Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2018**

MARK SCHEME

Maximum Mark: 70

Published

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

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

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

Cambridge International is publishing the mark schemes for the October/November 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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LEVELS OF RESPONSE MARKING DESCRIPTIONS

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

Level	**AO1**	**AO2**	**AO3**	**AO4**
L4	detailed knowledge of relevant facts and theory perceptive understanding of the specific requirements of the question throughout the answer	relevant, apposite illustrations and specific examples are introduced to add depth and fullness to the answer recognises the underlying economic concepts and principles and applies these in relevant situations to develop the answer	detailed, precise and purposeful description, explanation and analysis using appropriate economic terms and concepts correctly and fluently draws clear, reasoned conclusions a sound, well-structured answer	critical evaluation of the issues, considering relevant information and economic principles distinguishes between facts, hypotheses and/or value judgements challenges assumptions of the question or model
L3	adequate knowledge of relevant facts and theory a reasoned understanding of the question's requirements shown in the answer	some appropriate relevant illustration or examples seen but they may be quite general or not very full applies theory and facts with accurate reference to the question to develop the answer	straightforward, satisfactory analysis: generally clear statements, supported by reasoned arguments including some specific economic terms and concepts draws some conclusions a functionally organised answer	partly complete evaluation of the issues in terms of either relevant information or economic principles attempt to distinguish between facts, hypotheses and/or value judgements attempt to comment on assumptions
L2	identifies some relevant facts and/or theory the answer overall has a general relevance to the question, showing some understanding	illustration may not be fully relevant and is superficial or overgeneralised an accurate application of some related theory or fact(s), with little or no development	some analysis present but limited by omissions, error(s), irrelevant details or unclear communication conclusions may not be drawn from it a disorganised answer	some evidence of an ability to evaluate, discriminate, or to make basic judgements, considering some relevant information
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

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Question	Answer	Marks
1(a)	**1 mark × 3** for: • production of electricity by wind-power is cheap, but the cost of building the power stations is high • production is erratic and depends on the wind. • effect on environment • price rises • effect on employment • subsidies are preventing investment in alternative efficient gas-powered production resulting in continued use of old power stations	**3**
1(b)	• equitable means fair **(1 mark)** • Article says elderly and poor have to pay for subsidies. Disproportionately hit hardest **(2 marks)** • small companies have to pay towards subsidies while large companies receive subsidies **(1 mark)** • there is detrimental effects on the landscape **(1 mark)** • article does not provide evidence for equity **(1 mark)**	**6**
1(c)	• Market has ease of entry, prices determined by demand and supply **(2 marks)** • There are small farmers (70% of population rely on agriculture) which might indicate a free market but there is counteracting evidence that large multinationals control seeds, grain and pesticides and their political power can restrict supply and control the market and that it is not free. Not enough information to make overall conclusion of the strength of each side. **(3 marks)**	**5**
1(d)	• Agriculture – large businesses can control the market and put pressure on small farmers to buy inputs. Industrial methods pollute the soil, damage water tables **(3 marks)** • Wind-power – large companies are subsidised, make profits – on an insecure supply; jobs lost, landscape changed, no reduction in carbon emissions. Energy-intensive industries driven abroad because of high operating costs **(3 marks)** Up to 4 for one side only	**6**

Question	Answer	Marks
2	*Explanation of meaning of efficiency and explanation of the analysis which ensures an efficient optimum may be reached. Productive efficiency makes the best use of resources, and allocative efficiency ensures that no one can be made better off without someone being worse off. Individual actions are not always best for society as a whole. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency. This could be by persuasion (nudge theory) rather than by enforcement. Nudge theory, originally an ethical idea not a government manipulative tool, involves designing choices to encourage decision making in wider positive interests of society. But it can be used in government context. Government intervention may thus be necessary, but it need not overcome inefficiency as there may be inefficiency in government through lack of information.* **L4 (18–25 marks):** for a thorough explanation dealing with productive and allocative efficiency and a comment on the importance of both concepts; and an accurate discussion of market failure, with examples and a conclusion about the need for government intervention and whether such intervention is a sufficient solution. **L3 (14–17 marks):** for a competent but less developed explanation of the terms with accurate but limited comment on the importance. Also for a more limited discussion of the reasons for market failure and the need for government but without a comment on whether such intervention is sufficient to overcome market failure. **L2 (10–13 marks):** for a correct but brief explanation with some attempt at analysis possibly with only one type of efficiency correctly elaborated, no comment on importance; and for a brief analysis of market failure with few examples and no conclusion about necessity of government intervention. **L1 (1–9 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**
3(a)	*Equilibrium is a relation between the marginal utility and the price. Can be explained using either marginal utility or indifference curves – marginal rate of substitution equal to the price ratio. Consideration of the assumptions rationality, sovereignty, the ability to measure utility, the relation between utility and price.* **L4 (9–12 marks):** for a clear explanation and a sound comment on the relation between the price and the satisfaction obtained, referring to more than one good. Clear comment on the assumptions. **L3 (7–8 marks):** for a less developed answer but which still refers to the equilibrium but probably concentrates on only one good. Weaker consideration of the assumptions. **L2 (5–6 marks):** for a brief attempt which does not clearly bring out the significance of the marginal analysis or which does not deal with any of the assumptions. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

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Question	Answer	Marks
3(b).	*Analysis of the difference between income and substitution effects and the overall effect on demand of a change in price. Whether demand will increase, and by how much for a price fall depends on the classification of the good but also on the price elasticity of demand. The company would also need to know if it increased production how that would affect costs – and thus profits.* **L4 (9–13 marks):** there are three aspects to the question: a clear explanation of the analysis – income, substitution; a comment on the effect on demand and a comment on the relation to revenue via elasticity. Good reasoned structure. **L3 (7–8 marks):** for a less developed analysis of the income substitution effects, or of the link to demand, or a weaker link to the revenue. Two aspects done reasonable well, or three less developed. **L2 (5–6 marks):** for an answer that either deals with one aspect well, or two with less clarity. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
4(a)	*Theory predicts certain outcome based upon the demand (mrp) and cost/supply of labour. Explanation of determination of equilibrium output is required.* **L4 (9–12 marks):** for a clear explanation of the theory and derivation of equilibrium position, a comment about possible changes in mrp or supply. MRP necessary for L4. **L3 (7–8 marks):** for a briefer explanation of the theory without any comment on possible changes or with a briefer explanation of the determination of the equilibrium. **L2 (5–6 marks):** for a much less developed answer with no elaborative comment and a vague – or non-existent – mention about equilibrium. **L1 (1–4 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**12**
4(b)	*The analysis of imperfect competition should be explained; the final wage can be incorporated in the theory depending on the strengths of both sides in the bargaining process where there is monopsony. In the case of the doctors the TU did have some influence and the final wage was a compromise. This can be recognised by the theory and is not contradictory to it.* **L4 (9–13 marks):** for a reasoned and clear explanation with accurate development of theoretical difficulties and a recognition that the final wage can be incorporated in the theory. **L3 (7–8 marks):** for a clear but undeveloped explanation of the imperfectly competitive market but without an explicit comment on the case in the question. **L2 (5–6 marks):** for a limited and not clearly presented attempt to consider the theory and with a greater concentration on the descriptive elements and with no link to the case in the question. **L1 (1–4 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**13**

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Question	Answer	Marks
5	*Responses should provide a clear explanation of what economists mean by recession with the emphasis on low growth rates, deflation and rising unemployment. The link between recession and national debt and budget deficits should also be discussed. Analysis should then be used to explain how Keynesian demand management policies are supposed to work. An attempt should then be made to evaluate the extent to which Keynesian policies might be effective under the conditions described.* **L4 (18–25 marks):** for an answer that examines why Keynesian policies might not be effective. This should include traditional criticisms of such policies, for example Crowding Out and possible problems relating to balance of payments deficits. Also it is expected that discussion will make the link between existing high levels of national debt and that this problem would be made worse by continuing to allow substantial budget deficits. Alternative approaches might also be discussed and a conclusion provided. **L3 (14–17 marks):** for an analysis of how Keynesian solutions to the problem of high unemployment would operate in theory. This analysis would focus upon the use of budget deficits combined with a multiplier effect and how this might impact on the level of output and employment. **L2 (10–13 marks):** for an answer that describes the terms recession, budget deficits and national debt and makes some attempt to explain how Keynesian demand management policies are supposed to work. **L1 (1–9 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

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Question	Answer	Marks
6(a)	*When the money supply is increasing then this would normally lead to a fall in interest rates. This would not affect active balances based on the transactions/precautionary motives which are interest inelastic. A lower rate of interest would however affect the speculative demand for money which is influenced by an individual's expectations of what is going to happen to the level of interest rates in the future. The overall effect on the speculative demand will depend upon the starting point when the money supply is increased. If interest rates are already very low the demand for money will increase significantly. The use of credit/debit cards will decrease both the transactions and precautionary demand for money.* **L4 (9–12 marks):** for an answer that attempts to evaluate the relative importance of these changes in each case. Some attempt will also be made to discuss the extent of the impact by each change on each type of demand. **L3 (7–8 marks):** for an answer that analyses the effect of both these changes on each of the three motives for holding money. Answers should develop a logical argument to support their conclusion in each case. **L2 (5–6 marks):** for an answer that describes the possible effects of these changes on each type of money but does not provide any detailed comment or analysis. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
6(b)	*Quantitative Easing takes place when governments create money to purchase long term securities from banks or the non-bank public. This will cause the price of bonds to rise and cause downward pressure on interest rates. Also due to a fall in interest rates plus negative expectations, this is likely to depreciate the value of the currency. Lower interest rates might promote demand pull inflation and lower exchange rates might cause cost push inflation but there are a number of factors which might prevent such changes automatically causing inflation. Existing state of the economy, consumer/investor confidence, exchange rate management might influence the final outcome.* **L4 (9–13 marks):** for an answer that discusses the extent to which a reduction in interest rates combined with a reduction in exchange rates might impact on the price level. A conclusion will be provided. **L3 (7–8 marks):** for an answer that analyses why the purchase of securities will reduce interest rates and to what extent it will influence the money supply. Also analysis will be used to demonstrate the links between changes in the interest/exchange rate and possible changes in the rate of inflation. **L2 (5–6 marks):** for an answer that explains how Quantitative Easing will affect interest rates and the exchange rate but this will be descriptive rather than analytical and there will be only a very limited attempt to link changes in these variables to the rate of inflation. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
7(a)	*Economic growth is measured by the change in GDP/GNP in a particular time period, allowing for changes in the price level. Sometimes per capita growth may be used to take into account changes in population. Economic development is a much wider term which encompasses reducing poverty; provision of education; provision of health care; maintenance of law and order. However, growth and development are linked because economic growth creates the wealth to provide education, health care and reduce poverty.* **L4 (9–12 marks):** for an answer that recognises the difficulties connected with establishing clear links but does provide a number of reasons why such links might exist and attempts to assess the strength of each link. A conclusion would be expected **L3 (7–8 marks):** for an answer that provides a detailed explanation of each term and expands upon basic text book definitions. There will be clear evidence of an attempt to show that the two terms are linked. **L2 (5–6 marks):** for an answer that attempts to explain and distinguish between the two concepts but that remains descriptive and that makes no attempt to link growth and development. **L1 (1–4 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**12**
7(b)	*There are two elements to this question. Answers should discuss the difficulties associated with alternative measures of GDP (income/output/expenditure). Then responses should address whether GDP can be used as a reliable indicator of living standards. Evidence should be produced to support the view that it is not a reliable indicator. Some reference to alternative indicators should be provided.* **L4 (9–13 marks):** for a response that discusses both parts of the question and which attempts to identify which are the key elements in both cases. Alternative indicators should be explained and discussed and a clear conclusion provided. **L3 (7–8 marks):** for an answer that provides a detailed account of reasons why GDP is difficult to measure, referring to at least two alternative ways of measuring GDP. Also responses should address a range of reasons why GDP is not a reliable indicator of living standards. A limited conclusion should be provided **L2 (5–6 marks):** for an answer that deals with only one part of the question or both parts in a superficial manner with no reference to alternative indicators. **L1 (1–4 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**13**

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

Level	AO1	AO2	AO3	AO4
L4	detailed knowledge of relevant facts and theory perceptive understanding of the specific requirements of the question throughout the answer	relevant, apposite illustrations and specific examples are introduced to add depth and fullness to the answer recognises the underlying economic concepts and principles and applies these in relevant situations to develop the answer	detailed, precise and purposeful description, explanation and analysis using appropriate economic terms and concepts correctly and fluently draws clear, reasoned conclusions a sound, well-structured answer	critical evaluation of the issues, considering relevant information and economic principles distinguishes between facts, hypotheses and/or value judgements challenges assumptions of the question or model
L3	adequate knowledge of relevant facts and theory a reasoned understanding of the question's requirements shown in the answer	some appropriate relevant illustration or examples seen but they may be quite general or not very full applies theory and facts with accurate reference to the question to develop the answer	straightforward, satisfactory analysis: generally clear statements, supported by reasoned arguments including some specific economic terms and concepts draws some conclusions a functionally organised answer	partly complete evaluation of the issues in terms of either relevant information or economic principles attempt to distinguish between facts, hypotheses and/or value judgements attempt to comment on assumptions
L2	identifies some relevant facts and/or theory the answer overall has a general relevance to the question, showing some understanding	illustration may not be fully relevant and is superficial or overgeneralised an accurate application of some related theory or fact(s), with little or no development	some analysis present but limited by omissions, error(s), irrelevant details or unclear communication conclusions may not be drawn from it a disorganised answer	some evidence of an ability to evaluate, discriminate, or to make basic judgements, considering some relevant information
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

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Question	Answer	Marks
1(a)	Equity refers to fairness and is a normative concept **(1 mark)** Equality implies identical positions e.g. pay **(1 mark)**	**2**
1(b)	• Too much control/power to the wealthy. • Undermines fairness of political institutions. • Makes it difficult to create equality of opportunity for the less well off • Inequality is harmful to the poor because they suffer disproportionately. **2 × (1 mark for identifying an example from the text + 1 mark for explanation using own words)** Maximum 2 for statements only.	**4**
1(c)	• Both trends are generally upwards **(1 mark)** • The average wage earner has risen just over 30% **(1 mark)** • and has limited change since 2000 **(1 mark)** • Top 1% has risen 140% **(1 mark)** • From 2000 the top 1% has seen considerable fluctuations **(1 mark)** • Consideration of the limitations of the diagram **(up to 2 marks)** • Conclusion: The diagram does support the idea of rising inequality **(1 mark)** **Maximum 6 marks**	**6**
1(d)	• Fiscal policy definition **(1 mark)** • Discuss the effectiveness of: Regressive/Progressive taxes. (these terms need not be referred to directly) **(up to 4 marks)** • Discuss the effectiveness of: Transfer payments/Subsidies Direct provision of goods and services **(up to 4 marks)** • Conclusion **(1 mark)** **Maximum 8 marks**	**8**

Question	Answer	Marks
2	*Definitions and explanations of productive efficiency and allocative efficiency Price = MC. Use of perfect competition model to demonstrate market achievement of PE & AE. Discussion of circumstances in which economic efficiency is not attained e.g. imperfect competition, externalities, public goods, asymmetric information.* **L4 (18–25 marks):** For a thorough analysis of the two efficiencies and their application in perfect competition/monopoly, Analysis of either 2 forms of market failure in depth or more than 2 more briefly. There is a conclusion. Max 21 no conclusion. **L3 (14–17 marks):** For a good analysis of one efficiency or a limited analysis of both efficiencies and a good analysis of 1 form of market failure. or A good analysis of 2 efficiencies and limited analysis of 1 form of market failure. **L2 (10–13 marks):** For undeveloped explanation of both efficiencies or 1 undeveloped efficiency and 1 undeveloped market failure or 2 undeveloped market failures and limited reference to efficiency. **L1 (1–9 marks):** 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.	**25**
3(a)	*Analysis of the role of marginal costs and marginal revenue in determining profit maximising output and how the price is determined on the downward sloping demand curve. Reference to the short term and the long term equilibrium positions.* **L4 (9–12 marks):** For an analysis of the role of marginal costs and marginal revenue in determining the profit maximising output and price. Short term (ST) and long term (LT) equilibrium positions are analysed. **L3 (7–8 marks):** For an analysis of the role of marginal costs and marginal revenue in determining the profit maximising output and price and analysis of either ST or LT equilibrium. **L2 (5–6 marks):** For a brief explanation concentrating on one aspect or limited reference to the equilibrium position **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**

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Question	Answer	Marks
3(b)	*An explanation of the sales revenue maximisation model (SRM). How SRM means that both price must be lower and quantity must be greater than in profit maximisation. Consumers gain through lower prices and greater output, managers gain if salaries linked to revenue not profits and shareholders lose as profits are reduced. Reference to the separation of ownership and control allowing SRM.* **L4 (9–13 marks):** For discussion of the SRM model which identifies the separation of ownership and control. Identifies the higher output and lower price of SRM compared with profit maximising model. Identifies who gains and who loses. There is a conclusion. Max 11 no conclusion. **L3 (7–8 marks):** Equilibrium output and price are identified which does not fully analyse the outcomes of the SRM model. **L2 (5–6 marks):** For a descriptive explanation. **L1 (1–4 marks):** 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.	**13**

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Question	Answer	Marks
4	*The use of supply and demand to explain the determination of wages. The demand for labour explained through the marginal revenue productivity theory. Consideration of elasticities of supply and demand on wage level. A discussion of the impact of minimum wage levels, government, the intervention of a Trade Union, and monopsonistic employers.* **L4 (18–25 marks):** For an analysis of the determination of wages showing differing level of supply and demand and a consideration of the impact of elasticity on wages. 2 examples non-market forces are analysed, such as government and trades union. An analysis of MRP. A conclusion is required. Max 21 no conclusion **L3 (14–17 marks):** For an analysis of the determination of wages showing differing level of supply and demand and a consideration of the impact of elasticity on wages, with 1 example of analysis of non-market forces **L2 (10–13 marks):** For an explanation based on only supply and demand, lacks consideration of non-market forces. **L1 (1–9 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**25**

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Question	Answer	Marks
5(a)	*Recognition of technological unemployment as a part of structural unemployment. Substitution of capital for labour leading to higher unemployment. New technology may reduce price of capital relative to labour. An increase in productivity leading to an increased demand for labour. New technology may lead to a fall in prices, higher aggregate demand increasing employment. The contribution of technological unemployment to total unemployment depends on the structural composition of an economy and the level of aggregate demand. Some reference to alternative forms of unemployment.* **L4 (9–12 marks):** For an explanation of technological unemployment and discuss 2 impacts of technological unemployment, comment on contribution of technological unemployment to total unemployment. **L3 (7–8 marks):** For an explanation of technological unemployment and discuss one impact of technological unemployment. Reference to one other form of unemployment. **L2 (5–6 marks):** For an explanation of technological unemployment. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
5(b)	*The role of real GDP per capita (pc) as a measure of living standards. Limitations of real GDP pc such as unemployment, distribution of income, education/health/cultural change/hours worked, do the statistics produced reflect economic activity. Use of PPP for international comparisons. Alternative measures of economic welfare: e.g. MEW, HDI, MPI.* **L4 (9–13 marks):** For analysis of the real GDP pc as a measure of living standards and 3 limitations, an explanation of 1 alternative measure of living standards. A conclusion is required. Max 11 if no conclusion. **L3 (7–8 marks):** For analysis of real GDP or GDP pc and 2 limitations of the measure. **L2 (5–6 marks):** For an explanation of GDP and 1 limitation. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

Question	Answer	Marks
6(a)	*Identify the components of aggregate demand/supply affected by the two economic factors. Effect of increased demand for exports on aggregate demand. The effect of a labour shortage on costs of production and aggregate supply. Analysis of the effect on output and prices using aggregate demand and aggregate supply analysis.* **L4 (9–12 marks):** For an analysis of the two changes on AD and AS and their impact on price level (increases) and output might increase/decrease or remain unchanged (uncertain). **L3 (7–8 marks):** For an analysis of the two changes on AD and AS and their impact on either the price level **or** output. **L2 (5–6 marks):** For an explanation of the changes on AD and/or AS. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
6(b)	*Accept a response based on the stem of the question e.g. answers that discuss the effectiveness of monetary policy in causing the original shifts in the AD/AS.* ***or*** *Alternatively accept a response that discusses the effectiveness of monetary policy to address the changes resulting from the shifts that have taken place in 6a.* *Definitions of MNC and economic growth. Explanation and analysis of the role of monetary policy in changing AD/AS. The monetary transmission mechanism and its impact. A consideration of alternative policies. Explanation and analysis of the roles fiscal policy and supplied side policies could play in reducing the impact of the two factors.* **L4 (9–13 marks):** For an analysis of the role of monetary policy, the monetary transmission mechanism and its impact. Candidates should also discuss an alternative policy fiscal or supply-side. A comment on the limitations of the chosen policies. A conclusion is required Max 11 No conclusion **L3 (7–8 marks):** For an analysis of the role of monetary policy. A brief reference to fiscal policy or supply-side policies. **L2 (5–6 marks):** For an explanation of monetary policy or a descriptive approach to monetary policy and 1 more policy. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

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Question	Answer	Marks
7(a)	*A consideration of a number of different factors: GDP, GDP per capita, the likely age structure, the structure of the economy, access to capital, the type and quantity of investment, the ability of the labour force, the state of the balance of payments.* **L4 (9–12 marks):** For an analysis which shows how a factor differs depending on the different stages of development. 3 different factors considered. **L3 (7–8 marks):** For an analysis of the 2 different factors. **L2 (5–6 marks):** For an explanation of 1 well-developed factor or 2 with limited development. **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
7(b)	*The role of a multinational corporation (MNC) in bring investment to a country. The impact of investment as a component of AD. Multiplier effects of investment. Consideration of the size of the multiplier. Recognition that unemployment exists but labour skills may be inadequate. Impact on the other elements of AD, government, imports, exports and consumption.* **L4 (9–13 marks):** For an analysis of MNC Investment on the GDP of a developing country. Impact of 3 factors on economic growth with positive and negative comments. A conclusion is required. Max 11 if no conclusion **L3 (7–8 marks):** For an analysis of Investment on the GDP of a developing country. Impact of 2 factors on economic growth. **L2 (5–6 marks):** For an explanation of the effect of investment on GDP. Impact of 1 factor on economic growth **L1 (1–4 marks):** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

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ECONOMICS **9708/43**

Paper 4 Data Response and Essays **October/November 2018**

MARK SCHEME

Maximum Mark: 70

Published

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

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

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

Cambridge International is publishing the mark schemes for the October/November 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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LEVELS OF RESPONSE MARKING DESCRIPTIONS

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

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

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

Question	Answer	Marks
1(a)	• It is usually applied to possible conflicts of interest that may result between shareholders (principal) and the management (agent) of a firm **(1 mark)** • or in this case between those who form the rules (government - principal) and those who carry out the rules (businesses – agent) **(1 mark)** • The conflict could occur because businesses do not seek to achieve what is good for the wider society **(up to 2 marks)**	**4**
1(b)	Producing at an output which is either: • not productively efficient – minimum cost for the output in question **(up to 2 marks)** • or allocatively efficient – marginal social cost does not equal marginal social benefit **(up to 2 marks)**	**4**
1(c)	• Internalising externalities – transferring costs that are currently paid by those who do not cause them to those that are responsible for their cause **(up to 2 marks)** • Comment on the meaning of c-b analysis and an explanation that c-b analysis can give a monetary value to the costs which can then be allocated to the business. Comment on the difficulties of calculating all of the costs **(up to 4 marks)**	**6**
1(d)	Inadequate: cost-benefit has limitations – but it does not say what limitations; directives result in an inefficient public sector – although this is not specified why this is; there is crowding out – private businesses are discouraged from investing by large government expenditure which may well require borrowing money and rises in interest rates; it does not create a dynamic new environment or new products. Current economies have to deal with challenges of climate change, youth unemployment, and rising inequality and there is no evidence that the current situation achieves this. Adequate; government creates a bigger national output which benefits everyone; new products have been funded by government – examples are given. Article is mainly against MFT as a solution to the current situation but there could be other evidence to support the justification which is not given.	**6**

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Question	Answer	Marks
2	*Explanation of change in demand caused by lower price; mention of income and substitution effects and the difference between normal, inferior and Giffen goods. Revenue change will depend partly on the type of good and partly on the price elasticity of demand. Revenue will increase with a normal good with elastic demand. Bus journeys used to be classified as inferior goods but candidates could debate whether that is still the case. Increasingly, they are preferred to travel by car because of congestion and parking charges.* **L4 (18–25 marks):** for a clear explanation of different types of good, of income and substitution effect and of the possible changes on revenue depending on the price elasticity of demand, and a comment on the likely elasticity of bus travel. **L3 (14–17 marks):** for a more limited explanation of different types of good, with weaker distinctions between income and substitution effects. A comment should be provided on elasticity but the particular link to bus travel will probably be omitted. **L2 (10–13 marks):** for a brief explanation but with no distinction between income and substitution effect, no link to bus travel in particular and a general comment on price elasticity of demand. **L1 (1–9 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**
3(a)	*Price discrimination requires separate markets – either by ignorance, irrationality, or geography; no possibility of re-sale of product; similar products. It can be first degree discrimination – different price for each person reflecting consumer surplus; second degree – discounts for bulk purchases; 3rd degree – different prices for different groups of consumers. To be profitable the markets need to have different elasticities of demand.* **L4 (9–12 marks):** for a clear explanation of how it occurs, explaining the separate markets and the requirement for different elasticities. Types of discrimination may be mentioned for 11–12. Costs are the same for the room whichever way it is booked as it is for the same time period; practice of different rates is price discrimination. **L3 (7–8 marks):** for a weaker explanation of the possibilities of price discrimination but with a comment on the profitability. A judgement on the example in the question should be given. **L2 (5–6 marks):** for a poor explanation of the possibility, no comment on the profitability (or vice versa) and poor link to the example given. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

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Question	Answer	Marks
3(b)	*This question requires a comparison of monopoly and perfect competition showing higher prices, supernormal profits and lower output in monopoly. The analysis presumes that the cost curves are identical for both markets and this need not be the case particularly with economies of scale.* **L4 (9–13 marks):** for a clear comparison of the markets and a discussion of the effect of economies of scale on the cost curves, and thus on the price, profit and output. The diagram should be accurate, clearly labelled and a judgement on the universality of the theory should be given. **L3 (7–8 marks):** for a less developed discussion on the comparison or an answer that concentrates too much on possible economies of scale without considering the effect of these on the comparison with perfect competition. The diagram will have lack of clarity but a judgement on the theory should be given for 8. **L2 (5–6 marks):** for a weak answer with an unclear comparison or a more descriptive account of different economies. The diagram will be poor and badly labelled. **L1 (1–4 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**13**
4	*Candidates should consider each part of the statement. The theory of wage determination should be explained and a comment given on how the outcome may be affected by the existence of trade union bargaining, by minimum wages affecting the supply, by large monoposonies forcing down wages from the competitive level, by whether the worker is in the private or public sector. A link to the specific examples given should be made and a conclusion of the possible usefulness of the theory should be given.* **L4 (18–25 marks):** for a thorough explanation of the analysis of wage determination with a clear comment on how unions, minimum wages and large monopsonistic businesses, public/private sector may be used to explain the difference in wages. There should be a conclusion and a well-structured answer. **L3 (14–17 marks):** for a weaker explanation of the theory with an undeveloped comment on how the outcome might be affected by unions, minimum wages, public/ private sector. Their explanation may still be competent but the link to the particular examples would probably be brief. **L2 (10–13 marks):** for a correct but undeveloped analysis with much briefer comment on the different factors affecting the outcome and little, if any, link to the examples given. **L1 (1–9 marks):** for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**25**

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Question	Answer	Marks
5(a)	*Responses should relate the natural rate unemployment to a situation where there is no excess or deficiency of demand for labour. It is also known as the equilibrium rate of unemployment and is caused primarily by frictions in the labour market. Types of unemployment which are likely to cause this rate to rise would include: structural; technological; frictional and seasonal.* **L4 (9–12 marks):** for an answer that clearly explains the links between different types of unemployment and frictions in the labour market and makes some attempt to decide which of these types of unemployment might have the most significant impact on the natural rate of unemployment. **L3 (7–8 marks):** for an answer that attempts to analyse the relationship between equilibrium/disequilibrium unemployment and types of unemployment which can be used to explain the distinction between equilibrium and disequilibrium situations. Some reference to frictions in the labour market should also be referred to. **L2 (5–6 marks):** for an answer that provides a superficial definition which is not developed and makes no attempt to incorporate inflationary expectations or does not refer to equilibrium unemployment. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
5(b)	*A clear distinction between the role of market forces which would rely heavily upon the price mechanism to ensure that all those who want to work at the current wage rate and are willing and able to take a job and direct government intervention to achieve the same outcome. Would expect answers to recognise, with examples, how government policies could incorporate market forces as well as direct intervention. The focus should be upon how both occupational and geographical mobility can be increased to reduce frictions in the labour market. A comparison of alternative approaches should be evident throughout.* **L4 (9–13 marks):** for an answer that focuses upon comparing alternative approaches and which makes an attempt to evaluate the relative success of each type of policy. Strengths and weaknesses should be identified and used to draw a conclusion as to which approach might be the most effective. **L3 (7–8 marks):** for an answer that attempts to analyse the links between alternative policy approaches and successful outcomes. A clear distinction between the role of market forces and the role of government intervention should be established. At least two policies in each case should be provided and compared. **L2 (5–6 marks):** for an answer that provides an outline of both approaches but with an unclear comparison and which only considers a very limited range of policy options. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
6(a)	*Answers should address both parts of the statement. Central banks can control interest rates in different ways. Some announce changes to the bank rate while others operate in short term money markets to influence interest rates Answers should also recognise that central banks also have access to a range of policies which can be used to determine the money supply. Responses should also discuss how commercial banks can influence both interest rates and the money supply. Part of the assessment should include recognition that interest rates and the money supply are closely related.* **L4 (9–12 marks):** for an answer that evaluates the extent to which a central bank can control interest rates/money supply and the extent to which a commercial bank can control interest rates/money supply. A conclusion which makes an attempt to discuss how far the statement provides an accurate assessment of the ability of both organisations to control interest rates/money supply is required. **L3 (7–8 marks):** for an answer that attempts to analyse how a central bank can control interest rates and the money supply, as well as analysing how commercial banks can also influence both interest rates and the money supply. Some reference to the connection between interest rates and the money supply should be provided. **L2 (5–6 marks):** for an answer that provides a descriptive account of how central banks and commercial banks can influence both interest rates and the money supply. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
6(b)	*Answers should refer to the monetary transmissions mechanism to show how monetary policy might have some effect on real variables such as the level of output. Reasons why monetary policy might not work might include reference to the liquidity trap, elasticity of MEC curve and the effect of negative expectations on investment. Should discuss whether monetary policy is the only effective way to control inflation by considering alternatives such as fiscal policies and/or direct controls such as prices and incomes policies.* **L4 (9–13 marks):** for an answer that discusses the effectiveness of the transmissions mechanism by questioning the relationship between changes in the money supply, changes in the rate of interest and investment and subsequent changes in output. Some discussion relating to the effectiveness of alternative polices used to control inflation would also be required. There should be a conclusion. **L3 (7–8 marks):** for an analytical approach that uses diagrams to explain the monetary transmissions mechanism and makes the links between money supply changes, changes in interest rates, changes in investment and, through the multiplier, changes in the level of output. Responses will also analyse alternative approaches which governments can use to control inflation. **L2 (5–6 marks):** for an answers that provides a description of different types of monetary policy and how these might affect real output, plus an explanation of a possible alternative approach to controlling inflation which does not involve controlling the money supply. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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Question	Answer	Marks
7(a)	*Answers should explain discuss the links between the process of economic development and how this might impact upon income distribution. Worker migration from agriculture to industry and the movement from a rural to an urban environment should be explained in the context of economic development. These movements should then be linked to factors such as increases in income and access to education, to explain the first part of the hypothesis and then some attempt to explain how these benefits might be shared as productivity in general starts to rise.* **L4 (9–12 marks):** for an answer that addressed both parts of the hypothesis and questions whether the preceding analysis is sufficient to justify the contention that inequality will initially become greater but then factors related to development will eventually lead to a more equal distribution of income. Alternative explanations should be given and evaluative comment provided in relation to both developed and undeveloped economies. **L3 (7–8 marks):** for an answer that attempts to analyse the relationship between changes in the structure of the economy by examining why the movement from a rural environment to an urban environment will initially increase the level of inequality and explaining this by referring to changes in income, employment and access to education. **L2 (5–6 marks):** for an answer that demonstrates some knowledge and understanding of some key characteristics of an undeveloped economy and which recognises that there are often significant differences in income distribution related to changes in the structure of the economy. **L1 (1–4 marks):** For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.	**12**

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Question	Answer	Marks
7(b)	*Candidates should ensure that responses focus on developed economies and primarily the role of fiscal policies. Answers should attempt to explain why such inequalities exist and consider the role of a range of fiscal policies which might be used to address the problem. This might include reference to progressive taxation, maximum price controls, minimum wage controls and transfer payments. In each case candidates should discuss the potential of each to redistribute income and consider any long term negative consequences.* **L4 (9–13 marks):** for an answer that recognises that all types of fiscal policy have costs and benefits and it is necessary therefore to consider the wider consequences for the economy of such polices. For example, candidate might refer to the potential negative impact of progressive taxation on investment and economic growth. A conclusion should emerge out of the preceding argument. **L3 (7–8 marks):** for answer that attempts to analyse the links between at least two changes in fiscal policy and in each case examine the impact on the current income distribution. An analysis of the potential costs of such policies and whether it is possible to rely solely on market forces might also be provided. **L2 (5–6 marks):** for an answer that is descriptive and which does not make it clear that it is assessing a problem facing a developed economy. Some reference will be made to the use of fiscal policy but the alternatives will be limited and there will be little attempt to analyse the links between changes in fiscal policy and their impact on income distribution. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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