Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2022**

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 2022 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **17** printed pages.

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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)	**Explain what is meant by productivity.** The rate of output per unit of input, (which may be capital, labour or a combination of factors of production) for a given period, usually one hour. Ratio of GDP to hours worked. The efficiency of production–how inputs are used to produce outputs in a given period.	**2**
1(b)	**The information suggests that innovation and R&D are important in ensuring high productivity. Is this statement consistent with the evidence in Fig. 1.1? g** Innovation is one of three strategies given to improve productivity along with investment and infrastructure. (1) The percentage of GNP devoted to R&D is high for most of the countries with the highest productivities: Germany, France and USA. (1) The exception is Japan which has the highest percentage of GNP devoted to innovation (3.4%) but the lowest index of productivity (93) in 2016. (1) Fig. 1 not entirely consistent. (1)	**4**
1(c)	**Use the information to comment on productivity in the US and indicate which factors contributed to its performance.** US has relatively high productivity in 2015/16, figures from chart. (2) R&D is a strong element in productivity (1): 2.7% of GDP allocated to R&D,(1) 3 of the top 10 companies investing in R&D are based in the USA.(1) US dominates the world's hardware and software engineering, accounting for 7% of GNP.(1)	**6**
1(d)	**Use the information to discuss whether or not it is likely that the UK's productivity within the G7 countries will improve.** Seems unlikely to improve in the <u>short-term</u> (1) because: • low levels of investment over a 20 year period (1) • R&D as a % of GNP is only 1.3% 7& well below some other G7 countries (1) • poor management practices and lower skills levels generally (1) • FDI balance–latest figures show foreign investment in UK is declining caused by economic uncertainties, e.g. car industry (1) But there are some factors which may lead to improvement in the <u>long term (1)</u> • world-renowned R&D in digital technology and biomedical research (1) • increased government investment in transport infrastructure (1)	**8**

Question	Answer	Marks
2(a)	**Explain what economists mean by a public good and discuss why the provision of such a good is associated with market failure.** *Answers should provide a clear explanation of the meaning of a public good. Key characteristics: non rival; non excludable should be identified. Some reference to non- divisible/non-rejectable might also be referred to. Examples provided might include: street lighting/national defence/lighthouse* *The link between the characteristics of a public good and the difficulty associated with the provision of such a good by the free market should be established i.e. the 'free rider problem' Market failure should be discussed in the context of allocative inefficiency. Allocative efficiency is attained when resources are allocated to maximise consumer satisfaction. If public goods are not provided, consumer satisfaction is unlikely to be maximised, hence unless the State provides public goods, market failure will occur.* **L4 (9–12 marks):** For a reasoned and clear discussion which explains the key characteristics of a public good and analyses the links between allocative efficiency and the concept of market failure. An attempt should be made to evaluate the potential impact on total consumer satisfaction if certain public are not provided. A conclusion should be provided which might comment on the importance of public goods and how a government can help to address this type of potential market failure. **L3 (7–8 marks):** For a competent comment which clearly defines the concept of a public good and market failure together with limited elaboration of the analysis or imprecise links in the argument. Evaluation will not be fully developed and no attempt will be made to provide a conclusion to summarize the preceding argument. **L2 (5–6 marks):** For a limited explanation of the key terms but weak or ill-explained links between these terms. The explanation will be undeveloped with some attempt at analysis but the emphasis will be on descriptive comment. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
2(b)	**Discuss the extent to which monopoly producers and the consumers of their products might benefit from the existence of barriers to entry.** *Monopoly producers might control all the market supply or sometimes the state might provide a legal definition of a monopoly, for example, a firm which controls at least 25% of the market share. Potential benefits to the monopolist might include: higher profits; increase in efficiency; increase in market share; growth of the firm. The consumer benefits might include: lower prices; higher quality product; greater availability of a product.* *Responses might refer to a range of alternative barriers to entry including: economies of scale; branding/advertising; legal requirements/patents; natural monopolies; limit pricing. Good responses will choose at least two types of barrier and discuss how each might have a positive/negative effect on both the producer and the consumer. For example, economies of scale might increase Monopoly profits by lowering unit costs but also benefit the consumer by possible subsequent price reductions. Similarly, the use of limit pricing to prevent new entrants might lower prices for the consumer in the short run but lead to a higher market share and higher profits in the long run.* *On a more general note, some barriers might allow a monopolist to maintain profits in the long run and invest in research and development thus achieving dynamic efficiency. These benefits might by be passed on to the consumer through lower prices, higher quality products and more choice. Alternatively, barriers might lead to complacency and X inefficiency which is likely to lead to higher prices and lower quality products.* **L4 (9–13 marks):** For a clear, explanation of two barriers to entry and a discussion of how each of the barriers might have both a negative and positive effect on the producer and the consumer. An attempt should be made to summarize the extent to which producers/consumers might achieve a net benefit. **L3 (7–8 marks):** For a fair explanation of two barriers which focuses upon either the potential costs/benefits to the producer or consumer only or an explanation which does not attempt to examine both costs and benefits in both cases. A brief conclusion referring to the extent of the costs/benefits might be made. **L2 (5–6 marks):** For a more descriptive explanation that indicates knowledge of different types of barrier to entry but does not identify specific costs/benefits and does not distinguish clearly between costs/benefits to the producer and costs/benefits to the consumer. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
3(a)	**Firms in perfect competition and firms in monopolistic competition will only achieve normal profits in the long run. This means that firms in both these types of market structure are equally efficient.** **Discuss, with the help of diagrams, the extent to which you agree with this statement.** *The main types of efficiency will be explained including: allocative efficiency, productive efficiency and possibly dynamic efficiency. Reference to the long run position in perfect competition in combination with definitions of efficiency should allow that firms in perfect competition will achieve both allocative and productive efficiency in the long run. Similarly, reference to a long run position in monopolistic competition using the same definitions of efficiency should enable candidates to conclude that a firm in monopolistic competition will not be allocatively efficient i.e. will not produce where AR=MC and it will not produce at the minimum point of its long run average total cost curve. Therefore it will not operate at an optimum level of output.* *Answers which point out that the firm in monopolistic competition will be operating at a productively efficient level of output in the long run are acceptable provided it is clear that the definition of productive efficiency is stated as ' the minimum unit cost attainable for a given level of output'. A conclusion would point out that a perfectly competitive firm is therefore likely to be more efficient than it monopolistically competitive counterpart. Good responses might refer to dynamic efficiency and given the small size of firms in both types of market structure, neither firm would be able to benefit from this type of efficiency.* **L4 (9–12 marks):** For a clear explanation of the concept of normal profit and an analysis of the long run positions of both types of firms, supported by clear, accurately labelled diagrams. A clear understanding allocative and productive efficiency. An attempt to evaluate the accuracy of the claim under consideration by comparing the two long run outcomes. A conclusion which points out that the statement is incorrect. **L3 (7–8 marks):** For an accurate reference to the question and clear understanding two types of efficiency and an attempt to link these different types of efficiency to different long run positions of both types of firm but with a more limited evaluation of the differences in efficiency between the two firms in the long run. Analysis of how the long run positions are attained will be also less well developed. # **L2 (5–6 marks):** For a briefer descriptive comment that examines two types of efficiency and applies these concepts to both types of firm in the long run. Diagrams might not be accurate and it is not clear how the long run position has been attained. Does not use these differences in long run outcomes to discuss the validity of the view under consideration. **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)	**Interdependence is a key characteristic of oligopoly firms. This creates a problem regarding the pricing decisions made by such firms.** **Explain this statement and discuss the extent to which game theory can help to solve this problem.** *Answers should explain what economists mean by 'interdependence' in relation to an Oligopoly market structure. Oligopolies will be large firms with a high concentration ratio. This means that the pricing and output decisions of any one of these firms is likely to have a significant impact on profits, market share and growth of their main competitors.* *One example might be illustrated by reference to the kinked demand curve and the link between price changes and changes in total revenue. This also emphasises the need to avoid price wars where all firms risk a fall in profits while the consumer benefits.* *Game theory, which uses the idea of a maxi-min strategy and refers to the 'Prisoners Dilemma' as an example, can be used by an Oligopoly firm to promote the idea of collusion to choose a price which will maximise revenue. There are alternatives to this approach. For example, the market price may be set by the dominant firm while the remaining firms follow.* *Tacit collusion might take place where the market price is set by 'rules of thumb' such as average cost pricing. Thus although Game theory is undoubtedly useful to Oligopoly firms, there are a number of alternative approaches which might also be successfully adopted.* **L4 (9–13 marks):** For a response which explains the concept of interdependence in relation to the specific market structure of Oligopoly. The kinked demand curve should be used to illustrate the pricing problem. A clear analysis of the use of Game theory should be used to discuss a potential solution to this problem. At least one alternative pricing approach should be discussed. A conclusion should provide a judgement upon the specific statement under discussion. **L3 (7–8 marks):** For a competent analysis of the importance of interdependence in relation to Oligopoly pricing, which incorporates the theory of the kinked demand curve and identifies why this constitutes a problem. An attempt might be made to explain Game theory but this will not be clearly identified as a solution to the specific problem. There will be no attempt to consider whether Game theory might represent the **only** solution. **L2 (5–6 marks):** For a brief, descriptive approach which refers to interdependence and the kinked demand curve or interdependence and Game theory but does not attempt to link the three concepts to address the specific question **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)	**Discuss the costs and benefits of a trade union intervening to influence the wages of workers in a specific occupation** *The main benefits associated with Trade Union intervention in the labour market would include: high wages due to collective bargaining; maintenance/improvement of working conditions and the maintenance of job security. The extent to which these objectives will be determined to some extent by the nature of the labour market in which they operate. In a perfectly competitive labour market analysis will focus on a situation where wage rates are determined by the supply of and the demand for labour. In this case trade unions can raise wages without loss of jobs, by increasing training and ultimately MRP. However, if wage increases are obtained by collective bargaining, which establishes a higher minimum wage, this might be achieved at a cost of significant job losses.* *Similarly, in a monopsony labour market unions might be able to achieve higher wages in a bilateral bargaining situation where unions negotiate with a monopsony buyer. The extent to which higher wages can be achieved in this situation without job losses will depend upon the relative strength of the union in relation to the employer. The loss of jobs and job security is likely to be the most significant cost in both cases. A conclusion should attempt to judge alternative situations where a net benefit/cost might arise.* **L4 (9–12 marks):** For a sound discussion that recognises at least one cost and one benefit referring to a perfect labour and any imperfect labour market. Evaluative comment should attempt to compare the relative costs/benefits in each case and this should form the basis of a relevant conclusion. **L3 (7–8 marks):** For a competent comment with limited analysis that recognises costs and benefits but does not apply this analysis to both a perfect and an imperfect labour market. A brief conclusion might be provided but it will not be fully developed to allow a valid judgement. **L2 (5–6 marks):** For an attempt describes different costs/benefits associated with trade union intervention in the labour market but which, lacks sufficient analytical content. 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
4(b)	**The introduction of a national minimum wage by a government will always benefit employees at the expense of employers.** **Discuss the extent to which you agree with this statement** *Answers should clearly identify and explain why a government might wish to introduce a minimum wage. Aims might include: to protect basic living standards; ensure a more equitable distribution of income; encourage individuals to get a job and encourage labour productivity. Analysis should then attempt to show the impact of a minimum wage imposed* ***above the existing market equilibrium.*** *This analysis can then be linked to the specific statement in the question by considering why the effect of an increase in wages will be different, depending upon the type of market under consideration and/or the respective elasticities of the supply of and demand for labour in each case****.*** ***'always'*** *is a key word in the statement and it is assumed that candidates will question whether this is acceptable. For example, it can be argued that the incentive effect of higher wages might lead to higher levels of labour productivity which will benefit the employer as well as the employee. Also references to possible positive/negative macroeconomic effects might be made. For example, higher minimum wage leads to higher overall costs which might lead to higher prices, higher cost of living. A conclusion should attempt to address the specific question based on preceding analysis.* **L4 (9–13 marks):** At least 2 factors should be identified which support the assertion that employees will benefit from the imposition of a minimum wage. These benefits should be discussed using appropriate analysis. The extent to which these benefits are then attained at the expense of employers should then be fully discussed, referring to different types of labour market etc. A conclusion should attempt to make a judgement relating to whether the attained benefits are **always** gained at the expense of the employers. **L3 (7–8 marks):** For competent analysis which clearly demonstrates the potential impact of a minimum wage on an employee via higher wages but is also aware that there are potential costs e.g. higher prices, job losses. Some brief comment might be provided regarding possible benefits gained by employers but this will not be fully developed. A conclusion addressing the specific question will not be provided. **L2 (5–6 marks):** For a brief and less developed explanation of the potential benefits to the employee of a minimum wage but this will not be supported by any in-depth analysis. There will be no attempt to consider the impact of a minimum wage on the employer. **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(a)	**With the help of a circular flow diagram discuss how a policy of export led growth might affect the standard of living in a developing economy.** *Export led growth is dependent on an outward growth strategy which relies heavily on openness and increased international trade. Successful growth should lead to an increase in national income, output and employment.* *Concentration on the expansion of exports should be a key factor determining an increase in aggregate demand, output and employment. This can be clearly illustrated, using a circular flow diagram which shows all withdrawals, all injections and the change in national income equilibrium achievable via export led economic growth. This diagram should be clearly labelled and accurate showing an increase in injections (exports) producing a bigger increase in output/income/employment via the multiplier .These increases should lead to a real increase in GDP per capita which should provide the potential for a rise in living standards by increasing access to more goods and services.* *However, a developing economy is likely to rely heavily on the export of primary goods for which it would have a comparative advantage. The demand for such goods is likely to be income inelastic and the supply of such goods will be volatile because supply of such goods will vary significantly dependent upon changes in the weather. This means that changes in the growth rate might not be significant and the subsequent impact on the standard of living much reduced. Also it should be recognised that an increase in output, income and employment might not necessarily result in a significant increase in living standards. For example, it would depend upon how the additional income is distributed, possible loss of leisure time, might lead to lower long term economic growth due to focus on production and sale of primary products.* **L4 (18–25 marks):** For a sound explanation of how export led growth can be analysed using an accurately labelled circular flow diagram. Links between the export led growth and potential benefits on the standard of living in developing countries should be clearly established. Evaluative comment should then be provided which questions the extent of the beneficial impact of this type of growth on the standard of living in a developing economy. A conclusion should be provided.	**25**

Question	Answer	Marks
5(a)	**L3 (14–17 marks):** For a clear analysis of the impact of export led growth on a developing economy, using a circular flow diagram. An attempt will be made to show how this growth might impact on living standards. Some attempt might be made to discuss the overall impact of export growth on living standards but points raised will be brief and not fully developed. Similarly, a brief, undeveloped conclusion might be provided. **L2 (10–13 marks):** For a response which is descriptive rather than analytical. Answers might focus on factors which affect living standards in developing countries. A circular flow diagram will not be provided and there will be only a very limited attempt to link export led growth to changes in the standard of living in developing countries. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	

Question	Answer	Marks
6(a)	**Explain what is meant by a transmissions mechanism of monetary policy and consider why it might not work in practice.** *Monetary transmissions mechanisms attempt to explain how changes in monetary policy might have an impact on key macroeconomic goals such as national income, output, employment and inflation.* *Answers may explain either the Keynesian model or an alternative model based on a central bank changing the base rate of interest. Keynes suggested that an increase in the money supply might affect real variables such as output and employment because this would be transmitted by a fall in interest rates, leading to a rise in investment/aggregate monetary demand and ultimately an increase in GDP and employment. However, Keynes also identified a number of reasons why this approach might not work effectively in practice. Reasons might include: the existence of a liquidity trap; an interest inelastic investment; a relatively low multiplier effect; negative effect of a rise in income on interest rates.* *A similar approach might be adopted in relation to the use of a central bank's mechanism to change interest rates to control the rate of inflation. Again, the success of this approach will rely heavily upon the strength of the links between a change in monetary policy and each of the variables which will determine the final outcome.* **L4 (9–12 marks):** For either approach an explanation of the meaning of **monetary transmissions mechanism** is required and supporting analysis should be fully developed and critically evaluated. In either approach, at least two evaluative comments should be provided. A reasoned conclusion should be provided which considers the extent to which the chosen monetary transmissions mechanism might work in practice. **L3 (7–8 marks):** For accurate but only partially developed analysis based on either approach which provides at least one evaluative comment. Some attempt to draw upon the analysis and form a conclusion should be demonstrated. **L2 (5–6 marks):** For a mainly descriptive comment which provides limited analysis and does not include any discursive comment. A conclusion will not 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 role and importance of the commercial banks in a developed economy.** *Key roles associated with commercial banks include: to allow the safekeeping of funds; to provide loans to consumers and producers; to act as financial intermediaries and make it easier for payments to be made within and between persons and firms.* *Each of these roles can be linked to growth and development in a developed economy. Savings can be used to allow firms to borrow for investment purposes thus promoting long term economic growth. Loans can be also provided to consumers to promote an increase in consumer expenditure, increased aggregate demand and an increase in output and employment. Financial intermediation and easier methods of payment should promote specialisation and exchange thus further encouraging economic growth.* *However it should also be noted that profitably is one of the main aims of a commercial bank and in some circumstances it is not clear that the needs of would- be investors are not consistent with the aims of a commercial bank. Banks have to maintain liquidity and security as well as profitability. Hence much needed loans to the private sector are not always available. In addition commercial bank loans create new bank deposits which automatically increase the money supply in an economy. In some situations this does not help a government to maintain an appropriate monetary policy. For example, a rapid increase in bank lending would be unwise when an economy is experiencing rising rates of inflation. A conclusion should summarise the preceding discussion.* **L4 (9–13 marks):** For a description of three key functions of a commercial bank. Responses should then discuss the importance of at least two of these roles in relation to a developed economy. Each role should be analysed and at least one evaluative comment provided in relation to each role discussed. A conclusion should attempt to assess the importance of commercial banks in relation to the preceding analysis/discussion. **L3 (7–8 marks):** For a description of at least two functions of a commercial bank and an attempt to analyse the importance of these functions in a developed economy. Some attempt should be made to evaluate the importance of one of these roles. **L2 (5–6 marks):** For a competent comment with the emphasis on describing how commercial banks function and supporting this with some limited comment. There will be a very limited attempt to examine why commercial banks might be important in a developed economy. **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)	**Keynesians argue that increasing budget deficits will solve the problem of unemployment. Monetarists argue that supply side policies are more effective in reducing unemployment.** **Consider which view is more likely to be correct.** *Candidates should explain that a budget deficit will occur when government total expenditure is greater than its total income. It should also be explained that unemployment is considered to be a problem primarily because it represents a waste of valuable scarce resources.* *Keynesians argue that an increased budget deficit will create additional expenditure/aggregate monetary demand which, in conjunction with the multiplier effect, will lead to an increase in output, income and employment. However, monetarists suggest that this approach might not be effective because: additional borrowing due to a budget deficit will lead to higher interest rates, lower investment and a countervailing fall in monetary demand; alternatively monetarists suggest it the financing of the deficit depends upon printing new money, this will ultimately lead to inflation; that it is the cause of unemployment which matters and Keynesian solutions would not be helpful regarding structural unemployment caused by changes in the pattern of demand and/or frictions in the labour market.* *Therefore monetarists would argue that supply side policies, either based on direct government intervention, for example reducing corporation tax or by interfering with the price mechanism to reduce frictions in the labour market. For example introducing de-regulation and promoting privatisation. An attempt should be made to summarize the preceding argument and recognising that a key difference between the two approaches is closely linked to the type of unemployment under consideration.* **L4 (18–25 marks):** For an answer which explains what is meant by a budget deficit and which recognizes why unemployment constitutes a significant economic problem. Analysis of both the Keynesian and Monetarist proposed solutions will be provided. Analysis in both cases should be subject to at least one evaluative comment. A conclusion should recognize that a key difference between the two solutions advocated should relate to the specific type of unemployment under consideration.	**25**

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Question	Answer	Marks
7(a)	**L3 (14–17 marks):** For analysis which addresses both the Keynesian and Monetarist approach to solving the problem of unemployment. A budget deficit and the reason why unemployment will also be explained in the process. However, there will be little evidence of evaluative comment with respect to either approach. A brief conclusion might be provided but it will not recognize the key explanation regarding the difference between the two approaches. **L2 (10–13 marks):** For a less well developed comment which describes the meaning of a budget deficit and the problem of unemployment. Also some attempt will be made to distinguish between Keynesian demand side policies and Monetarist supply side policies but this will not be supported by any in-depth analysis. No attempt will be made to directly compare the effectiveness of the two policies. **L1 (1–9 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	

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ECONOMICS **9708/42**

Paper 4 Data Response and Essays **May/June 2022**

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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.

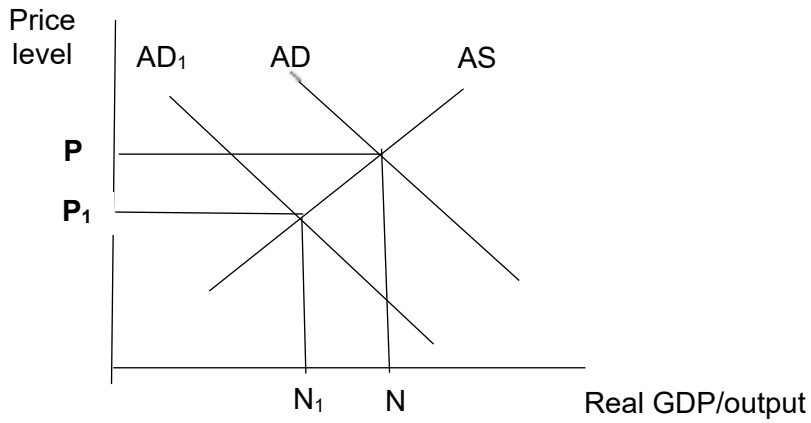
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4 Annotation:

- 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)	**Define what is meant by a cartel.** A formal agreement (1) by firms to operate collectively (1) to raise price or limit output (1) to reduce competition/control the market (1 mark)	**2**
1(b)	**Russia and the US are not members of OPEC, but they engage in collusion with the cartel.'** **Explain what the term collusion means in the context of an oligopoly**. Collusion is an informal arrangement (1 mark). An example of collusion (1) It arises when firms agree to a form of competitive behaviour which benefits the firms. Accept price leadership as tacit collusion. (1 mark) Examples one firm raises it price and all other firms in the industry agree to do the same, a refusal to reduce prices despite raw material costs falling. (1 mark)	**3**
1(c)	**The oil production processes used by Saudi Arabia and the US use different proportions of fixed costs and variable costs.** **Analyse why the fall in the price of oil may have a more significant effect on the output of oil in the US.** Definition of variable costs (1 mark) and fixed costs. (1mark) Recognition of higher variable costs (VC) in USA and/or lower VC in Saudi Arabia/Russia. (1 mark) Explanation of the relationship between price and average variable costs:- • If the price remains above AVC but below ATC a US well can still make a contribution to fixed costs, reducing losses. (1 mark) • If price is less than AVC a US well cannot continue in production as losses would be greater than fixed costs. (1 mark) Conclusion: Some US oil wells may close (1 mark) but without more detailed information on the AVC of US wells no definite estimate of the number can be made. (1 mark)	**7**

Question	Answer	Marks
1(d)	**Discuss, with the use of AD/AS diagrams, how Russia and Saudi Arabia are likely to be able to respond to the fall in oil prices.** Effect of changes: Reason(s) for fall in AD (1 mark) Diagram to show AD falls in both R and SA **Diagram 2 marks**  1 mark for correct labels/axes, 1 mark for shift AD to AD_1 and its outcome. **Response to problem** Recognition of the need for different policies between Russia and S Arabia because of budget surplus/deficit (1 mark) Russia choses expansionary FP (1 mark) because of budget surpluses (1 mark), this restores AD. (1 mark) Up to 3 marks SA because it leads OPEC, can reduces supply of oil (1 mark) which raises the oil price because of inelastic demand (1 mark) and AD will rise. (1 mark) Up to 3 marks (5 marks max) Diagram may be used in response element of the answer. (max 2 marks for diagram(s)	**8**

Question	Answer	Marks
2	**A rational consumer will always purchase less of an item as the price increases.** **Discuss, with the use of indifference curve analysis, whether this statement is correct.** *Meaning of a rational consumer, definition/description of an indifference curve (IC), meaning of the budget line (BL). Interaction of IC and BL to determine quantity demanded. Change in price of a good and its effect on quantity demanded. Split of change in quantity demanded into substitution effect (SE) and income effect (YE). The nature of SE is always negative and YE can be either positive or negative. Combined effect on quantity demanded. Relevant diagrams.* *The effect of a large negative income effect more than offsetting the substitution effect (Giffen good) may be explained/analysed.* **L4 (18–25 marks):** For answer which develops the analysis and discusses the effect of the change in price on the quantity demanded due to the size and sign of the SE and YE. Reference to a Giffen good (or a Veblen good) is made. Evaluation comment(s) is/are made. **L3 (14–17 marks):** For an answer which analyses the effect of a change in price on the quantity demanded. There is reference to the SE and YE. **L2 (10–13 marks):** For a limited explanation which describes IC and BL and the derivation of the quantity demanded at a given price. A basic diagram of a single equilibrium point is drawn. **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
3(a)	**Explain the relationship between marginal revenue and average revenue and their role in determining the output and profit of a profit maximising firm in a perfectly competitive market.** *Definition of average revenue (AR) and marginal revenue (MR). Understanding of their nature in a perfectly competitive market. Marginal costs (MC) equality to MR for profit maximising output. The difference between AC and AR to determine the level of profits. Short run and long run changes.* **L4 (9–12 marks):** For an answer which refers to average and marginal revenue and analyses the relationship between MR/MC and AR/AC in both the short run **and** long run and links the two, to determine profits in perfect competition. **L3 (7–8 marks):** For an answer which refers to average and marginal revenue and analyses the relationship between MR/MC and AR/AC in the short run **or** long run to determine profits in perfect competition. **L2 (5–6 marks):** For an answer which explains average and marginal revenue in the context of a perfectly competitive firm. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
3(b)	**Discuss the significance of economies of scale for the survival of firms.** *Definition and explanation of internal/external economies of scale (EoS), reference to impact of EoS on barriers to entry (BtE). Ability to access EoS and long run average costs (LRAC) impact on competitive position compared with other firms in an industry and survival. EoS and the development of oligopoly and/or monopoly industries and long run survival of the firm within those market structures.* **L4 (9–13 marks):** For an answer which develops an analysis of the relationship between EoS and BtE with reference to LRAC, and market structure(s) and the survival of a firm. A comparative analysis is drawn with the survival of small firms. A conclusion is reached for 12/13 marks. **L3 (7–8 marks):** For an answer which develops an analysis of the relationship between EoS and BtE, with reference to LRAC, and the survival of a firm. **Alternatively,** the analysis compares the ability to gain EoS, with the competitive strength of a firm and its survival. There is limited reference to market structure(s). A limited comparison is drawn with the survival of small firms. **L2 (5–6 marks):** For an answer which defines and explains economies of scale with reference to LRAC. Answer is largely descriptive. No link to survival. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

Question	Answer	Marks
4(a)	**Explain how the problems of climate change, such as global warming, may be regarded as a consequence of resource misallocation.** *The allocative efficiency implications of the effects of overuse of carbon emission producing fuels, on externalities in consumption and production. Externalities marginal private/benefits social efficient output.* **L4 (9–12 marks):** For an answer which explains and analyses climate change in terms of externalities **and** private and social costs/benefits **and** link to resource misallocation. **L3 (7–8 marks):** For an answer which explains and analyses climate change in terms of externalities **or** private **or** social costs/benefits with link to resource misallocation. **L2 (5–6 marks):** For an answer which explains externalities and private and social costs/benefits and comments on the outcome. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
4(b)	**Evaluate two policies a government may implement to reduce the impact of climate change.** *Analysis of two from a range of policies is possible: taxation of carbon producing activities, subsidies of alternative fuels, prohibition of activities, improved information, pollution permits. Evaluation may refer to direct cost of implementation, environmental effectiveness, allocative efficiency, effect on production costs, local effects on employment, the international aspects of climate change or regressive/progressive income effects.* **L4 (9–13 marks):** For an answer which analyses **two** policies which may reduce the impact of climate change. Evaluation is made. **L3 (7–8 marks):** For an answer which analyses **two** policies. **L2 (5–6 marks):** For an answer which defines and explains **one or two** policies. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

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Question	Answer	Marks
5	**The best outcome for labour markets is that the forces of supply and demand are left to determine wages without government interference.** **Discuss with the use of diagrams, whether this statement is always true.** *The demand (MRP theory) and supply of labour and the determination of wages. Reference to elasticities on the wage level. The implementation and impact of minimum wage legislation. The effect of monopsony on the labour market.* **L4 (18–25 marks):** For an answer which analyses the effects of supply and demand on the wage level in a competitive labour market **and** imperfect labour market. Government intervention in the labour market is analysed and discussed. Accurate diagrams are present. An evaluation of the truth of the statement is made. **L3 (14–17 marks):** For an answer which analyses the effects of supply and demand on the wage level in a competitive labour market **or** an imperfect labour market. Accurate diagrams are present. An explanation of government intervention in the labour market is given. **L2 (10–13 marks):** For a limited explanation which describes the effects of supply and demand on the wage level in a competitive labour market. **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)	**Distinguish between the characteristics of developed (high income) and developing (low income) countries.** *GDP per capita*, *population age structure, education, health care, foreign debt levels, sectoral distribution of employment, level of employment, level of infrastructure or level of urbanization*. **L4 (9–12 marks):** For an answer which explains and analyses the relationship between **three** or more characteristics. **L3 (7–8 marks):** For an answer which explains and analyses the relationship between **two** characteristics. **L2 (5–6 marks):** For an answer which explains **two** characteristics. **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 gross domestic product (GDP) is the best measure of the standard of living.** *Definition of gross domestic product (GDP) and its use in the form of real GDP per head as a measure of the standard of living. The use of HDI/MEW/ or other measures of standard of living, a discussion of their merits as measures of the standard of living.* **L4 (9–13 marks):** For an answer which discusses the relative merits of GDP and an alternative measure of the standard of living. GDP is evaluated against an alternative measure. **L3 (7–8 marks):** For an answer which analyses the use of real GDP per capita as a measure of the standard of living and comments on an alternative measure of the standard of living. **L2 (5–6 marks):** For an answer which defines and explains the use of real GDP **or** GDP per capita as a 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**

Question	Answer	Marks
7(a)	**Explain the relationship between the Keynesian demand for money and the rate of interest.** *The description of the transaction, precautionary and speculative demands for money, their individual relationship with the rate of interest. The combined effect of the 3 demands and the rate of interest.* **L4 (9–12 marks):** For an answer which provides a detailed explanation and analysis of the **three** demands for money and relates them to the rate of interest. **L3 (7–8 marks):** For an answer which explains and analyses **two** of the demands for money and relates them to the rate of interest. **L2 (5–6 marks):** For an answer which explains **two** of the demands for money. **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)	**Discuss whether monetary policy alone is sufficient for a government to achieve its macroeconomic aims simultaneously.** *Identification of government macroeconomic aims: employment, inflation, growth or balance of payment equilibrium. Explanation of the monetary policy process and the limitations of this policy. Explanation of alternative policy(ies) e.g. fiscal, supply side policy. Comparison and discussion of their relative ability to achieve stated economic aims – employment, inflation, growth or balance of payment equilibrium.* **L4 (9–13 marks):** For an answer which discusses and analyses the impact of monetary policy changes on **two** government macroeconomic aims and the impact of an alternative policy are compared. An evaluation of the statement. **L3 (7–8 marks):** For an answer which analyses the impact of monetary policy changes on **two** government macroeconomic aims. Reference is made to an alternative policy which may help achieve those aims. **L2 (5–6 marks):** For an answer which defines and explains the monetary policy and/or **two** government macroeconomic aims. **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 2022**

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 2022 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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Generic Marking Principles

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

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

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

GENERIC MARKING PRINCIPLE 2:

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

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

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

GENERIC MARKING PRINCIPLE 4:

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

GENERIC MARKING PRINCIPLE 5:

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

GENERIC MARKING PRINCIPLE 6:

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

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- 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)

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- Slashes (/) or the word 'or' separate alternative ways of making the same point.
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4 Annotation:

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Question	Answer	Marks
1(a)	**Explain what is meant by productivity.** The rate of output per unit of input, (which may be capital, labour or a combination of factors of production) for a given period, usually one hour. Ratio of GDP to hours worked. The efficiency of production–how inputs are used to produce outputs in a given period.	**2**
1(b)	**The information suggests that innovation and R&D are important in ensuring high productivity. Is this statement consistent with the evidence in Fig. 1.1? g** Innovation is one of three strategies given to improve productivity along with investment and infrastructure. (1) The percentage of GNP devoted to R&D is high for most of the countries with the highest productivities: Germany, France and USA. (1) The exception is Japan which has the highest percentage of GNP devoted to innovation (3.4%) but the lowest index of productivity (93) in 2016. (1) Fig. 1 not entirely consistent. (1)	**4**
1(c)	**Use the information to comment on productivity in the US and indicate which factors contributed to its performance.** US has relatively high productivity in 2015/16, figures from chart. (2) R&D is a strong element in productivity (1): 2.7% of GDP allocated to R&D,(1) 3 of the top 10 companies investing in R&D are based in the USA.(1) US dominates the world's hardware and software engineering, accounting for 7% of GNP.(1)	**6**
1(d)	**Use the information to discuss whether or not it is likely that the UK's productivity within the G7 countries will improve.** Seems unlikely to improve in the <u>short-term</u> (1) because: • low levels of investment over a 20 year period (1) • R&D as a % of GNP is only 1.3% 7& well below some other G7 countries (1) • poor management practices and lower skills levels generally (1) • FDI balance–latest figures show foreign investment in UK is declining caused by economic uncertainties, e.g. car industry (1) But there are some factors which may lead to improvement in the <u>long term (1)</u> • world-renowned R&D in digital technology and biomedical research (1) • increased government investment in transport infrastructure (1)	**8**

Question	Answer	Marks
2(a)	**Explain what economists mean by a public good and discuss why the provision of such a good is associated with market failure.** *Answers should provide a clear explanation of the meaning of a public good. Key characteristics: non rival; non excludable should be identified. Some reference to non- divisible/non-rejectable might also be referred to. Examples provided might include: street lighting/national defence/lighthouse* *The link between the characteristics of a public good and the difficulty associated with the provision of such a good by the free market should be established i.e. the 'free rider problem' Market failure should be discussed in the context of allocative inefficiency. Allocative efficiency is attained when resources are allocated to maximise consumer satisfaction. If public goods are not provided, consumer satisfaction is unlikely to be maximised, hence unless the State provides public goods, market failure will occur.* **L4 (9–12 marks):** For a reasoned and clear discussion which explains the key characteristics of a public good and analyses the links between allocative efficiency and the concept of market failure. An attempt should be made to evaluate the potential impact on total consumer satisfaction if certain public are not provided. A conclusion should be provided which might comment on the importance of public goods and how a government can help to address this type of potential market failure. **L3 (7–8 marks):** For a competent comment which clearly defines the concept of a public good and market failure together with limited elaboration of the analysis or imprecise links in the argument. Evaluation will not be fully developed and no attempt will be made to provide a conclusion to summarize the preceding argument. **L2 (5–6 marks):** For a limited explanation of the key terms but weak or ill-explained links between these terms. The explanation will be undeveloped with some attempt at analysis but the emphasis will be on descriptive comment. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
2(b)	**Discuss the extent to which monopoly producers and the consumers of their products might benefit from the existence of barriers to entry.** *Monopoly producers might control all the market supply or sometimes the state might provide a legal definition of a monopoly, for example, a firm which controls at least 25% of the market share. Potential benefits to the monopolist might include: higher profits; increase in efficiency; increase in market share; growth of the firm. The consumer benefits might include: lower prices; higher quality product; greater availability of a product.* *Responses might refer to a range of alternative barriers to entry including: economies of scale; branding/advertising; legal requirements/patents; natural monopolies; limit pricing. Good responses will choose at least two types of barrier and discuss how each might have a positive/negative effect on both the producer and the consumer. For example, economies of scale might increase Monopoly profits by lowering unit costs but also benefit the consumer by possible subsequent price reductions. Similarly, the use of limit pricing to prevent new entrants might lower prices for the consumer in the short run but lead to a higher market share and higher profits in the long run.* *On a more general note, some barriers might allow a monopolist to maintain profits in the long run and invest in research and development thus achieving dynamic efficiency. These benefits might by be passed on to the consumer through lower prices, higher quality products and more choice. Alternatively, barriers might lead to complacency and X inefficiency which is likely to lead to higher prices and lower quality products.* **L4 (9–13 marks):** For a clear, explanation of two barriers to entry and a discussion of how each of the barriers might have both a negative and positive effect on the producer and the consumer. An attempt should be made to summarize the extent to which producers/consumers might achieve a net benefit. **L3 (7–8 marks):** For a fair explanation of two barriers which focuses upon either the potential costs/benefits to the producer or consumer only or an explanation which does not attempt to examine both costs and benefits in both cases. A brief conclusion referring to the extent of the costs/benefits might be made. **L2 (5–6 marks):** For a more descriptive explanation that indicates knowledge of different types of barrier to entry but does not identify specific costs/benefits and does not distinguish clearly between costs/benefits to the producer and costs/benefits to the consumer. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
3(a)	**Firms in perfect competition and firms in monopolistic competition will only achieve normal profits in the long run. This means that firms in both these types of market structure are equally efficient.** **Discuss, with the help of diagrams, the extent to which you agree with this statement.** *The main types of efficiency will be explained including: allocative efficiency, productive efficiency and possibly dynamic efficiency. Reference to the long run position in perfect competition in combination with definitions of efficiency should allow that firms in perfect competition will achieve both allocative and productive efficiency in the long run. Similarly, reference to a long run position in monopolistic competition using the same definitions of efficiency should enable candidates to conclude that a firm in monopolistic competition will not be allocatively efficient i.e. will not produce where AR=MC and it will not produce at the minimum point of its long run average total cost curve. Therefore it will not operate at an optimum level of output.* *Answers which point out that the firm in monopolistic competition will be operating at a productively efficient level of output in the long run are acceptable provided it is clear that the definition of productive efficiency is stated as ' the minimum unit cost attainable for a given level of output'. A conclusion would point out that a perfectly competitive firm is therefore likely to be more efficient than it monopolistically competitive counterpart. Good responses might refer to dynamic efficiency and given the small size of firms in both types of market structure, neither firm would be able to benefit from this type of efficiency.* **L4 (9–12 marks):** For a clear explanation of the concept of normal profit and an analysis of the long run positions of both types of firms, supported by clear, accurately labelled diagrams. A clear understanding allocative and productive efficiency. An attempt to evaluate the accuracy of the claim under consideration by comparing the two long run outcomes. A conclusion which points out that the statement is incorrect. **L3 (7–8 marks):** For an accurate reference to the question and clear understanding two types of efficiency and an attempt to link these different types of efficiency to different long run positions of both types of firm but with a more limited evaluation of the differences in efficiency between the two firms in the long run. Analysis of how the long run positions are attained will be also less well developed. # **L2 (5–6 marks):** For a briefer descriptive comment that examines two types of efficiency and applies these concepts to both types of firm in the long run. Diagrams might not be accurate and it is not clear how the long run position has been attained. Does not use these differences in long run outcomes to discuss the validity of the view under consideration. **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)	**Interdependence is a key characteristic of oligopoly firms. This creates a problem regarding the pricing decisions made by such firms.** **Explain this statement and discuss the extent to which game theory can help to solve this problem.** *Answers should explain what economists mean by 'interdependence' in relation to an Oligopoly market structure. Oligopolies will be large firms with a high concentration ratio. This means that the pricing and output decisions of any one of these firms is likely to have a significant impact on profits, market share and growth of their main competitors.* *One example might be illustrated by reference to the kinked demand curve and the link between price changes and changes in total revenue. This also emphasises the need to avoid price wars where all firms risk a fall in profits while the consumer benefits.* *Game theory, which uses the idea of a maxi-min strategy and refers to the 'Prisoners Dilemma' as an example, can be used by an Oligopoly firm to promote the idea of collusion to choose a price which will maximise revenue. There are alternatives to this approach. For example, the market price may be set by the dominant firm while the remaining firms follow.* *Tacit collusion might take place where the market price is set by 'rules of thumb' such as average cost pricing. Thus although Game theory is undoubtedly useful to Oligopoly firms, there are a number of alternative approaches which might also be successfully adopted.* **L4 (9–13 marks):** For a response which explains the concept of interdependence in relation to the specific market structure of Oligopoly. The kinked demand curve should be used to illustrate the pricing problem. A clear analysis of the use of Game theory should be used to discuss a potential solution to this problem. At least one alternative pricing approach should be discussed. A conclusion should provide a judgement upon the specific statement under discussion. **L3 (7–8 marks):** For a competent analysis of the importance of interdependence in relation to Oligopoly pricing, which incorporates the theory of the kinked demand curve and identifies why this constitutes a problem. An attempt might be made to explain Game theory but this will not be clearly identified as a solution to the specific problem. There will be no attempt to consider whether Game theory might represent the **only** solution. **L2 (5–6 marks):** For a brief, descriptive approach which refers to interdependence and the kinked demand curve or interdependence and Game theory but does not attempt to link the three concepts to address the specific question **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)	**Discuss the costs and benefits of a trade union intervening to influence the wages of workers in a specific occupation** *The main benefits associated with Trade Union intervention in the labour market would include: high wages due to collective bargaining; maintenance/improvement of working conditions and the maintenance of job security. The extent to which these objectives will be determined to some extent by the nature of the labour market in which they operate. In a perfectly competitive labour market analysis will focus on a situation where wage rates are determined by the supply of and the demand for labour. In this case trade unions can raise wages without loss of jobs, by increasing training and ultimately MRP. However, if wage increases are obtained by collective bargaining, which establishes a higher minimum wage, this might be achieved at a cost of significant job losses.* *Similarly, in a monopsony labour market unions might be able to achieve higher wages in a bilateral bargaining situation where unions negotiate with a monopsony buyer. The extent to which higher wages can be achieved in this situation without job losses will depend upon the relative strength of the union in relation to the employer. The loss of jobs and job security is likely to be the most significant cost in both cases. A conclusion should attempt to judge alternative situations where a net benefit/cost might arise.* **L4 (9–12 marks):** For a sound discussion that recognises at least one cost and one benefit referring to a perfect labour and any imperfect labour market. Evaluative comment should attempt to compare the relative costs/benefits in each case and this should form the basis of a relevant conclusion. **L3 (7–8 marks):** For a competent comment with limited analysis that recognises costs and benefits but does not apply this analysis to both a perfect and an imperfect labour market. A brief conclusion might be provided but it will not be fully developed to allow a valid judgement. **L2 (5–6 marks):** For an attempt describes different costs/benefits associated with trade union intervention in the labour market but which, lacks sufficient analytical content. 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
4(b)	**The introduction of a national minimum wage by a government will always benefit employees at the expense of employers.** **Discuss the extent to which you agree with this statement** *Answers should clearly identify and explain why a government might wish to introduce a minimum wage. Aims might include: to protect basic living standards; ensure a more equitable distribution of income; encourage individuals to get a job and encourage labour productivity. Analysis should then attempt to show the impact of a minimum wage imposed* ***above the existing market equilibrium.*** *This analysis can then be linked to the specific statement in the question by considering why the effect of an increase in wages will be different, depending upon the type of market under consideration and/or the respective elasticities of the supply of and demand for labour in each case****.*** ***'always'*** *is a key word in the statement and it is assumed that candidates will question whether this is acceptable. For example, it can be argued that the incentive effect of higher wages might lead to higher levels of labour productivity which will benefit the employer as well as the employee. Also references to possible positive/negative macroeconomic effects might be made. For example, higher minimum wage leads to higher overall costs which might lead to higher prices, higher cost of living. A conclusion should attempt to address the specific question based on preceding analysis.* **L4 (9–13 marks):** At least 2 factors should be identified which support the assertion that employees will benefit from the imposition of a minimum wage. These benefits should be discussed using appropriate analysis. The extent to which these benefits are then attained at the expense of employers should then be fully discussed, referring to different types of labour market etc. A conclusion should attempt to make a judgement relating to whether the attained benefits are **always** gained at the expense of the employers. **L3 (7–8 marks):** For competent analysis which clearly demonstrates the potential impact of a minimum wage on an employee via higher wages but is also aware that there are potential costs e.g. higher prices, job losses. Some brief comment might be provided regarding possible benefits gained by employers but this will not be fully developed. A conclusion addressing the specific question will not be provided. **L2 (5–6 marks):** For a brief and less developed explanation of the potential benefits to the employee of a minimum wage but this will not be supported by any in-depth analysis. There will be no attempt to consider the impact of a minimum wage on the employer. **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(a)	**With the help of a circular flow diagram discuss how a policy of export led growth might affect the standard of living in a developing economy.** *Export led growth is dependent on an outward growth strategy which relies heavily on openness and increased international trade. Successful growth should lead to an increase in national income, output and employment.* *Concentration on the expansion of exports should be a key factor determining an increase in aggregate demand, output and employment. This can be clearly illustrated, using a circular flow diagram which shows all withdrawals, all injections and the change in national income equilibrium achievable via export led economic growth. This diagram should be clearly labelled and accurate showing an increase in injections (exports) producing a bigger increase in output/income/employment via the multiplier .These increases should lead to a real increase in GDP per capita which should provide the potential for a rise in living standards by increasing access to more goods and services.* *However, a developing economy is likely to rely heavily on the export of primary goods for which it would have a comparative advantage. The demand for such goods is likely to be income inelastic and the supply of such goods will be volatile because supply of such goods will vary significantly dependent upon changes in the weather. This means that changes in the growth rate might not be significant and the subsequent impact on the standard of living much reduced. Also it should be recognised that an increase in output, income and employment might not necessarily result in a significant increase in living standards. For example, it would depend upon how the additional income is distributed, possible loss of leisure time, might lead to lower long term economic growth due to focus on production and sale of primary products.* **L4 (18–25 marks):** For a sound explanation of how export led growth can be analysed using an accurately labelled circular flow diagram. Links between the export led growth and potential benefits on the standard of living in developing countries should be clearly established. Evaluative comment should then be provided which questions the extent of the beneficial impact of this type of growth on the standard of living in a developing economy. A conclusion should be provided.	**25**

Question	Answer	Marks
5(a)	**L3 (14–17 marks):** For a clear analysis of the impact of export led growth on a developing economy, using a circular flow diagram. An attempt will be made to show how this growth might impact on living standards. Some attempt might be made to discuss the overall impact of export growth on living standards but points raised will be brief and not fully developed. Similarly, a brief, undeveloped conclusion might be provided. **L2 (10–13 marks):** For a response which is descriptive rather than analytical. Answers might focus on factors which affect living standards in developing countries. A circular flow diagram will not be provided and there will be only a very limited attempt to link export led growth to changes in the standard of living in developing countries. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	

Question	Answer	Marks
6(a)	**Explain what is meant by a transmissions mechanism of monetary policy and consider why it might not work in practice.** *Monetary transmissions mechanisms attempt to explain how changes in monetary policy might have an impact on key macroeconomic goals such as national income, output, employment and inflation.* *Answers may explain either the Keynesian model or an alternative model based on a central bank changing the base rate of interest. Keynes suggested that an increase in the money supply might affect real variables such as output and employment because this would be transmitted by a fall in interest rates, leading to a rise in investment/aggregate monetary demand and ultimately an increase in GDP and employment. However, Keynes also identified a number of reasons why this approach might not work effectively in practice. Reasons might include: the existence of a liquidity trap; an interest inelastic investment; a relatively low multiplier effect; negative effect of a rise in income on interest rates.* *A similar approach might be adopted in relation to the use of a central bank's mechanism to change interest rates to control the rate of inflation. Again, the success of this approach will rely heavily upon the strength of the links between a change in monetary policy and each of the variables which will determine the final outcome.* **L4 (9–12 marks):** For either approach an explanation of the meaning of **monetary transmissions mechanism** is required and supporting analysis should be fully developed and critically evaluated. In either approach, at least two evaluative comments should be provided. A reasoned conclusion should be provided which considers the extent to which the chosen monetary transmissions mechanism might work in practice. **L3 (7–8 marks):** For accurate but only partially developed analysis based on either approach which provides at least one evaluative comment. Some attempt to draw upon the analysis and form a conclusion should be demonstrated. **L2 (5–6 marks):** For a mainly descriptive comment which provides limited analysis and does not include any discursive comment. A conclusion will not 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 role and importance of the commercial banks in a developed economy.** *Key roles associated with commercial banks include: to allow the safekeeping of funds; to provide loans to consumers and producers; to act as financial intermediaries and make it easier for payments to be made within and between persons and firms.* *Each of these roles can be linked to growth and development in a developed economy. Savings can be used to allow firms to borrow for investment purposes thus promoting long term economic growth. Loans can be also provided to consumers to promote an increase in consumer expenditure, increased aggregate demand and an increase in output and employment. Financial intermediation and easier methods of payment should promote specialisation and exchange thus further encouraging economic growth.* *However it should also be noted that profitably is one of the main aims of a commercial bank and in some circumstances it is not clear that the needs of would- be investors are not consistent with the aims of a commercial bank. Banks have to maintain liquidity and security as well as profitability. Hence much needed loans to the private sector are not always available. In addition commercial bank loans create new bank deposits which automatically increase the money supply in an economy. In some situations this does not help a government to maintain an appropriate monetary policy. For example, a rapid increase in bank lending would be unwise when an economy is experiencing rising rates of inflation. A conclusion should summarise the preceding discussion.* **L4 (9–13 marks):** For a description of three key functions of a commercial bank. Responses should then discuss the importance of at least two of these roles in relation to a developed economy. Each role should be analysed and at least one evaluative comment provided in relation to each role discussed. A conclusion should attempt to assess the importance of commercial banks in relation to the preceding analysis/discussion. **L3 (7–8 marks):** For a description of at least two functions of a commercial bank and an attempt to analyse the importance of these functions in a developed economy. Some attempt should be made to evaluate the importance of one of these roles. **L2 (5–6 marks):** For a competent comment with the emphasis on describing how commercial banks function and supporting this with some limited comment. There will be a very limited attempt to examine why commercial banks might be important in a developed economy. **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)	**Keynesians argue that increasing budget deficits will solve the problem of unemployment. Monetarists argue that supply side policies are more effective in reducing unemployment.** **Consider which view is more likely to be correct.** *Candidates should explain that a budget deficit will occur when government total expenditure is greater than its total income. It should also be explained that unemployment is considered to be a problem primarily because it represents a waste of valuable scarce resources.* *Keynesians argue that an increased budget deficit will create additional expenditure/aggregate monetary demand which, in conjunction with the multiplier effect, will lead to an increase in output, income and employment. However, monetarists suggest that this approach might not be effective because: additional borrowing due to a budget deficit will lead to higher interest rates, lower investment and a countervailing fall in monetary demand; alternatively monetarists suggest it the financing of the deficit depends upon printing new money, this will ultimately lead to inflation; that it is the cause of unemployment which matters and Keynesian solutions would not be helpful regarding structural unemployment caused by changes in the pattern of demand and/or frictions in the labour market.* *Therefore monetarists would argue that supply side policies, either based on direct government intervention, for example reducing corporation tax or by interfering with the price mechanism to reduce frictions in the labour market. For example introducing de-regulation and promoting privatisation. An attempt should be made to summarize the preceding argument and recognising that a key difference between the two approaches is closely linked to the type of unemployment under consideration.* **L4 (18–25 marks):** For an answer which explains what is meant by a budget deficit and which recognizes why unemployment constitutes a significant economic problem. Analysis of both the Keynesian and Monetarist proposed solutions will be provided. Analysis in both cases should be subject to at least one evaluative comment. A conclusion should recognize that a key difference between the two solutions advocated should relate to the specific type of unemployment under consideration.	**25**

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Question	Answer	Marks
7(a)	**L3 (14–17 marks):** For analysis which addresses both the Keynesian and Monetarist approach to solving the problem of unemployment. A budget deficit and the reason why unemployment will also be explained in the process. However, there will be little evidence of evaluative comment with respect to either approach. A brief conclusion might be provided but it will not recognize the key explanation regarding the difference between the two approaches. **L2 (10–13 marks):** For a less well developed comment which describes the meaning of a budget deficit and the problem of unemployment. Also some attempt will be made to distinguish between Keynesian demand side policies and Monetarist supply side policies but this will not be supported by any in-depth analysis. No attempt will be made to directly compare the effectiveness of the two policies. **L1 (1–9 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	

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