Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2021**

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 2021 series for most Cambridge IGCSE™, Cambridge International A and AS Level 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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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

  From this it follows that we:

  (a) DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
  (b) DO credit alternative answers/examples which are not written in the mark scheme if they are correct
  (c) DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
  (d) DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
  (e) DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
  (f) DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
  (g) DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Question	Answer	Marks
1(a)	**The article refers to macroeconomic policy aims. Identify and explain <u>two</u> such macroeconomic policy aims.** Any two aims (2) explanation (2)	**4**
1(b)	**Is there evidence in the article that a knowledge of behavioural economics can help public policy?** • evidence of possible reduction in unemployment • evidence of possible increases in tax payments which could help reduce budget deficit • evidence of persuasion to increase savings might help stop demand inflation	**4**
1(c)	**The article says that 'efficiency is measured by relating inputs to outputs'. Is this how economic theory states that efficiency is determined?** Partly it is for productive efficiency – cost against output; not really the case for allocative efficiency.	**5**
1(d)	**The article deals with an improvement in well-being. Discuss whether there are any economic indicators that could be used to assess whether well-being has become better or worse.** Explanation of indicators such as HDI, MEW, GDP per capita; comment on why they are relevant to measuring well-being.	**7**

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Question	Answer	Marks
2	**Assess the suggestion that a free market economy is neither possible nor desirable.** *Explanation of meaning of the free market economy and its link to an efficient allocation of resources. Distinction between productive and allocative efficiency.* *Discussion of whether it is desirable – individual actions are not always best for society as a whole. Discussion of whether it is possible – existence of market failure and necessity/desirability of government intervention to achieve efficiency* **L4 (18–25 marks)** For a thorough explanation and a reasoned discussion dealing with both desirability and possibility; efficiency and possible reasons for market failure/government intervention. A conclusion should be drawn. Max 21 no conclusion. **L3 (14–17 marks)** For a competent explanation of the meaning of pure market. The analysis will probably concentrate on either the desirability or the possibility with little reference to the other. **L2 (10–13 marks)** For a correct but undeveloped explanation with some attempt at analysis but only brief discussion with no conclusion. **L1 (1–9 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

Question	Answer	Marks
3(a)	**Explain what is meant by the concept of the 'equilibrium position of a consumer' and how the concept might be used to construct a demand curve for a good.** *Explanation of consumer equilibrium using either marginal utility or indifference curves. The equilibrium must be related to a point on the demand curve and then there should be an explanation of how other points on the demand curve might be caused.* **L4 (9–12 marks)** For a sound explanation of the analysis and a clear link to the demand curve caused by either changes in price or changes in marginal utility. With accurate diagrams and a clear understanding of the principles involved. **L3 (7–8 marks)** For an accurate reference to the question but with a more limited explanation showing the effect of a change in price with the budget line but not linked to 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; or with inaccurate diagrams and weak explanation. **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)	**Distinguish between the income and substitution effects of a change in a good's price and analyse why the effect of a change in price is not always the same for different goods.** *A price fall is reflected in a change in the budget line (pivot from point on axis of the good with no price change) with a subsequent change in equilibrium. The equilibrium change involves substitution and income effects. Substitution effect would be in the opposite direction to the price change. The income effect is represented by a parallel shift of the budget line is in the same direction as the substitution effect for the normal good but in the opposite direction for an inferior and Giffen good. Demand will increase for a normal good, but the extent will depend on elasticity, it will increase for an inferior good but not as much as for a normal good. For a Giffen good the final demand is less than the original demand.* **L4 (9–13 marks)** For a reasoned and clear discussion, logically presented dealing with income, substitution effects and at least two different types of good, (normal, inferior, Giffen). **L3 (7–8 marks)** For a fair but undeveloped discussion probably concentrating on income, substitution. Mention might be made of different elasticities of a normal good or of the difference between normal goods and inferior/Giffen. There would be only a brief comment on the individual demand curve or no discussion about the demand curve. **L2 (5–6 marks)** For a limited explanation with a lack of development of both income/substitution and different types of good. **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)	**What costs ought a profit-maximising firm take into consideration when making decisions about price and output?** *Comment on different types of cost. If the aim is profit maximising, then the significance of marginal cost should be mentioned and the significance of average total cost in the long run and average variable cost in the short run.* **L4 (9–12 marks)** For a consideration of profit maximising position and role of ATC in long run and AVC in the short run. **L3 (7–8 marks)** For an answer that concentrates on the profit maximising position and the role of ATC in the long run. AVC will probably be omitted. **L2 (5–6 marks)** For an answer that concentrates only on the profit maximising position. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	**'Price discrimination is always possible but never desirable.'** **Do you agree with this opinion?** *This requires an explanation of price discrimination and an evaluation of whether it is always possible and whether there might be benefits from price discrimination if it means the firm can continue operating to avoid shutting down.* **L4 (9–13 marks)** For clear analysis of possibility/profitability of price discrimination (separate markets, different price elasticities of demand) and potential benefits. **L3 (7–8 marks)** For an analysis of the possibility of price discrimination, probably concentrating on either separate markets or different elasticities and very limited comment on potential benefits. **L2 (5–6 marks)** For an analysis of price discrimination that is incomplete and with no evaluation of its potential benefit to the firm. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
5	**'Wage differentials can be explained by economic theory. They are a sign of the power of a firm to exploit its workforce and are unjust.'** **Do you agree with this view?** *The question presents an assertion. Candidates should discuss whether the theory does explain differentials in wage rates, and comment on the conclusion presented. Candidates should consider what is meant by 'differential'. Is it different wages for the same job between people with the same experience or different wages for different jobs, or different levels of experience?* *It is likely that in imperfect competition (monopsony) wage rates may be lower than in perfect competition, but the differential might also be due to differences in supply and in the shape of the MRP curve. Differentials may also be due to differences in private/public sector pay and possible political issues in fixing wage rates.* **L4 (18–25 marks)** For a thorough analysis of theoretical wage determination, a clear discussion about the meaning of differential, and consideration of what might cause differentials in wages. There are three parts to consider: whether wage differentials can be explained by the theory, whether they are the result of the power of the firm and whether they are unjust, Expect a comment on all three parts. **L3 (14–17 marks)** For a competent explanation of wage theory but with a weaker use of the analysis. There will be a more limited discussion of the meaning of differential. Expect a comment about two of the parts of the question. **L2 (10–13 marks)** For a correct but undeveloped descriptive approach with scant comment on the meaning of differential and a comment about only one of the parts 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**

Question	Answer	Marks
6(a)	**Distinguish between a country's national debt and its public sector budget deficit and consider which is the more important.** *Candidates should clearly distinguish between the national debt and the public sector budget deficit. The national is the cumulative amount of debt which consists of the total amount of money borrowed from the private sector and other purchases of government securities since the government began borrowing.* *The public sector budget deficit occurs when a government spends more than its income in a particular time period, usually one year. Both are important due to their potential effects on the macro economy. Interest has to be paid on the national debt and this has an opportunity cost regarding the use of scarce public sector resources. The budget deficit has to be financed and this has important implications for the impact of this on key macroeconomic indicators.* **L4 (9–12 marks)** For an answer that provides a clear explanation of both terms and why each is important in relation to macroeconomic policy. An attempt should be made to evaluate the relative importance of each indicator and also an attempt should be made to show how both elements are linked. A conclusion should provide evidence of some consideration of why one indicator may or may not be more important than the other. **L3 (7–8 marks)** For responses that demonstrate a good grasp of both indicators and why both indicators are important by linking each to macroeconomic management. No attempt will be made to examine the relative importance of each indicator and the conclusion will not be fully developed. **L2 (5–6 marks)** For a description of both indicators but with a limited attempt to establish the importance of each indicator. There will be little reference to the potential links between the indicators and no discussion regarding their effect on key macroeconomic indicators. No conclusion will be provided. **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)	**Discuss the effectiveness of alternative macroeconomic policies used to reduce a public sector budget deficit.** *Short run policy approaches can be divided into those based on increases in the level of taxation and those related to cuts in public expenditure. Longer term measures might relate to supply side policies used to achieve economic growth.* *The effectiveness of each group of measures can be analysed by assessing their relative impact on the deficit in the short run and long run and considering costs associated with each policy alternative.* **L4 (9–13 marks)** For a discussion that refers to at least two groups of alternative macroeconomic measures and attempts to assess the costs/benefits associated with each approach. Good responses will identify the distinction between short run and long run approaches. A reasoned conclusion should be provided. **L3 (7–8 marks)** For analysis of how different macroeconomic policies might be used to reduce a budget deficit but no attempt to distinguish between short run and long run approaches and no attempt to discuss which policy option might be the more effective. **L2 (5–6 marks)** For an answer that describes how a budget deficit can be reduced but does not provide any supporting analysis of how each policy might work and only partially attempts to develop points raised. No conclusion will be provided. **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)	**Explain and critically evaluate the quantity theory of money.** *The quantity theory of money is based on the assumption that there is a direct relationship between a change in the money supply and the rate of inflation. The theory uses the equation MV= PT. This assumes that V is constant and T is constant (i.e. consistent with the full employment level of transactions). On this basis, any change in M (the money supply) will have a direct effect on P (the price level).* *Critics question both of these assumptions and also point out that it is extremely difficult to measure the money supply and also difficult to effectively control the money supply.* **L4 (9–12 marks)** For a clear explanation of the quantity theory of money and the assumptions upon which this theory is based. At least **two** critical evaluation points should be raised which question the assumptions and the ability to measure/control some of the variables in the equation. **L3 (7–8 marks)** For detailed analysis of the quantity theory and how it is supposed to work in practice. This should be supported by some ~~critical~~ comment based on the assumptions of the theory. **L2 (5–6 marks)** For some knowledge of the quantity theory of money and how it might be used to support the monetarist explanation of the cause of inflation. Key assumptions relating to this theory might not be considered and critical comment will be brief and undeveloped. **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**

Question	Answer	Marks
7(b)	**Monetary policy relies heavily on the theory of a monetary transmission mechanism.** **Explain how a monetary transmission mechanism works and discuss its effectiveness.** *The monetary transmissions mechanism links changes in the money market to changes in the goods market. Changes in the money supply will change interest rates which will impact on the level of investment and ultimately this will change real variables such as output and employment.* *Evaluative comment might refer to the liquidity trap, an inelastic MEC curve, the effect of negative expectations on investment, a possible weak multiplier effect or the negative feedback effect of an increase in income on the rate of interest.* **L4 (9–13 marks)** For a detailed explanation of the Keynesian monetary transmission supported by an accurate, clearly labelled diagram. Responses should identify at least **two** reasons why the link between the money market and goods market might be weak. Based on the preceding evaluation a conclusion should comment on the effectiveness of the theory. **L3 (7–8 marks)** For clear analysis of the links between the money market and the goods market supported by an accurate, relevant diagram. Some evaluative comment will be provided but not fully developed. Conclusion will be brief. **L2 (5–6 marks)** For a descriptive approach that does not support comment with an appropriate diagram with very little comment relating to the effectiveness of the process and no attempt to provide an appropriate conclusion. **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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Social Science-Specific Marking Principles (for point-based marking)

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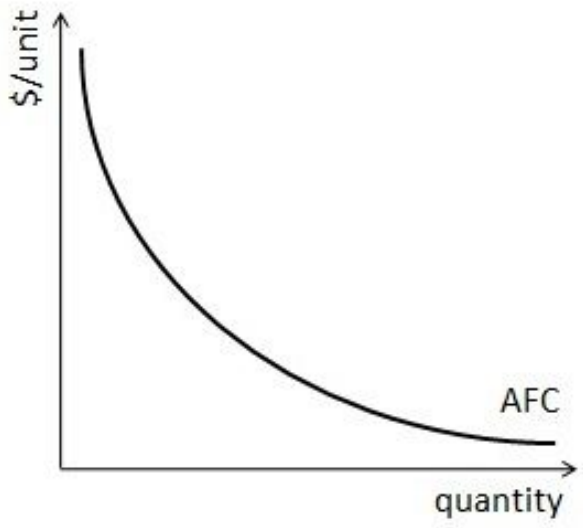
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- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
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4 Annotation:

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Question	Answer	Marks
1(a)	**Using the information, explain the market structure that exists in aircraft manufacturing.** • Oligopoly (1) • as two firms dominate the whole market (1)	**2**
1(b)	**Explain why the two companies might be concerned about the potential entry of China into the aircraft manufacturing industry.** • potential entry provides a contestable market (1) as new entrant can undercut prices (1) • presence of new entrant (1) will reduce demand for other suppliers (1) • limits pricing ability of existing firms (1) and reduces profit (1) • could cause existing firms to spend increase cost (1) by spending more on marketing/research and development. (1) 2 × (1+1)	**4**
1(c)(i)	**Using an example from the information, explain the meaning of fixed costs.** • R&D / marketing/brand development (1) • Does not increase or decrease as level of output changes (1)	**2**
1(c)(ii)	**With the aid of a diagram, explain the link between an increase in an aircraft manufacturer's level of output and its average fixed costs.** • As the total number of aircraft produced increases, the average fixed cost decreases (1) • Because the same amount of fixed costs is being averaged out/divided over a larger number of aircraft (1) • Up to 2 for diagram: axes accept $, costs on vertical axis (1), AFC curve (1)  	**4**

Question	Answer	Marks
1(d)	**Discuss whether economic theory can explain how two companies will compete with each other when they dominate a market.** Future competition possible through A brief discussion of competitive strategy/behaviour • price competition e.g. price wars, kinked demand curve, game theory approach • non-price competition product innovation, marketing • answer based on alternative objectives: sales revenue maximisation/satisficing Up to 4 marks per argument At least 2 arguments are needed for 7 marks. Plus Conclusion – 1 mark	**8**

Question	Answer	Marks
2(a)	**What is meant by 'efficiency' in relation to the use of resources?** *Definitions and explanations of productive efficiency operating on the lowest average cost curve and allocative efficiency where Price = Marginal Cost (MC). The relationship between resource use and PE and the allocation of resources and AE.* **L4 (9–12 marks)** For an answer which has a full discussion of 2 from productive, allocative, dynamic or Pareto efficiency. Needs reference to resources. 9/10 if resources linked to one form of efficiency and 11/12 if reference is made to both forms of efficiency. **L3 (7–8 marks)** For an answer which is a full analysis of **one** efficiency and a description of another. **L2 (5–6 marks)** For an answer which is good description of one form of efficiency **or** a limited description of 2 forms of efficiency. **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)	**'Market failure can always be overcome to increase economic efficiency.'** **How far do you agree with this statement?** *Explanation of forms of market failure. Methods of reducing market failure: indirect taxation or subsidies, direct provision or legislation. Problems of imperfect government information.* **L4 (9–13 marks)** For an answer which identifies **two** forms of market failure and which discusses **two** methods of improving efficiency. A conclusion is reached for 12/13 marks. **L3 (7–8 marks)** For an answer which identifies **one** form of market failure and which analyses **one** method of improving efficiency and a description of another. **L2 (5–6 marks)** For an answer which describes methods of improving efficiency. **L1 (1–4 marks)** For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**
3(a)	**Use indifference curve analysis to explain how an individual's demand curve for an inferior good is derived.** *Definitions and explanations of Indifference curves (IC) and budget line (BL). The use of tangency of IC to BL to determine demand. The shift of the BL to reflect price change. The connection of changes in price to the shape of the demand curve, or candidates may suggest a change in income and the budget line shift causing a shift in the demand curve for an inferior good.* **L4 (9–12 marks)** For an answer which explains the meaning of indifference curves and budget line. The analysis of the effect of a change in price shifting the BL and the effect on demand. The derivation of the demand curve is explicit using reference to the income and substitution effects, or a shift of the demand curve for a change in income. **L3 (7–8 marks)** For an answer which explains the meaning of indifference curves and budget line. The analysis of the effect of a change in price shifting the BL or a shift in the BL. **L2 (5–6 marks)** For an answer which explains the meaning of indifference curves and budget line. **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)	**Discuss the relative importance of marginal cost and average variable cost in determining short-run production decisions.** *Definition of marginal costs (MC) and average variable cost (AVC) and relationship to the short run. Changes in marginal cost and the determination of equilibrium output. The relationship of output to short run profit. The relationship of MC, AVC to short run close-down of the firm.* **L4 (9–13 marks)** For a response which clearly defines MC and AVC. The determination of the short run equilibrium output and discusses how differences in these costs and average revenue will determine the short-run shutdown point. **L3 (7–8 marks)** For a response which clearly understands MC and AVC and analyses short run equilibrium output. **L2 (5–6 marks)** For a response which understands MC and AVC. **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
4	**Evaluate whether the theory of wage determination can account for wage differentials (i) between a director and a general worker in the same company and (ii) between two workers doing the same job in different companies.** *Explanation of the theory of wages based on demand and supply: demand based on marginal productivity theory and price/marginal revenue of the item produced and individual with income and substitution effects leading to market supply. Theoretical approach based on perfect markets. Comment on the impact of elasticities of demand and supply. Real world exploration of the limits to perfect competition, imperfect information, lack of labour mobility, discrimination and monopsony, trade union intervention, minimum wage boards.* **L4 (18–25 marks)** For an answer which discusses the theory of wages in terms of marginal revenue product theory and labour supply. Some reference to the impact of elasticities of labour. Both elements (i) and (ii) are directly addressed. Imperfections are commented upon to account for differences in wages. A conclusion is reached for 22–25 marks. **L3 (14–17 marks)** For an answer which analyses the theory of wages demand and supply of labour. Limited reference to elasticities. Either (i) or (ii) is addressed. An imperfection is commented upon to account for differences in wages. **L2 (10–13 marks)** For an answer which describes the theory of wages in terms of supply and demand to explain different levels of wages. Economic rent may be commented upon. **L1 (1–9 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**25**

Question	Answer	Marks
5	**Discuss the extent to which the Human Development Index (HDI) and the Measure of Economic Welfare (MEW) provide better measures of living standards than Gross National Income (GNI).** *Explanation of alternative measures HDI and MEW of the standard of living (SoL). Definition of GNI and explanation of real per capita GNI and its link to measuring the standard of living (SoL). Explanation of the relevance and limitations of the alternative methods and GNI to the problems of measuring alternative and GNI in developing countries – statistical problems cost of collection/accuracy of collection.* **L4 (18–25 marks)** For an answer which describes the **three measures** of the SoL. A sound discussion of the limitations/difficulties of the GNI and one other measure. A conclusion is reached for 22–25 marks. **L3 (14–17 marks)** For an answer which describes GNI and an alternative measure of the SoL. Some limited analysis of the limitations/difficulties of either measure. **L2 (10–13 marks)** For an answer which explains GNI as a measure of the SoL. Some limitations of GNI are identified. **L1 (1–9 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**25**

Question	Answer	Marks
6(a)	**Explain the causes of unemployment and consider which is most likely to occur in a developing country.** *Explanation of Frictional, Seasonal, Structural and Cyclical as causes of unemployment,* ***alternatively*** *an explanation in terms of voluntary/involuntary unemployment. The relevance of one of these types of unemployment to developing countries is explained.* **L4 (9–12 marks)** Explanation of three causes of unemployment: or voluntary/involuntary unemployment is made and then consider their relative significance for developing countries 11/12 marks. **L3 (7–8 marks)** Explanation of three causes of unemployment: or voluntary/involuntary unemployment is made or **two** causes and their significance. **L2 (5–6 marks)** Explain two causes of unemployment: or voluntary/involuntary unemployment is made. **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 whether solving the problem of unemployment should be the main policy objective for the government of a developing country.** *Identification of possible government policy objective. Discussion of significance of unemployment as the only policy objective. Discussion of significance of alternative policy objectives: inflation, growth balance of payments and equality. Identification of other government objectives for developing countries: inflation, growth, balance of payments, distribution of income.* **L4 (9–13 marks)** For an answer which discusses **three** alternative policy objectives and whether they are as important as unemployment. A conclusion is reached for 12–13 marks. **L3 (7–8 marks)** For an answer which analyses **two** alternative policy objectives and a comment of their significance. **L2 (5–6 marks)** For an answer which considers **one** alternative policy objective. **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
7(a)	**Explain what is meant by quantitative easing (QE) and consider whether it is an effective policy to be used in a recession.** *QE is the purchase of both government and commercial bonds. This increases their price and reduces the rate of interest. The Increase in bonds has an income effect which can boost spending as should the reduction in interest rates. The fall in interest rates should also increase investment. The effect is to increase the growth rate and also increase the rate of inflation. Limitations of QE e.g. the liquidity trap.* **L4 (9–12 marks)** For an answer which gives a sound discussion of the QE process and its links to its effects on investment/consumption/asset prices and inflation/economic growth/employment. Effectiveness of QE for 10–12 marks. **L3 (7–8 marks)** For an answer which gives a sound analysis of QE and some links to its effect on investment/consumption/asset prices and inflation in a recession. **L2 (5–6 marks)** For an answer which gives a description of QE. **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
7(b)	**'Policies to achieve economic growth will inevitably cause a government budget deficit.'** **How far do you agree with this statement?** *Fiscal, monetary and supply side policies. Definitions of short- or long-term growth. Relevance of multiplier concept, marginal efficiency of capital (MEC) and interest rates, the availability of savings and supply side factors population, education. Definitions and explanation of a budget deficit.* **L4 (9–13 marks)** For a discussion of **two** policies and their effect on either type of economic growth and accurate links to a budget deficit. **L3 (7–8 marks)** For a response which gives a sound analysis of **one** policy and a less developed reference to a **second** policy. Only **one** form of economic growth **or** links to a budget deficit are commented upon. **L2 (5–6 marks)** For an explanation of **one** policy and its links to economic growth. **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 2021**

MARK SCHEME

Maximum Mark: 70

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

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

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Generic Marking Principles

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

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

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

GENERIC MARKING PRINCIPLE 2:

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

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

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

GENERIC MARKING PRINCIPLE 4:

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

GENERIC MARKING PRINCIPLE 5:

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

GENERIC MARKING PRINCIPLE 6:

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

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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

  From this it follows that we:

  (a) DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
  (b) DO credit alternative answers/examples which are not written in the mark scheme if they are correct
  (c) DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
  (d) DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
  (e) DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
  (f) DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
  (g) DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Question	Answer	Marks
1(a)	**The article refers to macroeconomic policy aims. Identify and explain <u>two</u> such macroeconomic policy aims.** Any two aims (2) explanation (2)	**4**
1(b)	**Is there evidence in the article that a knowledge of behavioural economics can help public policy?** • evidence of possible reduction in unemployment • evidence of possible increases in tax payments which could help reduce budget deficit • evidence of persuasion to increase savings might help stop demand inflation	**4**
1(c)	**The article says that 'efficiency is measured by relating inputs to outputs'. Is this how economic theory states that efficiency is determined?** Partly it is for productive efficiency – cost against output; not really the case for allocative efficiency.	**5**
1(d)	**The article deals with an improvement in well-being. Discuss whether there are any economic indicators that could be used to assess whether well-being has become better or worse.** Explanation of indicators such as HDI, MEW, GDP per capita; comment on why they are relevant to measuring well-being.	**7**

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Question	Answer	Marks
2	**Assess the suggestion that a free market economy is neither possible nor desirable.** *Explanation of meaning of the free market economy and its link to an efficient allocation of resources. Distinction between productive and allocative efficiency.* *Discussion of whether it is desirable – individual actions are not always best for society as a whole. Discussion of whether it is possible – existence of market failure and necessity/desirability of government intervention to achieve efficiency* **L4 (18–25 marks)** For a thorough explanation and a reasoned discussion dealing with both desirability and possibility; efficiency and possible reasons for market failure/government intervention. A conclusion should be drawn. Max 21 no conclusion. **L3 (14–17 marks)** For a competent explanation of the meaning of pure market. The analysis will probably concentrate on either the desirability or the possibility with little reference to the other. **L2 (10–13 marks)** For a correct but undeveloped explanation with some attempt at analysis but only brief discussion with no conclusion. **L1 (1–9 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

Question	Answer	Marks
3(a)	**Explain what is meant by the concept of the 'equilibrium position of a consumer' and how the concept might be used to construct a demand curve for a good.** *Explanation of consumer equilibrium using either marginal utility or indifference curves. The equilibrium must be related to a point on the demand curve and then there should be an explanation of how other points on the demand curve might be caused.* **L4 (9–12 marks)** For a sound explanation of the analysis and a clear link to the demand curve caused by either changes in price or changes in marginal utility. With accurate diagrams and a clear understanding of the principles involved. **L3 (7–8 marks)** For an accurate reference to the question but with a more limited explanation showing the effect of a change in price with the budget line but not linked to 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; or with inaccurate diagrams and weak explanation. **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)	**Distinguish between the income and substitution effects of a change in a good's price and analyse why the effect of a change in price is not always the same for different goods.** *A price fall is reflected in a change in the budget line (pivot from point on axis of the good with no price change) with a subsequent change in equilibrium. The equilibrium change involves substitution and income effects. Substitution effect would be in the opposite direction to the price change. The income effect is represented by a parallel shift of the budget line is in the same direction as the substitution effect for the normal good but in the opposite direction for an inferior and Giffen good. Demand will increase for a normal good, but the extent will depend on elasticity, it will increase for an inferior good but not as much as for a normal good. For a Giffen good the final demand is less than the original demand.* **L4 (9–13 marks)** For a reasoned and clear discussion, logically presented dealing with income, substitution effects and at least two different types of good, (normal, inferior, Giffen). **L3 (7–8 marks)** For a fair but undeveloped discussion probably concentrating on income, substitution. Mention might be made of different elasticities of a normal good or of the difference between normal goods and inferior/Giffen. There would be only a brief comment on the individual demand curve or no discussion about the demand curve. **L2 (5–6 marks)** For a limited explanation with a lack of development of both income/substitution and different types of good. **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)	**What costs ought a profit-maximising firm take into consideration when making decisions about price and output?** *Comment on different types of cost. If the aim is profit maximising, then the significance of marginal cost should be mentioned and the significance of average total cost in the long run and average variable cost in the short run.* **L4 (9–12 marks)** For a consideration of profit maximising position and role of ATC in long run and AVC in the short run. **L3 (7–8 marks)** For an answer that concentrates on the profit maximising position and the role of ATC in the long run. AVC will probably be omitted. **L2 (5–6 marks)** For an answer that concentrates only on the profit maximising position. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	**'Price discrimination is always possible but never desirable.'** **Do you agree with this opinion?** *This requires an explanation of price discrimination and an evaluation of whether it is always possible and whether there might be benefits from price discrimination if it means the firm can continue operating to avoid shutting down.* **L4 (9–13 marks)** For clear analysis of possibility/profitability of price discrimination (separate markets, different price elasticities of demand) and potential benefits. **L3 (7–8 marks)** For an analysis of the possibility of price discrimination, probably concentrating on either separate markets or different elasticities and very limited comment on potential benefits. **L2 (5–6 marks)** For an analysis of price discrimination that is incomplete and with no evaluation of its potential benefit to the firm. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
5	**'Wage differentials can be explained by economic theory. They are a sign of the power of a firm to exploit its workforce and are unjust.'** **Do you agree with this view?** *The question presents an assertion. Candidates should discuss whether the theory does explain differentials in wage rates, and comment on the conclusion presented. Candidates should consider what is meant by 'differential'. Is it different wages for the same job between people with the same experience or different wages for different jobs, or different levels of experience?* *It is likely that in imperfect competition (monopsony) wage rates may be lower than in perfect competition, but the differential might also be due to differences in supply and in the shape of the MRP curve. Differentials may also be due to differences in private/public sector pay and possible political issues in fixing wage rates.* **L4 (18–25 marks)** For a thorough analysis of theoretical wage determination, a clear discussion about the meaning of differential, and consideration of what might cause differentials in wages. There are three parts to consider: whether wage differentials can be explained by the theory, whether they are the result of the power of the firm and whether they are unjust, Expect a comment on all three parts. **L3 (14–17 marks)** For a competent explanation of wage theory but with a weaker use of the analysis. There will be a more limited discussion of the meaning of differential. Expect a comment about two of the parts of the question. **L2 (10–13 marks)** For a correct but undeveloped descriptive approach with scant comment on the meaning of differential and a comment about only one of the parts 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**

Question	Answer	Marks
6(a)	**Distinguish between a country's national debt and its public sector budget deficit and consider which is the more important.** *Candidates should clearly distinguish between the national debt and the public sector budget deficit. The national is the cumulative amount of debt which consists of the total amount of money borrowed from the private sector and other purchases of government securities since the government began borrowing.* *The public sector budget deficit occurs when a government spends more than its income in a particular time period, usually one year. Both are important due to their potential effects on the macro economy. Interest has to be paid on the national debt and this has an opportunity cost regarding the use of scarce public sector resources. The budget deficit has to be financed and this has important implications for the impact of this on key macroeconomic indicators.* **L4 (9–12 marks)** For an answer that provides a clear explanation of both terms and why each is important in relation to macroeconomic policy. An attempt should be made to evaluate the relative importance of each indicator and also an attempt should be made to show how both elements are linked. A conclusion should provide evidence of some consideration of why one indicator may or may not be more important than the other. **L3 (7–8 marks)** For responses that demonstrate a good grasp of both indicators and why both indicators are important by linking each to macroeconomic management. No attempt will be made to examine the relative importance of each indicator and the conclusion will not be fully developed. **L2 (5–6 marks)** For a description of both indicators but with a limited attempt to establish the importance of each indicator. There will be little reference to the potential links between the indicators and no discussion regarding their effect on key macroeconomic indicators. No conclusion will be provided. **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)	**Discuss the effectiveness of alternative macroeconomic policies used to reduce a public sector budget deficit.** *Short run policy approaches can be divided into those based on increases in the level of taxation and those related to cuts in public expenditure. Longer term measures might relate to supply side policies used to achieve economic growth.* *The effectiveness of each group of measures can be analysed by assessing their relative impact on the deficit in the short run and long run and considering costs associated with each policy alternative.* **L4 (9–13 marks)** For a discussion that refers to at least two groups of alternative macroeconomic measures and attempts to assess the costs/benefits associated with each approach. Good responses will identify the distinction between short run and long run approaches. A reasoned conclusion should be provided. **L3 (7–8 marks)** For analysis of how different macroeconomic policies might be used to reduce a budget deficit but no attempt to distinguish between short run and long run approaches and no attempt to discuss which policy option might be the more effective. **L2 (5–6 marks)** For an answer that describes how a budget deficit can be reduced but does not provide any supporting analysis of how each policy might work and only partially attempts to develop points raised. No conclusion will be provided. **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)	**Explain and critically evaluate the quantity theory of money.** *The quantity theory of money is based on the assumption that there is a direct relationship between a change in the money supply and the rate of inflation. The theory uses the equation MV= PT. This assumes that V is constant and T is constant (i.e. consistent with the full employment level of transactions). On this basis, any change in M (the money supply) will have a direct effect on P (the price level).* *Critics question both of these assumptions and also point out that it is extremely difficult to measure the money supply and also difficult to effectively control the money supply.* **L4 (9–12 marks)** For a clear explanation of the quantity theory of money and the assumptions upon which this theory is based. At least **two** critical evaluation points should be raised which question the assumptions and the ability to measure/control some of the variables in the equation. **L3 (7–8 marks)** For detailed analysis of the quantity theory and how it is supposed to work in practice. This should be supported by some ~~critical~~ comment based on the assumptions of the theory. **L2 (5–6 marks)** For some knowledge of the quantity theory of money and how it might be used to support the monetarist explanation of the cause of inflation. Key assumptions relating to this theory might not be considered and critical comment will be brief and undeveloped. **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**

Question	Answer	Marks
7(b)	**Monetary policy relies heavily on the theory of a monetary transmission mechanism.** **Explain how a monetary transmission mechanism works and discuss its effectiveness.** *The monetary transmissions mechanism links changes in the money market to changes in the goods market. Changes in the money supply will change interest rates which will impact on the level of investment and ultimately this will change real variables such as output and employment.* *Evaluative comment might refer to the liquidity trap, an inelastic MEC curve, the effect of negative expectations on investment, a possible weak multiplier effect or the negative feedback effect of an increase in income on the rate of interest.* **L4 (9–13 marks)** For a detailed explanation of the Keynesian monetary transmission supported by an accurate, clearly labelled diagram. Responses should identify at least **two** reasons why the link between the money market and goods market might be weak. Based on the preceding evaluation a conclusion should comment on the effectiveness of the theory. **L3 (7–8 marks)** For clear analysis of the links between the money market and the goods market supported by an accurate, relevant diagram. Some evaluative comment will be provided but not fully developed. Conclusion will be brief. **L2 (5–6 marks)** For a descriptive approach that does not support comment with an appropriate diagram with very little comment relating to the effectiveness of the process and no attempt to provide an appropriate conclusion. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**