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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

9708 ECONOMICS

9708/41 Paper 4 (Data Response and Essays – Supplement), maximum raw mark 70

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.

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1 **(a)** 2008 (1), stopped increasing after 2007 (1) [1]

(b) both were rising (1), US was rising faster (1), Euro area had a steady increase (1) [3]

(c) diagram (1 for labels), price change shown (1); parallel shift of curve either for an increase or decrease in income price (1); explanation (1) [4]

(d) meaning of utility (1); equi-marginal formula (2);
explanation and meaning of principle (2) comment on significance – makes no difference how goods are paid for (1) [4]

(e) Evidence supporting the idea of a disadvantage: unemployment caused reductions in income and therefore spending was cut. This might reduce profits.
Evidence against the idea of a disadvantage can be found in the comments about some luxury goods and the trend towards environmentally friendly goods.
Producers lowered prices and adopted sales promotions – this may have increased revenue depending on the elasticity. Although employment was reduced the evidence does not support the view that all business revenue was reduced.
Allow up to 4 marks for one side of the discussion only plus reserve 1 mark for the conclusion that there is insufficient evidence to support this opinion. [8]

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Section B

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 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.

Mark 14–17 (Linked to level three 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.

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Mark 18–25 (Linked to level four 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

2 Candidates should discuss what is meant by imperfections in the market/market failure. They should also explain the meaning of efficiency. They should then consider whether government policies and intervention necessarily lead to a better distribution of resources with an outcome of greater efficiency.

L4 For a thorough analysis of market failure and also of efficiency together with a reasoned comment about the outcomes of government policy and the practicality of achieving efficiency. A conclusion should be given. [18–25]

L3 For a competent explanation of the terms but with limited discussion of the likely outcome from government intervention. [14–17]

L2 For a correct but undeveloped theoretical analysis with very little comment on the likely outcome of intervention and no conclusion. [10–13]

L1 For an answer which contains inaccuracies and only a few correct points. [1–9]

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3 (a) Explain the distinction between the two types of profit and explanation of profit in perfect and imperfect competition. Abnormal profit in short-run perfect competition, monopolistic competition and possibly short-run and long-run imperfect competition. Normal profit necessary in long-run perfect competition, monopolistic competition and possibly in other imperfect markets.

L4 For a clear definition and accurate analysis of theory in both perfect and imperfect, short and long run [9–12]
L3 For a clear definition and fair analysis which concentrates either on perfect and monopoly without monopolistic competition, or omits part of the long run analysis [7–8]
L2 For a limited analysis which may omit the definition but briefly explains when the two types of profit may occur. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

(b) Discuss what economic theory suggests are the characteristics and possible behaviour of firms in an oligopolistic market; small number of competing firms, interdependence, price-makers, differentiated products, barriers to entry. Main features of behaviour; collusion, price leadership, sometimes price stability, sometimes price wars and non-price competition.

L4 For a good analysis of the market structure and at least three developed accounts of market behaviour [9–13]
L3 For clear analysis of the market structure and three brief accounts, or two developed accounts, of market behaviour. [7–8]
L2 For understanding, perhaps focusing on the characteristics with weak comment on behaviour or at most one type of behaviour. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

4 Discussion of the determinants of wages. Candidates should assess the theoretical analysis of what influences the supply of labour and how it is moderated by the existence of unions and government regulations. Expect comment on both supply and demand. Theoretical analysis without marginal revenue productivity approach does not merit the full range of marks. [25]

L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and/or government policy.
(14–17 for demand and supply only with institutional factors and government policy) [18–25]
L3 For a competent explanation but with limited discussion of unions and/or government factors. (10–13 for demand and supply) [14–17]
L2 For a correct but undeveloped theoretical analysis with no institutional factors or only very brief mention of these factors. (6–9 for demand and supply) [10–13]
L1 For an answer which contains inaccuracies and only a few correct points.
(1–5 for demand and supply only) [1–9]

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5 (a) For an explanation of economic indicator (3), for the difference between gross and net (2), for the difference between domestic and national (2), for a statement about the link between and calculation of product and income (2), for the difference between factor cost and market prices (3). [12]

L4 For a clear explanation of each of the parts [9–12]
L3 For an explanation which omits part of the distinction or which is less clear perhaps on the link in the calculation. [7–8]
L2 For a limited explanation which omits some part of the distinction [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1– 4]

(b) Discuss the use of GDP, its value and limitations as a means of comparison of the standard of living of a developing country with that of a developed country, and whether it is better than other alternative indicators.

L4 For a good analysis of the use of GDP and developed evaluative comment with a comparison of alternative indicators [9–13]
L3 For clear analysis but with less developed evaluative comment on alternative indicators [7–8]
L2 For understanding but with no comment on alternative indicators or only a brief comment on limitations together with a brief mention of alternative indicators [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

6 (a) Explanation of the main macroeconomic aims with a comment on the validity of one of them for a particular region or country.

L4 For a clear explanation of the aims together with a reasoned attempt with a good explanation to use an application of the aim to the country. [9–12]
L3 For an explanation of the aims but with a more limited attempt to apply one of the aims to a country. There should though still be some reasoned account. [7–8]
L2 For a limited explanation of the aims and little attempt to give an application. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

(b) Discuss the likely conflicts that might occur for example employment/inflation; growth/balance of payments; growth/inflation.

L4 For a good analysis which mentions at least two conflicts with a reasoned account with a conclusion. [9–13]
L3 For clear analysis of at least two conflicts but with less development [7–8]
L2 For a weaker understanding and with only one conflict mentioned with no conclusion [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

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7 (a) Private expenditure: Immigrants if working will have money available for saving, or spending, the amount for each might depend on whether money is sent home to families. Those beyond working age – depends on extent of wealth. Income will be reduced, whether spending declines depends on extent of existing wealth. Debatable whether savings likely to be less or more significant for beyond working age than for immigrants who may send money home.
Public expenditure: expenditure on health care likely to increase, this may decrease expenditure on other areas if receipts from taxes decline as proportion beyond working age increases. Depends whether this is compensated for by increases in tax from immigrants who work.

An explanation needed.

L4 For a sound explanation with good application and a clear understanding of the possibilities involved together with a conclusion [9–12]
L3 For an accurate reference to the question but with a more limited explanation and less developed possibilities. Still with a conclusion. [7–8]
L2 For a correct explanation but undeveloped comment, not necessarily logically presented or with a conclusion [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

(b) Evaluate policies which include indirect, direct taxation, transfer payments, subsidies, grants.

L4 For a reasoned and clear analysis of at least three policies logically presented [9–13]
L3 For a fair but undeveloped analysis of three policies or two policies more fully developed [7–8]
L2 For a limited analysis with little elaboration [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory [1–4]

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Section A

1 (a) Gross Domestic Product measures the value of economic activity within a country. It is the sum of the market values, or prices, of all final goods and services produced in an economy during a period of time. It gives an indication of the growth of the economy, some indication of how the economy compares with other economies and gives a guide to what policies the government might need to manage the economy. (1 mark only for description of GDP only) [2]

(b) Any relevant comment from the charts. At the start of 2005 Japan's GDP had zero growth but the UK's was over 2%, both countries then had a rise in GDP growth. Japan's GDP fluctuated more than UK's between 2005–2009; Japan's GDP fell to a lower level than the UK at the end of 2008. In some ways there was a similar pattern of decline but with Japan's decline of 15.2% worse than the UK's of 5.7%. [4]

(c) The concern is because exports generate income and employment and the economy partly depends on exports. When sterling is weak exports should be cheaper and demand should be higher. Demand was low when the prices of exports were comparatively low. It would be expected that low prices would have increased exports. Up to 4 marks only without mention of elasiticities. [5]

(d) Both economies suffered from a fall in consumer spending, a fall in business investment, a fall in exports, an increase in unemployment, excess capacity in businesses. (Up to 5 marks for an indication of the influences with little direct comparison). The difference in the information was the emphasis given to exports in Japan and the emphasis given to the housing market in the UK. [8]

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

Mark 14–17 (Linked to level three 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.
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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.

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Total Mark 13	1–4+	5–6+	7–8+	9–13
Total Mark 15	1–5	6–8	9–11	12–15

2 (a) Candidates should explain marginal utility theory, the equilibrium position and the allocation of expenditure between products. [12]

L4 For a reasoned and clear discussion of the analysis mentioning the equilibrium position of the consumer for a number of products. [9–12]
L3 For a competent comment but with a limited elaboration of the whole analysis or possibly limited to one product. [7–8]
L2 For a brief explanation with only limited reference to the equilibrium position and limited to one product. [5–6]
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]

(b) Candidates should analyse the meaning of productive and allocative efficiency and consider when it might not be possible to achieve such efficiency – imperfect markets, externalities, lack of knowledge/information, factor immobility. [13]

L4 For a sound explanation of both efficiencies with good application and a clear understanding of the at least two market failures. [9–13]
L3 For an accurate but less developed explanation of efficiency and either a less developed understanding of two market failures or a fuller account of one market failure. [7–8]
L2 For a brief explanation of the concept but minor errors or lack of understanding in the application and brief comment on market failure. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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3 **(a)** Consideration of the benefits of small organisations – personal service, individual products, niche markets, local provision – set against the possible disadvantages which might include the lack of economies of scale or investment for research. A conclusion should be given. [12]

L4 For a sound consideration with good application and a clear understanding of the principles involved. [9–12]
L3 For an accurate but less developed consideration possibly with a concentration on the advantages. A conclusion should be given. [7–8]
L2 For an undeveloped comment and some errors or lack of understanding in the application. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

(b) Discussion of the possibility of lower average costs caused by economies of scale but with a consideration of the possibility that diseconomies may operate and that therefore costs need not be lower. [13]

L4 For a reasoned and clear explanation with accurate development of theory. [9–13]
L3 For a fair but undeveloped explanation. [7–8]
L2 For a limited but acceptable attempt to consider the theory but with little reference to the particular changes mentioned in the question. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

4 Discussion of determinants of wages. Candidates should discuss the theoretical analysis of wage determination by the market but they must also evaluate whether the market might lead to exploitation of the labour force. There should be a conclusion on whether wage determination is sometimes suitable for government intervention to ensure a fair and equitable wage rate level or whether wage determination is best left either to the market or to collective bargaining. Theoretical analysis without marginal revenue productivity approach does not merit the full range of marks. [25]

L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of government together with a conclusion. [18–25]
(14–17 for demand and supply only with institutional factors and government policy)
L3 For a competent explanation but with limited discussion of the role of government but with a conclusion. [14–17]
(10–13 for demand and supply)
L2 For a correct but undeveloped theoretical analysis with little discussion of government involvement and no conclusion. [10-13]
(6–9 for demand and supply)
L1 For an answer which contains inaccuracies and only a few correct points. [1–9]
(1–5 for demand and supply only)

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5 **(a)** Explanation of macro/micro. Candidates could use any two types of policy from each – macro: fiscal, monetary, exchange rate, supply side; micro: price control/fixing for particular industries, wage policy, monopoly regulation, privatisation, supply of goods. [12]

L4 For a sound explanation with good application with an illustration and a clear understanding of the principles involved. [9–12]
L3 For an accurate explanation of the difference between macro and micro but with a more limited comment on the application and illustration. [7–8]
L2 For a weaker explanation and illustration which lacks any real development. [5–6
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

(b) Discussion of tax policies, subsidies, grants, government expenditure, export encouragement, interest rate policy, regulatory or ownership policies to help a country come out of a recession. [13]

L4 For a reasoned and developed discussion of at least three types of policy, logically presented and a conclusion drawn. [9–13]
L3 For a fair but undeveloped discussion possibly concentrating on one or two policies together with a conclusion. [7–8]
L2 For a limited discussion with little comment and no conclusion. [5–6
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

6 **(a)** Expect transactions, precautionary, speculative descriptions. Up to 6 marks for first two, and 6 marks for speculative. [12]

L4 For a sound explanation with good application and a clear understanding of the principles involved. [9–12]
L3 For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. [7–8]
L2 For a correct explanation but undeveloped comment, not necessary logically presented. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

(b) Assessment of effect of increase in supply on interest – with discussion of elasticity of liquidity preference. Effect of changes in interest on investment, with discussion of elasticity of investment schedule. [13]

L4 For a reasoned and clear analysis of both parts of the question, logically presented. [9–13]
L3 For a fair but undeveloped discussion but with accurate reference to the question. [7–8]
L2 For a limited analysis probably concentrating on one part of the question. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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7 Up to 17 marks for explanation of the criteria used to distinguish the two economies although the term developed economy hides many dissimilarities and differentiated development will exist among developed economies. A developed economy is assumed to be in a stronger position than a developing economy. However, the fundamental economic problem remains – scarce resources and unlimited wants. Developed economies face economic problems which differ in extent (e.g. higher GDP per head and higher life expectancy) and in nature (e.g. more environmental difficulties) from those found in developing economies. Candidates could mention possible similar problems e.g. unemployment, pollution, inflation, over-crowding, negative externalities, exploitation of resources with lack of consideration for the long term. [25]

L4 For a well argued analysis of both parts of the question – a good range of indicators both economic and social – with accurate development of the discussion and a reasoned conclusion. [18–25]

L3 For a competent explanation of the criteria, a clear but undeveloped discussion or one which concentrates on part of the question but still has a conclusion. [14–17]

L2 For a limited and more descriptive attempt, weak explanation of the criteria, little discussion of the question and with no conclusion. [10–13]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial. [1–9]

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Section A

1 (a) Explanation of any suitable characteristics, for example, employment distribution, health, education, standards of living, sanitation, dependence on overseas aid. [4]

(b) They are concerned about the total cost of production including the externality of carbon emissions. They argue that resources should be conserved and not exploited. This, they say, could be achieved by switching to local products. [2]

(c) There should be a statement about the meaning of marginal utility (1); the relation of marginal utility to price (2); and a comment about buying more expensive products (3). The theory does not prevent the purchase of more expensive items. Fewer would be bought if the price were higher. It might be questioned whether buying **the same** product at a higher price was rational and whether the argument was reasonable. [6]

(d) Developing countries depend on agriculture – some figures are given for some countries. Agriculture depends more on the weather than other sectors. Incomes are more volatile. An example is given. Developing countries have come to depend on trade with developed countries which is likely to be withdrawn. Developed countries are rich enough to go to other suppliers; developing countries would find it difficult to find other buyers. It is likely that the statement is true but there is only a little supporting evidence and some general background information. [8]

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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.
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Mark 18–25 (Linked to level four 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 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4	5–6	7–8	9–13

2 Candidates should discuss the proposition. There are similarities. They may all have a profit motive – although there are alternative aims also. They may all be subject to competition – with contestable markets – depending on how monopoly is defined. Whether the producer has all the benefit is debateable. However, there are differences in the amount of control over prices, over abnormal profits, over information, over collusion, over branding and price discrimination. [25]

L4 For a thorough analysis of the proposition with a consideration of the likenesses and differences and with a clear discussion and conclusion. [18–25]
L3 For a competent explanation but which will probably concentrate on the differences with limited discussion of the comparability but still with a conclusion. [14–17]
L2 For a correct but limited theoretical analysis which may concentrate on one side of the proposition or may present both sides but with little development. No conclusion. [10–13]
L1 For an answer which contains inaccuracies and only a few correct points. [1–9]

3 (a) Explanation of the effect of an increase in consumer expenditure (C); increase in injections via subsidies, increase in national income; explanation of multiplier. [12]

L4 For a sound explanation with good application and a clear understanding of the principles involved both of an increase in C and of govt. subsidies. [9–12]
L3 For an accurate explanation of the multiplier but with a more limited comment on the possible overall balance. [7– 8]
L2 For a weaker explanation of the multiplier or without a clear explanation of the effect of subsidies. [5– 6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1– 4]

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(b) Candidates should discuss general macroeconomic objectives. Increasing demand might conflict with controlling prices overall and might have balance of payments repercussions if the new cars are imported. It should not conflict with decreasing unemployment or increasing growth. [13]

L4 For a reasoned and clear discussion with the analysis logically presented and a conclusion drawn. [9–13]
L3 For a fair but undeveloped discussion possibly concentrating on two aims only. [7–8]
L2 For a limited discussion with little comment and no conclusion. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

4 (a) Discussion of influence of demand for labour on the wage rate paid. Better answers will use the marginal revenue product (mrp) theory, average or weaker answers will explain the idea through a standard demand curve – which will need to be related to the supply to fix the wage rate. [12]

L4 For a sound explanation with good application and a clear understanding of the principles involved – diagrams will probably be used. [9–12]
L3 For an accurate but less developed explanation. [7–8]
L2 For an explanation of the analysis but not necessarily logically presented, or with some errors. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

(b) Analysis of the change in wage rates when the market becomes imperfect. The marginal wage and average wage will not be identical and the wage rate will be pushed down. If the product market is also imperfect the average and marginal revenue will not be the same and this will affect the mrp. However, these changes may be modified either because the trade union influences the level of the wage rate or because it is fixed by the government. Candidates could discuss the effect of a minimum wage. [13]

L4 For a reasoned and clear analytical comment. [9–13]
L3 For a fair but undeveloped comment. [7–8]
L2 For a limited but acceptable attempt to consider the possible effects. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

5 (a) Explanation of the calculation of the change in GDP/GNP and its link to growth rates [12]

L4 For a sound explanation of the different methods and a clear understanding of the principles involved. [9–12]
L3 For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. [7–8]
L2 For a correct explanation but undeveloped comment, not necessarily logically presented. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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(b) Consideration of the value of GDP but also of other factors which might be important which are not included directly in GDP – health, housing, education, crime, income distribution. Difficulties of comparing different cultures, climates. [13]

L4 For a reasoned and clear discussion, logically presented. [9–13]
L3 For a fair but undeveloped discussion but with accurate reference to the question. [7–8]
L2 For a limited discussion with little comment. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

6 **(a)** Expect descriptions of the transactions, precautionary and speculative reasons behind the demand for money. Up to 6 for first two, 6 for speculative. [12]

L4 For a sound explanation with good application and a clear understanding of the principles involved. [9–12]
L3 For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. [7–8]
L2 For a correct explanation but undeveloped comment, not necessarily logically presented. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

(b) Discussion of effect of increase in supply on interest, with discussion of elasticity of liquidity preference. Effect of changes in interest on investment, with discussion of elasticity of investment schedule and extent of marginal propensity to save. Effect on international situation with changes in imports, exports, speculation and exchange rates. This could lead to changes in government policy. [13]

L4 For a reasoned and clear discussion, logically presented. [9–13]
L3 For a fair but undeveloped discussion but with accurate reference to the question. [7– 8]
L2 For a limited discussion with little comment. [5–6]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1– 4]

7 Explanation of the meaning of allocative efficiency and productive efficiency with a discussion of the polices that might be used to approach allocative efficiency when the market does not reflect that situation – subsidies, regulation, taxes, prohibitions, ownership, provision of government services. It might be possible to achieve productive efficiency but more difficult to measure and achieve allocative efficiency. [25]

L4 For a reasoned and clearly structured answer which gives an explanation of both types of efficiency and a discussion of the policy. A conclusion should be drawn. [18–25]
L3 For a fair explanation but with a weaker or undeveloped discussion on policy but still with a conclusion. [14–17]
L2 For an answer which concentrates on the explanation but does not explore the discussion and has no conclusion. [10–13]
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–9]

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