Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **March 2019**

MARK SCHEME

Maximum Mark: 70

Published

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

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

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

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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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LEVELS OF RESPONSE MARKING DESCRIPTIONS

Please also see the mark scheme for each part of each essay, detailing the ranges of marks to be awarded for each Level, and some illustrative content.

Level	**AO1**	**AO2**	**AO3**	**AO4**
L4	detailed knowledge of relevant facts and theory perceptive understanding of the specific requirements of the question throughout the answer	relevant, apposite illustrations and specific examples are introduced to add depth and fullness to the answer recognises the underlying economic concepts and principles and applies these in relevant situations to develop the answer	detailed, precise and purposeful description, explanation and analysis using appropriate economic terms and concepts correctly and fluently draws clear, reasoned conclusions a sound, well-structured answer	critical evaluation of the issues, considering relevant information and economic principles distinguishes between facts, hypotheses and/or value judgements challenges assumptions of the question or model
L3	adequate knowledge of relevant facts and theory a reasoned understanding of the question's requirements shown in the answer	some appropriate relevant illustration or examples seen but they may be quite general or not very full applies theory and facts with accurate reference to the question to develop the answer	straightforward, satisfactory analysis: generally clear statements, supported by reasoned arguments including some specific economic terms and concepts draws some conclusions a functionally organised answer	partly complete evaluation of the issues in terms of either relevant information or economic principles attempt to distinguish between facts, hypotheses and/or value judgements attempt to comment on assumptions
L2	identifies some relevant facts and/or theory the answer overall has a general relevance to the question, showing some understanding	illustration may not be fully relevant and is superficial or overgeneralised an accurate application of some related theory or fact(s), with little or no development	some analysis present but limited by omissions, error(s), irrelevant details or unclear communication conclusions may not be drawn from it a disorganised answer	some evidence of an ability to evaluate, discriminate, or to make basic judgements, considering some relevant information

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Level	**AO1**	**AO2**	**AO3**	**AO4**
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

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Question	Answer	Marks
1(a)	The central bank creates money through its open-market operations. It involves the purchase of bonds with cash which increases the stock of money held by banks and financial institutions. This would have an effect on interest rate and increases the potential for lending in the economy.	**3**
1(b)	Central bank controls credit creation and hence money supply to control inflation. Commercial banks create credit to finance consumption and investment by households and enterprises and thus provide liquidity in an economy. If bank customers lose faith in the banking system there could be a run on the banks leading to collapse in banking services.	**4**
1(c)	Cause of oil price fall – increased oil supplies (Saudi Arabia/OPEC cartel) – declining demand (China) **(up to 2 marks)** Direct effects on oil producing economies – lower export revenues and budget deficits – reverse multiplier effects. Could lead to economic downturn. Oil importing countries benefit from lower production costs but loss of revenue from taxes on oil products can lead to budget deficits also. **(up to 2 marks)** However China's downturn has been caused by over-investment on infrastructure based on excessive borrowing rather than by the fall in the price of oil. Article says reduced government spending and government fiscal policy also could cause economic downturn. **(up to 2 marks)**	**6**
1(d)	Must discuss OECD criticism. Monetary policy based on low/negative interest rates plus quantitative easing has increased money supply but has not necessarily led to increased growth. Investors may lack confidence in future markets and banks have been over-cautious lending to enterprises. **(up to 4 marks)** Fiscal expansion was advocated by OECD to encourage governments to reduce taxation and increase spending on infrastructure. However care is needed as shown by China's example of overspending, over borrowing on projects leading to excess capacity. **(up to 4 marks)** **Max 7**	**7**

Question	Answer	Marks
2	*Explanation of the analysis of efficiency and an analysis of why monopoly might not achieve efficiency. Consideration of whether all monopolies necessarily cause inefficient production and what policy might be used by a government to deal with the inefficiency if it occurs.* **L4 (18–25 marks):** for a good analysis of productive and allocative efficiency; a comment on the possibility of benefits of monopoly through economies of scale, and a discussion of the likelihood of achieving this allocation through government policies. **L3 (14–17 marks):** for a competent explanation of efficiency probably concentrating on productive efficiency and a more limited discussion of the possibility of achieving efficiency through government policies. Little mention of benefits of monopoly. **L2 (10–13 marks):** for a limited account without a full analysis of efficiency and with a general comment on government policies. **L1 (1–9 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**
3(a)	*Explanation of diminishing marginal utility, and how more of a good is preferred to less of a good so the curves cannot cross; they have an 'indifferent' response along them representing a constant level of utility.* **L4 (9–12 marks):** for a clear analysis of ICs and all three parts of the question. **L3 (7–8 marks):** for a less competent explanation of at least two of the parts of the question or a weaker explanation of all three parts. **L2 (5–6 marks):** for a competent explanation of one part or a weak explanation of two elements of the question. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

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Question	Answer	Marks
3(b)	*Theory states that consumers maximise satisfaction and determine demand by relating utility to price; this is shown by indifference curves and budget lines. Income changes shift budget lines parallel, price change of one good cause budget line to pivot. Equilibrium is changed – the extent and direction depending on the type of good. Explanation of income and substitution effects for an inferior good.* **L4 (9–13 marks):** for a clear explanation of the links and correct analysis of income and substitution effects of price change. **L3 (7–8 marks):** for a briefer explanation; no clear link to the demand curve, or link to demand but some confusion over income and substitution. **L2 (5–6 marks):** for a poor explanation of the terms or a weak comment on the links. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**
4(a)	*Marginal cost changes with the variable cost change; MC is firm's supply curve in perfect competition, sum of firm's supply curves gives industry supply. Does not apply with imperfect competition.* **L4 (9–12 marks):** for a clear explanation of the links and correct analysis of both parts. **L3 (7–8 marks):** for a clear analysis of one part – probably the link to variable cost – with confusion over the second part. **L2 (5–6 marks):** for a briefer explanation of one part and omission of the second part. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	*Perfect competition assumes profit maximising. Oligopoly usually assumes collusion and a less volatile price. It still can assume profit maximising. However, with collusion the profit maximising output/price can be for the industry and each firm is given an output quota which is not necessarily the profit maximising output for that firm. A firm can compete by non-price competition or break the agreement.* **L4 (9–13 marks):** for a clear analysis with a good structure on the oligopoly section. **L3 (7–8 marks):** for a clear analysis of perfect competition but less competent analysis and development of oligopoly. Profit maximising stated, but collusion not fully developed. **L2 (5–6 marks):** for a weaker answer of the differences and links. **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
5(a)	*Candidates need to explain the MRP theory and the equilibrium position of the firm comparing MRP with supply. Question specifies marginal product so the answer should not just mention demand with no reference to MRP. MRP and supply determine wage; AP is used to construct the ARP which is significant in determining level of profit for the firm.* **L4 (9–12 marks):** for a clear analysis of the MRP theory; an explanation of the equilibrium position and a comment on relevance of ARP for profit. **L3 (7–8 marks):** for a weaker but correct analysis of the theory probably with a poor attempt to deal with the ARP and profit levels. **L2 (5–6 marks):** for a limited attempt at both the MRP and ARP/profit element of the answer. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
5(b)	*Not possible for a trade union to increase wages in perfect competition. Discussion of imperfectly competitive market; of monopsony (can increase wage up to point where MC=MR); or possible increase in productivity; or when labour is a small element of cost; or when there is an increase in demand for the product; or when there is an increase in price (and thus MR) of product.* **L4 (9–13 marks):** for recognition of the difference between perfect and imperfect competition and a clear analysis of the imperfectly competitive case recognising different possible outcomes. **L3 (7–8 marks):** for a competent analysis, without a clear distinction between the two types of market structure and without recognising the different possible outcomes in imperfect competition. **L2 (5–6 marks):** for an answer that concentrates on one of the market structures or considers both structures but with poor analysis. **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
6(a)	*Answers should identify each of three leakages and each of three injections into the circular flow of income. The key distinction should focus on the autonomous nature of the injections and the endogenous nature of withdrawals. A diagram might be used to demonstrate this distinction. Some attempt should be made to show how an injection might affect a leakage or vice versa. For example, an increase in investment (injection) might lead to an increase in income, which might lead to an increase in savings (withdrawal).* **L4 (9–12 marks):** for a detailed explanation of the differences between leakages and injections and a clear attempt to discuss whether, or in what circumstances, changes in one might cause changes in the other. Good answers will refer to at least two examples of situations which might arise which support the idea that leakages and injections are related. **L3 (7–8 marks):** for an answer which clearly identifies leakages and injections and makes some attempt to establish differences. A diagram might be provided. A limited attempt might be made to show how these might be related. **L2 (5–6 marks):** for an answer which identifies each leakage and each injection but does not fully explain the key distinction between the two. **L1 (1–4 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**12**

Question	Answer	Marks
6(b)	*Candidates should be able to link interest rate changes to each of the three injections. A diagram might be used to demonstrate this understanding. Answers should focus on why injections might rise. For example, a decrease in interest rates might lead to a fall in exchange rates which in turn might lead to a rise in exports (injection). Good responses will attempt to critically evaluate this policy. For example, discussing why a fall in exchange rates might not affect exports in the short run. A similar approach can be adopted for each of the three injections.* **L4 (9–13 marks):** for an answer that recognises that the impact of interest rate changes on injections will depend upon a number of related variables and that the potential changes will differ in the short run compared with the long run. Good responses will attempt to critically evaluate the impact. For example, a reduction in interest rates might have a limited effect on investment if in a recession investor confidence is low. There should be at least two examples of similar critiques. **L3 (7–8 marks):** for an answer that attempts to analyse the links between a fall in interest rates and changes in each injection. A positive impact should be identified. The analysis might be supported by a diagram and some comment might be made on the impact of these changes on income, output and employment. **L2 (5–6 marks):** for an answer that is limited to a descriptive explanation of the relation between interest rate changes and changes in each injection. **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 detailed explanation of Keynesian demand management theory and how associated policies might be used to solve the problem of unemployment. Evaluative comment should be provided to consider whether such policies are likely to work. Candidates should ensure that they discuss the extent to which these polices will conflict with the attainment of other key macroeconomic goals. For example, deficit spending might cause inflation, it might lead to higher interest rates and lower growth, it might increase balance of payments deficits.* **L4 (18–25):** for a response which combines detailed analysis with clear examples of evaluative comment. Good responses will identify at least two potential conflicts and use economic theory to assess the accuracy of the statement under consideration. **L3 (14–17):** for a clearly set out analysis of the links between budget deficits, the multiplier and the final effects on income, output and employment with some attempt to examine why this might make the achievement of alternative economic goals more difficult. **L2 (10–13):** for an answer that demonstrates some limited understanding of how Keynesian policies might be used to solve the problem of unemployment. Answers are likely to be descriptive rather than analytical. **L1 (1–9):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies.	**18**

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