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CAMBRIDGE
INTERNATIONAL EXAMINATIONS

NOVEMBER 2002

GCE Advanced Level

MARK SCHEME

MAXIMUM MARK : 70

SYLLABUS/COMPONENT :9708 /4

ECONOMICS
(DATA RESPONSE AND ESSAY (EXTENSION))

UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

General Comments:

The essay questions in section B carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1- 9 (Linked to level one in individual question notes).

1 -5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context.

6 - 9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10-13 (Linked to level two in individual question notes).

10 -11 where there should be evidence of an ability to identify facts, some ability at graphs, fair ability to apply known laws to new situations.
Expect an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. But do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organize ideas into a new unity.

12 - 13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

14 - 17 (Linked to level 3 in individual question notes).

14 –15 Expect a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application. There should also be evidence of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should clearly be a reasonable structure to the whole answer. Do not expect too many extra Illustrative points which are not explicitly referred to in the question, do not expect too much critical comment, and do not expect any recognition of, or comment on unstated assumptions

16 - 17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

18 - 25 (Linked to level 4 in individual question notes).

18 –20 Expect a thorough knowledge of the facts and theory with an excellent ability to describe and explain this in a precise, logical, reasoned manner. Expect an ability to query some of the assumptions in the question and clear evidence to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed.
Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and examples apposite to the material discussed should be introduced as further evidence of the ability to recognise the principles of the question and their application to relevant current situations.

21 - 25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding maximum marks for sub-sections.

	1	**2**	**3**	**4**
Total Mark 10	3	5	7	10
Total Mark 12	4	6	8	12
Total Mark 13	4+	6+	8+	13
Total Mark 15	5	8	11	15

Comments on individual questions.

Question 1

a) Fiscal: abolition of duties or increased public spending
Monetary: low interest rates (2)

b) Explanation of the effect of undervalued currency making holidays comparatively inexpensive in terms of other currencies, or destinations in other countries, "designer" brand names and reputation for excellent service in the shops. (3)

c) Explanation of link between increase in injection and effect on national income, use of resources and growth. (4)

d) Explanation of inflation causing increased nominal spending and reduction in real income. Pressure by labour force to maintain either differentials or actual real level of wages. (4)

e) Prediction was that K.L. would become a top shopping destination.

Evidence for
- multinational traders benefit from reduced duties
- excellent service in shops
- undervalued currency
- increased domestic and foreign demand. (car sales, housing, retail sales, increased tourism.
- low interest rates encourage borrowing
- increased public spending increases incomes and consumer spending

Evidence against
- inflation eroding real income
- slump in other countries e.g. USA which might affect exports if USA is a big market for Malaysia. Exports decline, incomes decline, employment declines.

Need to present a balanced argument using this evidence.

L4) For a sound explanation with a clear understanding of the principles involved and a reasoned argument presented. 6 - 7

L3) For a competent list of evidence but with limited devebpment of a reasoned argument 4 - 5

L2) For a brief list of correct evidence but undeveloped argument 2 - 3

L1) For an answer which has some basic correct facts but includes irrelevancies and errors 1

2.a) Explanation of how price reaches equilibrium in a free market. Explanation should suggest how the shortage and surplus occurred – either by a shift in the demand or supply curve – and give reasons for such a change.

L4) For a sound explanation with good, clearly labelled diagrams, suitable examples/reasons for a change and a clear understanding of the principles involved. 8 - 10

L3) For clearly labelled diagrams and a competent comment but without precise suggested reasons for a change but with an understanding of the principles involved. 6 - 7

L2) For partially labelled diagrams, partially correct explanation without suitable examples or reasons for a change but with a knowledge of equilibrium price.4- 5

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 3

b) Factors might include the elasticity of demand for the product, the elasticity of supply of the product, the extent to which the group of companies controls the market, the possibility of fixing quotas and controlling those who agree to the price fixing, the likely competition from other producers, the possible intervention from governments, The discussion on elasticity should mention the differing effects different elasticities will have on the revenue of the companies.

L4) For a reasoned and clear evaluative comment covering most of the points above 12 – 15

L3) For a fair but undeveloped comment which might concentrate on two or three of the above points 9 – 11

L2) For a limited consideration of the above points and a brief explanation of elasticity but with an understanding of the general principles involved. 6 - 8

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 5

3. a) Explanation of the distinction between the two types of efficiency bringing out the role of average cost and marginal cost and an explanation of why the two output levels are considered to be efficient. Efficiency is not an easy topic.

L4) For a sound explanation with good application and a clear understanding of the principles involved – diagrams will probably be used but are not required by the question 8 – 10

L3) For an accurate but less developed explanation 6 – 7

L2) For a correct explanation of one of the concepts but some errors in the other concept, not necessarily logically presented, or with some diagrammatic errors 4 –5

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 3

b) Explanation of profit maximisation and consideration of whether mc=mr necessarily coincides with mc=ac or mc=ar. Comparison of perfect and imperfect competition. Candidates should then form a conclusion on whether it is necessarily beneficial to encourage firms to maximise profits if either or both of the efficiency criteria are not met.

L4) For a thorough explanation of how differing results might occur and a clear understanding of the principles involved with reasoned discussion 12 - 15

L3) For a competent explanation with some critical comment but possibly only mentioning one market structure. 9 –11

L2) For a correct explanation but undeveloped or very limited comment leading to a conclusion to the questions.. 6 - 8

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1- 5

4. a) Explanation of meaning of circular flow of income including government and international trade, and a clear explanation of how equilibrium is achieved.

L4) For a reasoned and clear explanation with accurate development of theory. 8 – 10

L3) For a fair but undeveloped explanation 6 – 7

L2) For a limited but acceptable attempt to consider the theory but with little reference to the particular changes mentioned in the question. 4 – 5

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 – 3

b) The discussion should consider each of the elements that could lead to an injection in the national income, demand, investment, government, trade. The discussion could then mention the interrelations between the component elements of the circular flow. For example, increases in investment could result in higher incomes which cause increases in demand at home. This increase can then lead to increased imports, imports may well increase supply in another country which could increase incomes there and result in increased exports from home country with a consequent change in the equilibrium level of national income. The discussion could include reference to the multiplier process.

L4) For a sound discussion with good explanation of links and a clear understanding of the principles involved 12 – 15

L3) For a competent comment with limited discussion of interrelationships. 9–11

L2) For a correct but undeveloped discussion with very little comment on the interrelations of components. 6 – 8

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 5

5. Candidates could discuss the wider effects of the general macro aims that concern governments. They could debate the link between the aims and the general desire to improve the quality of life in the economy and to increase economic growth. In promoting this growth governments have to bear in mind the negative effects of any policy, and the opportunity cost of concentrating on one sector or group at the expense of others. A discussion should be given linking the issues mentioned eg possible effects of inflation on levels of real income and thus on rising crime; possible effects of growth on environmental decay. Candidates could also mention positive results from government policy eg falling unemployment might increase incomes and decrease homelessness. Accept any reasoned link and well structured argument.

L4) For a thorough explanation of the terms, a clear analysis of the link between different issues, a discussion of the possible outcome of government policy with a balance of alternative views and a reasoned conclusion. 18 –25

L3) For a competent explanation which does not fully analyse the offsetting effects of change in one area in another, does not fully develop a discussion on possible links but makes some attempt at evaluation 14 –17

L2) For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation. 10 –13

L1) For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. 1- 9

6 Discussion of the changes that might result in terms of income, employment, social well being, balanced against changes in location of industry, loss of traditional society connections, exploitation of resources. Effect of using resources against conserving resources.

L4) For a reasoned and clear evaluative comment 18 – 25

L3) For a fair but undeveloped comment 14 – 17

L2) For a limited but acceptable attempt to consider the possible effects 10-13

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 9

7a) Explanation of price discrimination. Expect only third degree price discrimination (separation of consumers into separate markets) with the criteria of distinct separation and different elasticities. First and second degree discrimination may be described but need not be expected.

L4) For a sound explanation with good application and a clear understanding of the principles involved – diagrams will probably be used but are not required by the question 9 – 12

L3) For an accurate but less developed explanation 7 – 8

L2) For a correct explanation of the concept but not necessarily logically presented, or with some diagrammatic errors 5 – 6

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 – 4

b) Discussion of effects in an imperfect market structure, possible continued supply of product if price discrimination practised, possible increase in profits which might allow for improved research/ more competition in other markets, possible benefits for those who receive the product at a lower price.

L4) For a reasoned and clear evaluative comment 9 –13

L3) For a fair but undeveloped comment 7 – 8

L2) For a limited but acceptable attempt to consider the possibleeffects 5 - 6

L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 4