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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary and Advanced Level

MARK SCHEME for the November 2005 question paper

9708 ECONOMICS

9708/04 Paper 4, maximum raw mark 70

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the November 2005 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE
International Examinations

Section A

1 (a) What evidence is there in the article that the UK mobile phone companies operate in an imperfect market structure? [3]

Only four companies, can fix price, have product differentiation in the handsets, no perfect knowledge.

(b) Explain the statement 'one result will be that cross-subsidisation will disappear and the price of a new handset will go up considerably.' [4]

Explanation of meaning of subsidising one product or service by the profits on another which itself may be overpriced. The removal of the subsidy will result in the price of the subsidised product increasing if profit levels are to be maintained. Often the subsidised product makes a loss but is produced because it is supplementary to other profit making products or services.

(c) The article says the decision of the High Court will cost the companies £1.5 billion to £2 billion. Explain how the phone companies might react in order to retain their profit levels. [4]

Could try to reduce labour costs, implement some redundancies, could stop research and development, could generally try to reduce costs or could try to increase revenue by promoting products through advertising.

(d) Explain with the aid of a diagram how the existence of termination charges would affect consumer surplus. [4]

Termination charges are placed above the market level. Diagram should show a price above market clearing which will result in reduction in consumer surplus. 1 mark for D/S diagram correctly labelled; 1 for showing the reduced area of consumer surplus; 1 for explanation.

(e) Does the information lead you to agree with the spokesperson when he said that consumers should not necessarily regard the decision as a good thing? [6]

In consumers' interest: they would save £700 but over next three years, price reduction would be on all calls.

Against consumers' interest: cost of telephone handset would rise; there is a fear of increased calls for text messages; possibility of phone company finding some other way to keep profits high.

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General comments for Section B

The essay questions 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. There will also be substantial omissions of analysis.

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 is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be 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. 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 organise 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.

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

14 –15 where there is 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, where appropriate, 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 be a reasoned 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 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 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability 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 apposite examples should be introduced as further evidence of an 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 marks for sub-sections.

	1	2	3	4
Total Mark 10	1-3	4-5	6-7	8-10
Total Mark 12	1-4	5-6	7-8	9-12
Total Mark 13	1-4+	5-6+	7-8+	9-13
Total Mark 15	1-5	6-8	9-11	12-15

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Section B

2 (a) Explain what is meant by efficient resource allocation in a free market. [10]

L4 For a sound explanation with clear understanding of the principles involved in the analysis. [8 – 10]
L3 For a competent explanation but with limited development of the analysis. [6 – 7]
L2 For a correct explanation of a free market but undeveloped explanation of allocative efficiency. [4 – 5]
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 3]

(b) Would you agree that in some circumstances it is best to accept the decision such as that of the French government and abandon the search for economic efficiency through the free market? [15]

Discussion of the reason for market failure. Monopolies, merit goods, public goods. Consideration of whether this might apply in the case of the large engineering company.

L4 For a reasoned discussion of causes of market failure and clearly structured answer. [12 – 15].
L3 For a fair explanation of market failure but lack of development and reasoned conclusion. [9 – 11]
L2 For a limited but acceptable attempt to consider some market failures. [6 – 8]
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 5]

3 (a) Explain how trade unions can be incorporated into the economic analysis of wage determination. [12]

Candidates are asked to comment on trade unions so the economic theory of wages that they should use is that for an imperfect market. This theory should be explained using marginal revenue productivity. Trade unions can have an effect on the supply curve which is now no longer solely determined by market forces. Where the actual wage will be determined depends upon the relative strengths of the employer and the trade union.

L4 For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved. [9 – 12] [7 – 8 D and S approach]
L3 For a competent comment but with limited elaboration of the analysis. [7 – 8] [5-6 D and S approach]
L2 For a correct explanation of part of the analysis. Candidates might explain either the government or the unions. [5 – 6] [3+ – 4 D and S approach]
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 4] [1 –3 D and S approach]

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(b) Discuss the possible effects that trade unions might have on the economy of a country. [13]

Trade unions could affect the supply of labour and working practices. They could cause production to decrease with consequent downward effects on income, spending and national income. Candidates could explain this using the multiplier concept. Union could, however, through negotiation prevent disruption of production, or could monitor the implementation of safety procedures which might involve extra spending by the employer. This might well have an upward effect on national income.

L4 For a reasoned and clear explanation with accurate development of theory contrasting possible outcomes. [9 – 13]
L3 For a clear but undeveloped explanation which concentrates on change of income in one direction only. [7 – 8]
L2 For a limited attempt to consider the theory and with a greater concentration on the descriptive elements. [5 – 6]
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. [1 – 4]

4 (a) With the help of diagrams distinguish between normal profit and abnormal profit. [10]

Diagrams to show normal and abnormal profit with accompanying explanation of the curves used in the diagram. Candidates can distinguish between perfect and imperfect markets.

L4 For a sound explanation, good diagrams correctly labelled, with clear understanding of the principles involved in the analysis. [8 – 10]
L3 For a competent explanation but with limited development of the analysis. Diagrams clear but not fully labelled. [6 – 7]
L2 For a correct explanation of terms but some poor diagrams. [4 – 5]
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 3]

(b) Discuss whether firms always want to maximise profits and are able to do so in the way suggested by economic theory. [15]

Discussion of the theory of profit maximisation. Candidates should consider not only whether it is possible to calculate marginal revenue and marginal cost to achieve profit maximisation but also whether the firm might have alternative aims. Sales maximisation, behavioural, managerial, satisficing, market share aims might be mentioned.

L4 For a reasoned discussion and clearly structured answer. [12 – 15]
L3 For a fair discussion but undeveloped answer mentioning either only one part of the question or both parts but only scant mention of alternative aims. [9 – 11]
L2 For a limited but acceptable attempt to consider the question with very limited development of either part. [6 – 8]
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 5]

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5 How far do you agree that low interest rates and low inflation are the most important aims of government policy in maximising economic welfare? [25]

Discussion of the general macro aims of government policy with a comment on whether the two mentioned should be regarded as the most crucial. The effect of low interest rates and low inflation and possible links between them can be developed. Reasons should be given for either choosing or not choosing these aims as the most important.

L4 For a thorough explanation of the aims, a clear analysis of the link between them, a discussion of the possible outcome of a choosing either those aims or alternatives with a reasoned conclusion. [18 – 25]
L3 For a competent explanation of the aims but where there is only limited attempt to consider the significance of the importance of the aims. There will be some discussion but the evaluation will not be fully developed or extensive. [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. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 9]

6 With the approval of the Malaysian government, the Swedish company IKEA, the world's largest retailer of home furnishings, has invested $106 million in Malaysia in the past three years. It plans to open another large store in the country, employing 450 people with expected sales of approximately $50 million in the first year.
(Herald Tribune Aug 15 03 p 12)

(a) Use the multiplier analysis to explain what effect this investment might have on the Malaysian national income. [10]

Discussion of the effect of increasing investment in terms of employment, income, spending, saving. Multiplier analysis. Usually this question is asked with reference to government spending and investment but this is a large investment and it also will have multiplier effects.

L4 For a sound explanation of the analysis and a clear understanding of the principles involved. [8 – 10]
L3 For a competent comment but with limited elaboration of the analysis. [6 – 7]
L2 For a correct explanation of part of the analysis. Candidates might explain how investment might increase income but might not deal with further increases in as they do not discuss what leakages occur at each 'round'. [4 – 5]
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 3]

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(b) Discuss whether the activities of multi-national companies are always beneficial. [15]

Candidates should discuss the effects of large companies. They could consider whether a large company is beneficial for the shareholders, the workforce and the consumer. These groups may be in different countries. They should comment on the effect in host country where wages/incomes/employment might increase and on the possible benefits for directors (and shareholders) who may be in the home country. The multi-national might have chosen to operate in the host country because of reduced costs or cheaper inputs so a comment on the possible benefits of comparative advantage would be pertinent.

L4 For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved. Reasoned evaluative comments should be given. [12 – 15]
L3 For a competent comment but with only limited evaluation of the effects. [9 – 11]
L2 For a correct discussion of the analysis but with only very brief, or no evaluation. [6 – 8]
L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 5]

7 'There are so many difficulties in measuring living standards that we can never be sure that people in one country are better off than those in another country.' Comment upon this statement. [25]

Candidates should consider each part of the statement. They should discuss whether there are many difficulties in measuring living standards and give reasons for their conclusion on this part of the question. They should then consider whether it is possible to compare one country with another and discuss what use national income statistics might be. They should form an overall conclusion.

L4 For a thorough explanation of the difficulties of measuring living standards, and a clear conclusion to the assertion followed by a consideration of the usefulness of using the statistics to make comparisons. [18 – 25]
L3 For a competent explanation of the difficulties but with a limited conclusion. There will be some consideration of comparison between countries but this will not be fully developed or extensive. [14 – 17]
L2 For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation. The conclusion will be weak. [10 – 13]
L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1 – 9]

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