks must be awarded in line with:
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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.

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

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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.

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

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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

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	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

			a functionally organised answer	on assumptions
L2	identifies some relevant facts and/or theory the answer overall has a general relevance to the question, showing some understanding	illustration may not be fully relevant and is superficial or overgeneralised an accurate application of some related theory or fact(s), with little or no development	some analysis present but limited by omissions, error(s), irrelevant details or unclear communication conclusions may not be drawn from it a disorganised answer	some evidence of an ability to evaluate, discriminate, or to make basic judgements, considering some relevant information
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

Question	Answer	Marks
1(a)	**Explain the meaning of *zero-sum* in game theory.** The total benefit is fixed **(1)** and one party can only gain if the other party loses **(1)**	**2**
1(b)	**Use the evidence to explain how external economies of scale develop. Show, with the aid of a diagram, how this would affect a firm's average costs**. Common supply of raw materials/components/pool of skilled labour. Development of ancillary services such as education/legal. These lead to external economies of scale which reduce long run average cost for all companies operating in the area/region. **2 + 2 + 1 for diagram**	**5**
1(c)	**There is a fall in demand for the product of a concentrated industry. Analyse the economic implications of this for the area where the industry is located.** A fall in demand will be an example of structural unemployment, falling incomes, a local negative multiplier effect, falling house prices, movement of population. An analysis of 3 effects **x 2**	**6**
1(d)	**Consider how the negative externalities from concentrated industrial production can be reduced.** Explanation of negative externalities with reference to passage **1** Consideration of the role of **2** policies from taxation/subsidy/legislation/education **3 + 3**	**7**
2(a)	**Use indifference curve analysis to explain the derivation of an individual demand curve for a normal good.** An explanation of indifference curves (IC) and the budget line (BL). Tangency of IC and BL. Change in price of one good shown by moving BL. Conversion of the price effect to a demand curve. **L4 (9–12 marks):** For a sound explanation of equilibrium changing when the price on one good and BL changes to a new equilibrium. The conversion of this effect to an explicit drawing of the demand curve. Accurate diagrams. **L3 (7–8 marks):** For an explanation of equilibrium changing when the price on one good and BL changes to a new equilibrium. **L2 (5–6 marks):** For a limited explanation which shows the tangency of the IC and BL. **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
2(b)	**Discuss, using indifference curve analysis, whether the demand for a good always increases when its price falls.** Income and substitution effects need to be explained and applied in the context of a falling price. The three alternatives: i) YE & SE are both positive and reinforce each other, ii) YE is negative & SE is positive but more than YE and iii) YE is negative but greater than SE are. **L4 (9–13 marks):** For an answer which concentrates on either the fall in income, and impact on demand or the fall in price showing the movement of the BL and the impact on the quantity demanded. Discussion of the significance of the income effect and the substitution effects. Accurate diagrams. Max 11 if no conclusion. **L3 (7–8 marks):** For an answer which concentrates on either the fall in income, and impact on demand and the fall in price showing the movement of the BL and the impact on the quantity demanded. **L2 (5–6 marks):** For an answer which concentrates on either the fall in income, and impact on demand or the fall in price showing the movement of the BL and the impact on the quantity demanded. **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**
3(a)	**Explain how the fixed and variable costs of a perfectly competitive firm affect its survival in the short and long run.** Definitions of fixed and variable costs and long and short run. Need to cover variable cost in the short run, shut down if variable costs not covered in short run. Need to cover both fixed and variable cost (total costs) in the long run. **L4 (9–12 marks):** For a thorough explanation of fixed and variable costs linked to both the short and long run, clear identification that all costs are variable in the long run, together with explanations of their relevance to the survival of a perfectly competitive firm. **L3 (7–8 marks):** For an answer which concentrates on either the short run and the long run or variable and fixed costs with reference to profits. **L2 (5–6 marks):** For limited correct comments on types of costs. **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
3(b)	**Explain what is meant by the principal-agent problem and consider its importance in relation to the objectives for a firm.** **L4 (9–13 marks):** For an answer that clearly identifies the principal-agent (PA) problem. At least two objectives for firms identified and clearly linked to the PA problem The impact on profit, price and output for the firm and consumer. Accurate diagrams. Max 11 if no conclusion. **L3 (7–8 marks):** For an answer that clearly identifies the principal-agent (PA) problem but is limits its consideration of the impact to the firm or the consumer. **L2 (5–6 marks):** For an answer which defines the principal-agent problem with limited reference to its impact on a firms objectives. **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**
4	**'Government intervention in the microeconomy always improves efficiency.'** **Discuss the validity of this claim.** Definitions of productive, allocative, dynamic efficiency, Pareto optimality. Examples of market failures and relevant government intervention, taxes, subsidies direct provision. Government: under/over estimation of the problem, lack of information, time lag problem. **L4 (18–25 marks):** For an accurate discussion based on definitions of efficiency and clearly linked to government microeconomic policy. The limitations of the government in achieving its aims are recognised. A conclusion is drawn. (Max 21 no conclusion). **L3 (14–17 marks):** For an answer which explains two forms of efficiency and explains 2 types of government intervention. There is a limited conclusion: 16.. **L2 (10–13 marks):** For an accurate explanation based on a single form of efficiency and a limited reference to forms of 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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Question	Answer	Marks
5	**In January 2018 tax reduction were introduced in the United States of America (USA) at the same time the Federal Reserve Bank (the Fed) announced it would raise interest rates in that year.** **Discuss how these policies may cause conflicts for a government in trying to achieve its macroeconomic aims.** The major macroeconomic aims: economic growth, inflation, unemployment, balance of payments and development. The impact of a reduction in taxation on a government's ability to achieve its aims through increases in consumption/investment/government borrowing and the impact of higher interest rates on consumption/investment/exchange rate. Reference to the multiplier effect. **L4 (18–25 marks):** For an accurate discussion based on the ability to achieve least 3 aims simultaneously and the development of both the change in taxation or the change in interest rates on the ability to achieve the aims limited reference to the two policies. . A conclusion is drawn. (Max 21 no conclusion). **L3 (14–17 marks):** For an discussion based on the ability to achieve least 3 aims simultaneously and good development of either the change in taxation or the change in interest rates on the ability to achieve the aims. A limited conclusion otherwise max 16 **L2 (10–13 marks):** For an accurate explanation based on the ability to achieve least 3 aims simultaneously and limited reference to the two policies. **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**
6(a)	**Compare the different characteristics of developed and developing countries.** The difference in population growth and structure, income distribution, economic structure, employment composition, external trade and urbanisation. **L4 (9–12 marks):** For developed and accurate explanations of 4 characteristics and how they differ between developed and developing countries Accurate diagrams. **L3 (7–8 marks):** For a more developed and accurate explanation of 3 characteristics and how they differ between developed and developing countries. **L2 (5–6 marks):** For a limited but accurate explanation of 3 characteristics and how they differ between developed and developing countries. **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
6(b)	**Discuss whether gross domestic product (GDP) is the best measure of a country's standard of living.** Explanation of the use of GDP as a measure of standard of living and its adjustment to real GDP per capita. Consideration of alternative measures such as Human Development Index (HDI), Measure of Economic Welfare (MEW), Human Poverty Index (HPI), Multidimensional Poverty Index (MPI) **L4 (9–13 marks):** For an answer which discusses, in some depth, the advantages and limitations of both GDP and an alternative measure of the standard of living. Max 11 if no conclusion. **L3 (7–8 marks):** For an answer which concentrates on GDP and its limitations and explains an alternative measure of the standard but with limited conclusion of which is better. **L2 (5–6 marks):** For an answer which concentrates on GDP and mentions an alternative measure of the standard of living. **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**
7(a)	**Explain the Keynesian theory of the determination of interest.** Keynesian theory of interest rates. Determination of the three demands for money: Transactionary/precautionary and speculative, effect of a change in the rate of interest interaction with the quantity of money to determine the rate of interest. **L4 (9–12 marks):** For a detailed explanation of the theory- it should refer to all 3 demands for money in detail. **L3 (7–8 marks):** For a more detailed explanation of the theory- it should refer to 2 of the 3 demands for money in some detail. **L2 (5–6 marks):** For a limited but accurate explanation of the theory. It should refer to all 3 demands for money and one in detail. **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)	**Discuss the impact on the economy of the introduction of quantitative easing (QE) by the central bank.** Explanation of the meaning of QE. Discussion of the impact of QE either through the wealth effect from rising asset prices or effect on interest rates. The money transmission mechanism and its impact on aggregate demand. Multiplier effect of increased consumption on imports/ taxation/investment. **L4 (9–13 marks):** For a balanced answer which explains QE and discusses in detail the impact of QE on a range of economic variables. . Maximum 11 marks if no conclusion. **L3 (7–8 marks):** For an answer which explains QE and discusses the impact of QE on a single economic variable e.g. output. **L2 (5–6 marks):** For an answer which explains QE but fails to apply its impact to the economy. **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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Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/43**

Paper 4 Data Response and Essays **May/June 2020**

MARK SCHEME

Maximum Mark: 70

Published

Students did not sit exam papers in the June 2020 series due to the Covid-19 global pandemic.

This mark scheme is published to support teachers and students and should be read together with the question paper. It shows the requirements of the exam. The answer column of the mark scheme shows the proposed basis on which Examiners would award marks for this exam. Where appropriate, this column also provides the most likely acceptable alternative responses expected from students. Examiners usually review the mark scheme after they have seen student responses and update the mark scheme if appropriate. In the June series, Examiners were unable to consider the acceptability of alternative responses, as there were no student responses to consider.

Mark schemes should usually be read together with the Principal Examiner Report for Teachers. However, because students did not sit exam papers, there is no Principal Examiner Report for Teachers for the June 2020 series.

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

Cambridge International is publishing the mark schemes for the June 2020 series for most Cambridge IGCSE™ and Cambridge International A & AS Level components, and some Cambridge O Level components.

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[Turn over

Cambridge Assessment International Education – 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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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

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	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

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			a functionally organised answer	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)	**What is meant by *nudge theory*?** Policies designed to influence behaviour by persuasion or example in order to achieve one of the main government economic policy aims.	**2**
1(b)	**Consider whether the information provides any evidence that nudge theory could increase an economy's GDP.** • paying taxes increases revenue which might be spent on projects to increase GDP • more people working reduces unemployment which increases income and might help economic growth • increasing saving for education might increase skill levels in the economy and improve productivity.	**6**
1(c)	**Distinguish between demand-side and supply-side policies and identify and explain <u>one</u> demand-side policy and <u>one</u> supply-side policy from the information.** Distinction (2) identify (2) explain (2) demand side – changes in tax rates, supply side – improving infrastructure, training, productivity, borrowing could be used to stimulate either demand or supply	**6**
1(d)	**The information is entitled 'In pursuit of well-being'. Discuss whether the information supports the idea that GDP is a good measure of well-being.** HDI is said to be a measure of well-being. Countries are ranked by HDI. Some countries with low HDI also have low GDP, but some with higher HDI do not have highest GDP. Examples should be given. But the GDP is not by per capita and does not use PPP. There is no real evidence that GDP is a comparable accurate measure of well-being.	**6**

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Question	Answer	Marks
2	**Discuss whether competitive markets in the private sector are the best way to achieve an efficient allocation of resources.** Explanation of efficiency. Discussion of what is meant by competitive markets and whether this means only perfect competition. Efficiency is achieved in perfect competition but other competitive markets may not and individual actions are not always best for society as a whole. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency. **L4 (18–25 marks):** For an accurate discussion of efficiency, competition and market failure, with examples and a conclusion about the need for government intervention. No conclusion – maximum 21. **L3 (14–17 marks):** For a competent explanation of productive and allocative efficiency and more limited discussion of different competitive markets. Still expect a consideration of the reasons for market failure and the need for government. **L2 (10–13 marks):** For a briefer analysis of efficiency and of market failure with few examples and no comment about different types of competitive markets. No conclusion. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**
3(a)	**Explain what is meant by a 'consumer's equilibrium position' in indifference curve theory and how it can be used to form a demand curve.** Explanation of consumer equilibrium using indifference curves. Equilibrium position should be determined initially, then for a change in price. **L4 (9–12 marks):** For a sound explanation of the analysis and a clear comment on how a demand curve is formed. A clear understanding of the principles involved. **L3 (7–8 marks):** For an accurate reference to the question but with a more limited analysis probably without a good explanation of the construction of a demand curve. **L2 (5–6 marks):** For a briefer explanation of the analysis and equilibrium position but with no link to the demand curve. **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)	**One of the world's first filmed singing commercials advertised a soft drink. It stated that, for the same price, consumers would get twice as much of that drink than that of its major rival. This made it cheaper and was similar to a price reduction. Its rival responded by an advertising campaign stating that its own drink was superior to the first firm's inferior product.** **Discuss whether it is possible to use diagrams from indifference curve theory to illustrate how a consumer might react to these two advertising campaigns.** Analysis of income and substitution effects. The first drink could possibly be represented by a shift in the budget line for a price reduction. The consumer might substitute it for the rival drink. But the notion of a more superior drink might result in a negative income effect. **L4 (9–13 marks):** For a clear analysis of income and substitution effects and a reasoned account of the changes in consumer equilibrium using both effects. Accurate diagrams. **L3 (7–8 marks):** For a weaker analysis of the two effects or diagrams which contain slight inaccuracies. **L2 (5–6 marks):** For a poor analysis and weak diagrams confusingly presented. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
4	**'A firm is fully aware of market conditions and its best rational interest would be achieved by pursuing the clearly defined objective of maximising profits.'** **Consider whether this statement has any merit in different market structures.** Candidates should consider each of the assumptions. Is the firm aware of market condition, is its best interest achieved by maximising profits and in which market structure might that be true. **L4 (18–25 marks):** For a sound discussion of under what market structure the firm will be fully aware of market conditions, and whether it is always best to aim to maximise profits. Consideration of contestable markets, alternative aims, price leadership, lack of information, degrees of competition and lack of information. Maximum 21 no conclusion. **L3 (14–17 marks):** For a competent comment but with consideration of only part of the assumptions and a less developed analysis. **L2 (10–13 marks):** For a weak comment on the assumptions and only a brief explanation of alternative aims. **L4 (1–9 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**

Question	Answer	Marks
5	**After negotiation, the workers in an industry obtained from employers higher wage rates. The employers' spokesperson said 'the cost of the deal would have to be met through improved productivity or by reductions in other costs'.** **Analyse whether this deal can be incorporated into the economic theory of wages and consider the possible outcome for employment of such a deal.** Candidates should discuss how the theory might incorporate a negotiated wage rate and the effect of this on profits and employment. Discussion of how the improvement in productivity and reductions in costs might influence the outcome. **L4 (18–25 marks):** For recognition of the theory applied to imperfect competition and a discussion of the effect on profits and employment of fixing a wage above the market rate. Consideration of shifting the MRP curve and/or the cost curve. **L3 (14–17 marks):** For a competent explanation of the theory but with a more limited discussion of the shifts in MRP and/or costs. **L2 (10–13 marks):** For a correct but very brief analysis and some poor evaluation. **L4 (1–9 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant	**25**

Question	Answer	Marks
6(a)	**Explain what economists mean by an inflationary gap and discuss why this is considered to be an economic problem. Use a diagram(s) to support your answer.** A clear definition of the meaning of the term 'inflationary gap' will be supported by an accurate, clearly labelled supporting diagram which identifies the inflationary gap. Some attempt should then be made to consider why this might cause economic problems. References might be made to the negative effect on expectations, private investment, the exchange rates, savers and debtors plus any other relevant effects. **L4 (9–12 marks):** For an answer that explains the meaning of an inflationary gap and which refers to at least three potential negative effects. The relative importance of each identified effect should be considered. **L3 (7–8 marks):** For an answer that identifies at least two negative effects associated with an inflationary gap and considers their relative importance or analyses three potential impacts on the economy associated with an inflationary gap. **L2 (5–6 marks):** For an answer that describes what is meant by an inflationary gap and supports this with a reasonably accurate diagram and some brief comment regarding potential negative effects on the economy. **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
6(b)	**How far would you agree that the use of monetary policy is the most effective way to solve the problem of an inflationary gap?** Responses should indicate a clear understanding of what is meant by monetary policy and alternative methods of monetary control should be explained. References should then be made to the problems associated with an inflationary gap and an attempt made to discuss the effectiveness of alternative monetary policies used to reduce an inflationary gap. The effectiveness of these polices should be evaluated and compared with alternative fiscal/supply side policies. **L4 (9–13 marks):** For a detailed explanation of why monetary policies might solve problems associated with an inflationary gap. At least two types of monetary policy should be considered. Alternative policy measures should then be explained and discussed. A conclusion should then consider the relative effectiveness of monetary policy options compared to fiscal/supply side alternatives. **L3 (7–8 marks):** For analysis of how monetary policy might work in order to reduce an inflationary gap. A clear diagram will be provided and problems associated with an inflationary gap will be identified. Only a brief comment will be provided regarding alternative policy approaches. **L2 (5–6 marks):** For an answer that focuses upon explaining what is meant by an inflationary gap and describes alternative monetary policy options but does not discuss the effectiveness of either monetary policy or alternative policy options. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
7(a)	**'Developing countries have low levels of productivity and a high dependency ratio.'** **Explain the meaning of these <u>two</u> characteristics and consider whether they are linked.** Candidates should provide clear explanation of the terms productivity and dependency ratio. It is essential that the characteristics of both terms are established within the context of undeveloped countries. Responses might suggest that the two terms are linked, for example high dependency ratio might be associated with low productivity or an increase in productivity might lead to a reduction in the death rate and a reduction in the birth rate, due to its effect on the overall level of increase of GDP. Alternatively, it could be argued that the two are not necessarily related. A range of alternative responses would be acceptable provided they are supported by an acceptable economic rationale. **L4 (9–12 marks):** an answer that clearly explains both characteristics in the context of an underdeveloped country and then discusses how each characteristic might be linked. Responses should examine links which work both ways, for example, why an increase in productivity might affect the dependency and vice versa. Different approaches are acceptable but a conclusion should be provided. **L3 (7–8 marks):** For a clear explanation of both characteristics and their relation to an underdeveloped economy. Some attempt to establish links between these characteristics but the argument will not be fully developed. **L2 (5–6 marks):** For a limited attempt to describe the two characteristics but only provides a brief explanation of their relevance to an underdeveloped economy. A brief outline of potential links might be described but not discussed. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	

Question	Answer	Marks
7(b)	**Assess the view that foreign direct investment remains the key to economic growth in developing countries.** Foreign direct investment should be explained referring specifically to the role of private multinational corporations (MNCs) including references to improving labour skills, building factories, promoting research and development. Economic growth should be clearly defined as the increase in real GDP in a specific time period. Alternative growth strategies such as export led growth, direct government investment, structural change might be considered. The importance of foreign direct investment should then be compared with the alternative strategies identified. **L4 (9–13 marks):** For an answer that clearly explains both characteristics in the context of an underdeveloped country and then discusses how each characteristic might be linked. Responses should examine links which work both ways, for example, why an increase in productivity might affect the dependency and vice versa. Different approaches are acceptable but a conclusion should be provided. **L3 (7–8 marks):** For a clear explanation of both characteristics and their relation to an underdeveloped economy. Some attempt to establish links between these characteristics but the argument will not be fully developed. **L2 (5–6 marks):** For a limited attempt to describe the two characteristics but only provides a brief explanation of their relevance to an underdeveloped economy. A brief outline of potential links might be described but not discussed. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	

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