CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

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.

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2014 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is the registered trademark of Cambridge International Examinations.

CAMBRIDGE
International Examinations

Section A

1 (a) Identify <u>three</u> reasons why temporary workers in India are disadvantaged compared with permanent workers. [3]

Temporary workers are paid half, or lower than, the permanent workers' rate, no/few extra benefits, minimum wage not applicable; do not have a permanent contract.

(b) Is the evidence given sufficient to support the statement that 'most manufacturing firms in India are small'? [4]

Firms with fewer than 10 workers high %, but this is a % and not an absolute amount; also, this only relates to permanent staff, not total numbers employed; further, do not know if they are manufacturing firms. Table gives 'all' firms. Small only relates to employment and not to output or turnover.

(c) Distinguish between fixed cost and variable cost and consider how temporary workers and managers would be classified. [3]

Fixed cost does not change with output, variable cost does. Temporary workers are a variable cost; managers are a fixed cost – allow variable if candidates refer to the long-run.

(d) Discuss whether the payment of low wages could be good for India's economy. [10]

Low wages means lower income, lower spending, lower demand, lower growth. However, there may be more demand from firms for workers, including foreign firms, which will increase employment and spending. Global competitiveness is increased. Low wages mean cheaper costs for business, maybe higher profits and more investment. Overall effect on the economy is uncertain as a theoretical discussion but India is among the group of emerging nations, which would indicate that it might contribute to a beneficial result. Up to 6 marks for one side; reserve 1 mark for conclusion.

© Cambridge International Examinations 2014

Section B

General Comments for section B:
The essay questions carry a maximum mark of 25. Try to 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 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.

© Cambridge International Examinations 2014

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

© Cambridge International Examinations 2014

2 (a) Analyse whether there is a difference between:
- **the way the effects of an increase in price can be represented using a budget line, and**
- **the way the effects of an increase in price can be represented using a demand curve based on marginal utility theory. [12]**

Explanation of budget line and how an increase in price of one good causes the budget line to pivot. Budget lines alone cannot tell what happens to quantity demanded, although they may show a split between income and price effects. Explanation of utility theory and the link to a movement along a demand curve which can show how the quantity demanded changes. Should candidates understand the analysis but refer to a price decrease, not an increase, award up to L2 maximum. [12]

L4 For a good analysis with a reasoned comment of budget lines and demand curves/utility with a clearly structured answer and a conclusion. [9–12]

L3 For a fair analysis but undeveloped answer or a more developed answer on either budget lines or demand/utility. A conclusion should be drawn. [7–8]

L2 For a limited but acceptable attempt to analyse the link to the theory but with inconclusive or unconvincing discussion and no overall conclusion. [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) Discuss what is likely to happen to the equilibrium price and output if a perfectly competitive firm were to become a monopolist. [13]

Perfect competition firm takes price given by the market demand and supply. Monopoly does not need to do this and can fix price. Market price is likely to be higher, market quantity is likely to be lower with monopoly – but this need not be so if there are economies of scale. [13]

L4 For a sound discussion and explanation with clear understanding of the principles involved and a good structure to the answer. [9–13]

L3 For a competent discussion but more limited explanation, maybe of the changes in the market situation rather than the firm but still with a reasonable structure to the answer. [7–8]

L2 For a more limited discussion probably explaining each structure briefly or a lack of link to the market and curve and with a poorer structure to the answer. [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]

© Cambridge International Examinations 2014

3 In the recession of 2012, some European firms declared that their profits were not as high as in the previous year.

(a) Explain how, in theory, a firm might try to increase its profits. [12]

Explanation of maximum profit analysis. Candidates could specify not just where maximum profits are but what a firm should do to achieve this. Such action would depend upon the assumed starting point. A discussion of how this might be achieved in alternative market structures would be valid. [12]

L4 For a good explanation of the link to both profit and output. Answer will clearly specify a change rather than just a maximum profit output. Some mention of alternative market structures to try and increase profits should be mentioned to achieve 11/12. [9–12]

L3 For a competent analysis but with a weaker structure to the answer. A clear indication of a change should be given although probably no mention, or very brief mention of alternative market structures. [7–8]

L2 For a more limited analysis with weak explanations. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

(b) Discuss what alternative objectives a firm might have apart from profit maximisation. [13]

Discussion of the alternative objectives, influence in the market, behavioural theories, managerial theories, balancing of aims of different parts of the company, pricing according to other firms in the market rather than according to profit maximisation. [13]

L4 For a sound discussion with clear understanding of the principles involved. [9–13]

L3 For an accurate reference to the question but with a more limited discussion. [7–8]

L2 For a discussion which contains minor errors or an 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]

© Cambridge International Examinations 2014

4 (a) Employment is likely to decrease if wages fall.
Employment is likely to decrease if wages rise.

Consider whether these apparently contradictory statements are true in the analysis of the demand for and supply of labour. [12]

In the factor market the S curve shows what would be supplied at a given wage. From the workers' perspective a fall in wages results in workers being less willing to supply labour – first statement true. A rise in wages would result in workers being more willing to supply labour (until the backward supply is reached) – second statement untrue. (Both are movements along the S curve).
However, where the equilibrium occurs/depends on demand as well as supply, if wages rise, employers are likely to demand less labour and employment is likely to decrease. Second statement true if the factor market and not the individual worker is considered. [12]

L4 For a good explanation, and conclusion, of the change on the individual and the market with relevant comparison. [9–12]

L3 For either a competent explanation of the effect on the individual or on the market, or a weaker explanation involving both aspects. [7–8]

L2 For a limited attempt probably dealing with one aspect only, or for dealing with wages only and no mention of employment. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. [1–4]

(b) Discuss how wage rates might differ between a perfect and an imperfectly competitive market for labour. [13]

Discussion of the level of wages in perfect and imperfect competition. Wages likely to be lower in imperfect competition unless market level is changed by government or union. [13]

L4 For a sound discussion clearly explaining the differences. [9–13]

L3 For a competent discussion with a weaker comparison of the two market structures. [7–8]

L2 For a general discussion with no real conclusion of the differences. [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]

© Cambridge International Examinations 2014

5 An economist stated 'you cannot encourage economic growth, and cut spending and increase taxes at the same time'. *(Source: The Times. 2011)*

(a) Explain the costs and benefits of economic growth. [12]

Explanation of the extent to which growth would either increase income, standards of living, economic development or destroy existing environments, cause overcrowding, congestion, pollution, negative externalities. A consideration of the short-run/long-run position and/or a comment on the differences in developed/developing countries could be given. [12]

L4 For a reasoned and well argued explanation with accurate development of the analysis referring to both benefits and costs. [9–12]

L3 For a clear but undeveloped explanation but one which still deals with both benefits and costs, including economic and social effects. [7–8]

L2 For a limited attempt to consider the theory with a concentration on the economic indicators reflecting output etc. only. [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]

(b) Discuss whether economic analysis can be used to support the statement of the economist. [13]

Discussion of the negative multiplier effect of reducing government expenditure and increasing taxes and its effect on national income. [13]

L4 For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved with a reasoned conclusion. If there is no critique then 10 marks maximum. [9–13]

L3 For a competent comment but lacking development. [7–8]

L2 For a limited discussion of the analysis but with only very brief development of the ideas. No multiplier: level 2 maximum. [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]

© Cambridge International Examinations 2014

6 Government economic policy should be directed to increasing the standard of living – employment, health, education and a sustainable environment. It should not concentrate on fixing prices, raising taxes and regulating bank lending.

Discuss whether there is any truth in this statement. [25]

Candidates should debate what the main government policy should be. They should question whether these, which may be expressed in the traditional economic macro aims of governments – price stability, growth, balance of payments problems – necessarily imply that there is no connection with employment, health, education, environment. Achievement of these policies may well be to use the methods mentioned or may be to use other methods. [25]

L4 For a reasoned and clear discussion with accurate development of an argument based on an understanding of theory. There will be good links to the statement together with a conclusion. [18–25]

L3 For a clear description together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive. A conclusion will be presented. [14–17]

L2 For a correct explanation but weak or ill-explained links to the statement. The explanation will be undeveloped; there will be some attempt at analysis but only limited evaluation with no conclusion. [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]

7 The transfer of some functions of the public sector to the private sector is the best way of ensuring efficiency. It is, therefore, worthwhile.

Is this an argument with which you agree? [25]

Explanation of efficiency and a discussion of the relative merits of the private market and public sector. The private sector maybe competitive and possibly more productively efficient but there will be problems of market failure, information, externalities, merit goods and no public goods. The quote does specify 'some functions'. Candidates could consider which functions might be appropriate for a transfer.

L4 For a sound explanation of efficiency and a good discussion of the relative merits of each sector. A conclusion should be given with some reference to which functions may be better in the private sector. [18–25]

L3 For a competent explanation of efficiency but briefer discussion of the relative merits of each sector and no comment on which functions might be appropriate for the private sector. There should still be a conclusion. [14–17]

L2 For a more limited general description, rather than an analytical discussion with little attempt at evaluation and no conclusion. [10–13]

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

© Cambridge International Examinations 2014

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

9708 ECONOMICS

9708/42 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.

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2014 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is the registered trademark of Cambridge International Examinations.

CAMBRIDGE
International Examinations

Section A

1 (a) Distinguish between the type of integration likely to occur in Australian supermarkets and the integration intended by Cisco. [3]

Vertical applied to supermarket = 1
Horizontal applied to Cisco = 1
Further development e.g. backwards for vertical/same stage of production or equivalent = 1

(b) What is likely to happen to employment if both examples of integration occur? [3]

Cisco, stated that employees would be integrated into Cisco, employment would be stable in the short run but it is unlikely that a merger would take place without some rationalisation by the company in terms of the labour force.
Supermarkets; employment in other manufacturing could well decrease in the long term although it might be safeguarded in the short term. If the supermarket makes its own products there may be an increase in employment for the supermarket. Overall result is uncertain.

(c) The article concludes that Australia's long-term food security will be weakened. Analyse why this conclusion is made and discuss whether you support it. [4]

The article says that Australia's manufacturing sector needs profits to allow research and development. The article says that without research there will be a decline in production. (The reason/logic of this statement is not clear). Without production there will be no security and Australia will be a food importing nation. (3) A conclusion should be given. (1)

(d) Does the evidence in the article suggest that integration is beneficial? [10]

Vertical – to supermarket, there is a gain; to producer, a possible gain in short term from increased orders, less certain in long term if supermarket does not keep them as a supplier; to consumer, a gain in short term, less certain in long term as product range may be reduced.
Horizontal – encourages research, reduces cost to customer, Cisco profits likely to be increased, all gains.
Candidates should state an overall conclusion.

© Cambridge International Examinations 2014

Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try to 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 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.

© Cambridge International Examinations 2014

Mark 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.

Level	**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

© Cambridge International Examinations 2014

2 'The purchases a consumer makes are based upon marginal utility. It is this alone that determines market equilibrium in perfect competition. Supply has no relevance.' Is this true? [25]

Explanation of marginal utility analysis and the link between utility and the demand curve. Individual demand curves can be used to achieve market demand curves. Discussion of the importance of supply. Market equilibrium in perfect competition cannot be obtained from market demand curve alone.

L4 For a clear explanation of the link between utility and demand, cost and supply, the construction of market equilibrium, a clear assessment of the assertion in the quote and a reasoned conclusion. [18–25]

L3 For a competent explanation which does not fully analyse the link between utility and market demand or the link between cost and supply. There will be some discussion but the evaluation will not be extensive with some limited conclusion. [14–17]

L2 For an accurate, though, undeveloped explanation of utility and supply but with only limited evaluation and no conclusion. [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]

3 Discuss the similarities and differences between a firm's likely price and output policy in perfect competition and oligopoly. [25]

Similarities: possible aims of profit maximisation, calculation of costs, recognise changes in costs, interested in calculating possible revenue. Differences: in oligopoly discussion of recognition of the fact that firms can manipulate prices, can practise price discrimination, but need not change prices with every change in market demand (kinked demand curve), do have differentiated products, do recognise the inter-relations between the products of one firm and the actions of another, may or may not learn from results of changes in price and influence on demand.

L4 For a thorough explanation of the theory, a clear analysis, with a discussion which leads to a reasoned conclusion. [18–25]

L3 For a competent explanation which does not fully analyse the theory but makes some attempt at evaluation with a limited conclusion. [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]

© Cambridge International Examinations 2014

4 A huge company with a turnover of $99.3 billion paid its chief executive $10.9 million in 2011. At the same time it was reported that the company did not pay what was regarded as a living wage to all its employees.

(a) Use economic analysis to help explain why there can be wide differences in wage rates. [12]

Candidates should give an explanation of the factors affecting wage rates. A comment on demand and supply, on marginal productivity, on skills, scarcity, on rates in competitive industries.

L4 For a sound explanation with clear understanding of the principles involved. [9–12]

L3 For a competent explanation but with limited development. [7–8]

L2 For a general explanation of only some of the factors. [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) Discuss how this analysis could be adapted if a trade union intervened in the process of wage determination. [13]

The implication is that there is imperfect competition. This may result in 'exploitation'. They should then discuss how the wage rate could be fixed to avoid exploitation. This might involve negotiation with a union, with a conciliation tribunal, or with government intervention. A solution may be reached without the need for government intervention by bargaining between the union and the employers. A conclusion should be presented.

L4 For a reasoned discussion and clearly structured answer with sound knowledge of the analysis and a reasoned conclusion. [9–13]

L3 For a discussion, but without such a full development, but still with a conclusion. [7–8]

L2 For a limited but acceptable attempt to describe the theory but without any real development nor any conclusion. [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]

© Cambridge International Examinations 2014

5 (a) Identify <u>two</u> government macroeconomic aims and analyse how a boom will bring beneficial changes for consumers and producers. [12]

Accept any two. Candidates are likely to choose from GDP, price levels, employment, balance of payments.

L4 For a reasoned and clear explanation of at least two indicators with the analysis logically presented with a realisation that benefits/drawbacks will vary depending on which group is being considered. [9–12]

L3 For a fair but undeveloped explanation of two indicators and weaker analysis of the differences for the two groups. [7–8]

L2 For a weak explanation of two indicators and their effects or a fuller explanation of one indicator and its effects. [5–6]

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

Lord Skidelsky, Keynes's biographer, stated that Keynes believed that 'to cut government spending was completely the wrong policy in a slump'. (*Source: The Times)*

(b) Discuss why cutting government spending might be considered to be the wrong policy in a slump. [13]

Discussion of effect of a fall in government spending, a fall in injections causing national income to fall via multiplier process. An evaluation of why this might be the wrong policy in a slump should be given.

L4 For a sound discussion of the multiplier with good application of the effect of decreases in government spending and a clear understanding of the principles involved. An evaluative comment should be provided. [9–13]

L3 For an accurate discussion of the multiplier but with a more limited comment on the application related to a decrease in government spending in a slump. [7–8]

L2 For a discussion of the changes in the components of AD and limited comment on the application. [5–6]

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

© Cambridge International Examinations 2014

6 (a) Use liquidity preference theory to explain why there is a demand for money. [12]

Expect transactions, precautionary, speculative descriptions. Up to 6 marks for first two, 6 marks for speculative.

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]

My higher income will make me happier. It will make other people unhappy.

(b) Discuss whether the main aim of government policy should be to achieve a more equal distribution of income. [13]

Candidates should state the macroeconomic aims of the government. They should reflect upon the significance and importance of the different aims in different economic circumstances. Whether income distribution is the most significant may well depend on the situation facing the economy rather than purely a decision in principle. A conclusion should be drawn. [13]

L4 For a sound explanation with good application and discussion with illustration and a clear understanding of the principles involved and a reasoned conclusion. [9–13]

L3 For an accurate explanation of the aims but with a more limited comment on the application to income distribution with a limited conclusion. [7–8]

L2 For a weaker discussion 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]

© Cambridge International Examinations 2014

7 (a) How effective is the measurement of economic growth as an indicator of how a developing country's standard of living compares with other countries? [12]

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.

L4 For a reasoned and clear discussion, logically presented. [9–12]

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]

(b) Discuss whether economic growth would necessarily lead to a more efficient use of resources in developing countries. [13]

Explanation of the meaning of allocative efficiency and productive efficiency. Economic growth would not necessarily ensure that either occurs; growth of itself has negative aspects as well as positive ones. There may need to be some regulation of market failures by means of 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.

L4 For a reasoned and clearly structured answer which gives an explanation of both types of efficiency and a discussion effect of growth. A reasoned conclusion should be drawn. [9–13]

L3 For a fair explanation but with a weaker or undeveloped discussion on the application but still with a limited conclusion. [7–8]

L2 For an answer which concentrates on the explanation but does not explore the discussion and has no conclusion. [5–6]

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

© Cambridge International Examinations 2014

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

9708 ECONOMICS

9708/43 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.

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2014 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is the registered trademark of Cambridge International Examinations.

CAMBRIDGE
International Examinations

Section A

1 (a) Explanation stating that it is an increase in output or GDP (1), further elaboration of any extra point which mentions, for example, per cent rate of increase, real growth allowing for inflation, time period, short term or long term potential growth (1). **[2]**

(b) Economic growth is achieved by lowering barriers for people to produce (supply) goods and services, lower tax rates encourage extra work, production (supply) increases, lower taxes may also affect profits of firms and willingness of businesses to expand and increase investment. **[3]**

(c) Explanation of supply curve, increased work as wage increases (1), diagram, labels, shape of curve (1), with backward bend as wages increase beyond a certain level (1), tax rate change will shift curve, receive more income for each level of hours worked (1). **[4]**

(d) The article says that the result is similar to how a firm's revenue changes (1), greater than 1 is similar to elastic price elasticity of demand (1), there is a marked response in hours worked (1), thus a reduction in tax causes revenue to rise not fall (1). **[4]**

(e) Discussion of the points mentioned in the article – the difference between the short run and long run, the lack of consistency in the outcome using US figures, the measurement of the sensitivity to tax changes, the difficulty of proving cause and effect. **[7]**

© Cambridge International Examinations 2014

Section B

General Comments for section B:

The essay questions carry a maximum mark of 25. Try to 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.

© Cambridge International Examinations 2014

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

© Cambridge International Examinations 2014

2 Explanation of consumer equilibrium MUa / Pa = MUb / Pb.
Explanation of equilibrium for the firm MC = MR. MR and price only the same in perfect competition. Here there may be a similarity in the equilibrium. The significance mentioned in the statement is not correct in other market structures. **[25]**

L4) *For a thorough explanation of the analysis, a clear discussion of the possible link between the two situations, a discussion of the lack of link in imperfect markets.*
A reasoned conclusion. ***18 – 25***

L3) *For a competent explanation of the analysis but with more limited discussion and less clarity about the similarity/differences. 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, possibly concentrating on perfect competition. No conclusion.* ***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***

© Cambridge International Examinations 2014

3 (a) Explanation of the criteria for price discrimination. Possible, separate markets, profitable, different price elasticities of demand. Application: different size cabins, not discrimination as not the same product. Different prices for a US address is discrimination. Justified if it allows production, employment, further investment to continue. To achieve this businesses may justify discrimination because it will make more profit. **[12]**

L4) *For a reasoned and well argued explanation with accurate development of the analysis with clear reference to the application.* ***9 – 12***

L3) *For a clear but undeveloped explanation but with brief reference to the application, or little reference to the justification.* ***7 – 8***

L2) *For a limited attempt to consider the theory with little application, or general descriptive application with no analytical framework.* ***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***

(b) Explanation of meaning of efficiency (productive, allocative) and discussion of possibility of achieving efficiency in each of the market structures. Both productive and allocative efficiency possible in perfect competition, not both possible in monopolistic competition. **[13]**

L4) *For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved with a reasoned conclusion.* ***9 – 13***

L3) *For a competent comment but lacking development.* ***7 – 8***

L2) *For a limited discussion of the analysis and only very brief development of the ideas.* ***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***

© Cambridge International Examinations 2014

4 (a) Explanation of difference between the two market structures in terms of constant, rising average wage line, existence of monopsony, existence of unions. **[12]**

L4) *For a good explanation, and clear contrast/comparison.* ***9 – 12***

L3) *For either a competent explanation of one market or a weaker explanation involving both markets.* ***7 – 8***

L2) *For a limited attempt with no explicit comparison.* ***5 – 6***

L1) *For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis.* ***1 – 4***

(b) Candidates should deal with both aspects of the question, whether imperfect means it is faulty and also whether this necessitates government intervention. It may be considered 'faulty' if exploitation occurs and wages are forced down and employment reduced. Correction could be by collective bargaining as well as by legislation. **[13]**

L4) *For a sound discussion clearly discussing both parts with a conclusion.* ***9 – 13***

L3) *For a competent discussion of one aspect or a weaker discussion of both parts but still with a conclusion.* ***7 – 8***

L2) *For a general discussion with little evaluation and no conclusion.* ***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***

5 Explanation of increase in injections causing a rise in income and growth via multiplier process. Discussion of disadvantages of growth – resource use, short term vs long term, negative externalities. Explanation of government aims and discussion of possible conflicts – pressure on prices, likely inflation; effect on distribution of income; extra demand may increase imports, effect on balance of payments. There is unlikely to be a conflict with the objective of increased employment. If potential growth increases (PPC moves out) then there may not be conflicts with other government objectives. **[25]**

L4) *For either:a thorough explanation of the analysis of the multiplier, a clear discussion of the possible disadvantages of growth and of the possible conflicts.*
Or: a descriptive account of the multiplier and a thorough discussion of the conflicts.
A reasoned conclusion should be given. ***18 – 25***

L3) *For a competent explanation of the analysis of the multiplier but with more limited discussion and less clarity about the disadvantages/ conflicts. The evaluation will not be fully developed or extensive. There should be a conclusion.* ***14 – 17***

L2) *For an accurate, though, undeveloped explanation with some attempt at analysis but only limited evaluation, possibly concentrating on one of the aspects – disadvantages or conflicts. No conclusion.* ***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***

© Cambridge International Examinations 2014

6 (a) Explanation of transactions, precautionary, speculative demand. Transactions related to income, credit cards not related as money is spent without necessarily having been received. Precautionary – credit cards may reduce precautionary demand because future expense may be made not through money saved by through the credit card. The amount left for speculative may increase if left is used for transactions and precautionary. [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 on effect of increase in money supply on interest rates, – with discussion of elasticity of liquidity preference. Effect of changes in interest on investment, with discussion of elasticity of investment schedule and extent of MPS. Effect on international situation with changes in imports, exports, speculation and exchange rates. Potential inflationary effects. 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***

© Cambridge International Examinations 2014

7 (a) Explanation of the characteristics of a developing country with a conclusion about the statement. **[12]**

L4) *For a good explanation, a clear reference to the statement – including a critique of the statement about international trade – and a conclusion.* ***9 – 12***

L3) *For either a less developed explanation with weaker explicit reference to the statement but with a conclusion.* ***7 – 8***

L2) *For a limited attempt, no explicit reference to the statement and no conclusion.* ***5 – 6***

L1) *For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis.* ***1 – 4***

(b) Explanation of what 'performed well' means. Consideration of whether this is a suitable method of comparison. Consideration of other factors which might be important which are not included directly in GDP – health, housing, education, crime, income distribution. Conclusion on whether it is still possible to make such comparisons but maybe not by using GDP. **[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 on alternative methods.* ***5 – 6***

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

© Cambridge International Examinations 2014