Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/41**

Paper 4 Data Response and Essays **October/November 2020**

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 2020 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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## Generic Marking Principles

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GENERIC MARKING PRINCIPLE 1:

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- 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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| Question | Answer | Marks |
|---|---|---|
| 1(a) | **Explain what is meant by labour productivity and whether the information confirms that countries with higher labour productivity are always more competitive than countries with lower labour productivity.**<br><br>Value of output per worker per hour. More production, more sales, more growth in economy, examples from table. Singapore/Belgium are exceptions. | **5** |
| 1(b)(i) | **State <u>three</u> general macroeconomic aims a government might have.**<br><br>Any three macro aims. Growth, low unemployment, increased productivity, low inflation, international aspect (either balance of payments improvement or stable exchange rate), more equal income distribution. | **3** |
| 1(b)(ii) | **Is there evidence in the information that suggests Germany is achieving any of these macroeconomic aims?**<br><br>Growth, yes. High ranking (5th out of 138 countries) re the global competitiveness index.<br><br>B of P: yes. Massive Current Account surplus (+296 billion dollars), Unemployment: yes. Low unemployment rate (3.9%) fairly high productivity ($65.5).<br><br>Inflation: no. Prices generally rising.<br><br>Income distribution: no evidence. | **4** |
| 1(c) | **The article describes the effects of a single euro currency on the changes in the domestic policies of Spain and Greece.**<br><br>**Discuss the possible effects on the Spanish and Greek economies that these policy changes might have.**<br><br>Identify likely policy outcome (2). Article says they have had to decrease wages, reduce government spending.<br><br>Consideration of effect of wage decreases (3), consideration of effect of reduced government spending (3). | **8** |

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| Question | Answer | Marks |
|---|---|---|
| 2 | **'The existence of externalities is neither a necessary nor a sufficient condition for government intervention to achieve efficiency in the economy.'**<br><br>**Do you support this opinion?**<br><br>*Explanation of meaning of externalities and of efficiency. Government intervention does not necessarily require there to be externalities; neither does such intervention always result in efficiency so it is not a sufficient condition to ensure efficiency.*<br><br>**L4 (18–25 marks)** for a clear explanation of efficiency and of externalities; an evaluation of whether government intervention is necessary (for both positive and negative externalities) and a reasoned conclusion about both whether government intervention is 'necessary' and whether it would be 'sufficient' to achieve efficiency. Maximum 21 for no conclusion.<br><br>**L3 (14–17 marks)** for an explanation of externalities but a weaker comment on efficiency, briefer discussion and evaluation. The evaluation would probably concentrate on the 'necessary' part of the quote and not deal with government failure making the intervention unlikely to be 'sufficient'.<br><br>**L2 (10–13 marks)** for a weaker explanation of efficiency and probably only a consideration of one type (positive or negative) of externality and little evaluation.<br><br>**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** |

| Question | Answer | Marks |
|---|---|---|
| 3(a) | **Compare and contrast the derivation of a consumer's demand curve using Marshall's marginal utility analysis with a consumer's demand curve derived by indifference curves.**<br><br>*Marshall's utility requires a precise calculation of marginal utility, and by relating MU to price, has a direct link to the construction of a demand curve. Indifference curve theory shows different quantities of two goods bought as either income or price changes; changes in amounts bought can be split into income and substitution effects and different types of goods more readily distinguished than with Marshall's theory. However there is no direct link to a complete demand curve which shows demand against price. The analysis does not require an absolute 'cardinal' measurement of utility in 'utils' but it still requires a measurement satisfaction which in reality is unrealistic.*<br><br>**L4 (9–12 marks)** for a sound explanation of the analysis and a clear understanding of the principles involved with an accurate comment on the differences between the two approaches in the link to demand curves.<br><br>**L3 (7–8 marks)** for an accurate reference to the question but with a more limited evaluation or with minor errors in the analysis.<br><br>**L2 (5–6 marks)** for a briefer explanation of the analysis and a more one-sided comment on the differences.<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory. | **12** |
| 3(b) | **Discuss how the effect of a rise in a sales tax (goods and services tax) can be analysed using indifference curve analysis.**<br><br>*Rise is sales tax changes price, represented by a pivot of the budget line. This will change demand via income and substitution effects.*<br><br>**L4 (9–13 marks)** for a sound explanation of the analysis and a clear understanding of the principles involved. A pivot of the budget line, a link to demand, and a comment on the extent of the change in demand, mentioning elasticity.<br><br>**L3 (7–8 marks)** for an accurate reference to the question but with a more limited evaluation or with minor errors in the analysis.<br><br>**L2 (5–6 marks)** for a briefer explanation of the analysis of the indifference curve diagram but with no reference to a demand curve or to elasticity.<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory. | **13** |

| Question | Answer | Marks |
|---|---|---|
| 4(a) | **Consider whether in oligopoly the theory proposes that the market price is rigid.**<br><br>*Explanation of the theory of oligopoly. Uncertainty arises because of lack of knowledge of future behaviour of rivals, unclear knowledge about demand curve, existence of non-price competition, conflict over whether to co-operate with rivals or compete. All of this causes rigidity. Theory concentrates on the idea of a fixed, or more rigid price but this does not really explain how the price is fixed in the first place.*<br><br>**L4 (9–12 marks)** for a sound explanation of the analysis and a clear understanding of the principles involved with a full account of possible reasons for rigid price.<br><br>**L3 (7–8 marks)** for an accurate reference to the question but with a more limited evaluation or with minor errors in the analysis.<br><br>**L2 (5–6 marks)** for a briefer explanation of the analysis, with possible a shorter account of the kinked demand curve theory but no evaluation.<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory. | **12** |
| 4(b) | **'Mergers of firms in the same industry are against the public interest. It is better that firms remain small.'**<br><br>**Discuss this opinion.**<br><br>*Explanation of the reasons why mergers might be against the public interest. Consideration and discussion of price changes, output changes, reduction in competition, possible price discrimination, excess profits. Against this there may be cheaper unit production costs through economies. Comment on the advantages of small firms.*<br><br>**L4 (9–12 marks)** for a sound explanation of the analysis and a clear understanding of the principles involved with a discussion of both advantages and disadvantages.<br><br>**L3 (7–8 marks)** for an accurate reference to the question but with a more limited evaluation or with minor errors in the analysis or an ill-balanced answer concentrating on one side of the argument.<br><br>**L2 (5–6 marks)** for a briefer explanation of the analysis, with only one side of the argument presented, or a concentration on larger firms and no comment on the value of small firms.<br><br>**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 |
|---|---|---|
| 5(a) | **In some industries the wage rate is often omitted when a job is advertised.**<br><br>**Explain the role of the marginal revenue product in determining the wage rate in a perfectly competitive firm and consider whether the labour market is likely to be perfect or imperfect if the wage rate is omitted from an advertisement.**<br><br>*Explanation of wage rates in a perfectly competitive industry linking the firm and the industry and relating the MRP to the supply/cost of labour. The absence of a wage rate implies that it can be negotiated and this would mean the industry is likely to be imperfectly competitive. Firms in perfectly competitive labour markets have to accept the wage rate determined by the industry. Explanation of wage rates in a perfectly competitive industry linking the firm and the industry. Either demand and supply approach or MRP theory but L4 for MRP. Some attempt at the second part of the question is necessary.*<br><br>**L4 (9–12 marks)** for a sound explanation of theory and a clear understanding of the principles involved linking the market and the firm. Higher marks for showing effect of a shift in the MRP. It is necessary to deal with the second part of the question for L4.<br><br>**L3 (7–8 marks)** for a competent comment but with limited elaboration. Still a link between the firm and industry but no shifts in demand or supply and ill-explained comment on the second part of the question.<br><br>**L2 (5–6 marks)** for a briefer explanation probably not fully explaining the equilibrium and no link between firm and industry or no comment on the second part of the question.<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory | **12** |

| Question | Answer | Marks |
|---|---|---|
| 5(b) | **Discuss, with the aid of a diagram, whether it is possible for a trades union to increase its members' wage rate without reducing the level of employment.**<br><br>*Existence of a trades union implies an imperfect market. Explanation of the analysis of imperfect labour market, with MRP diagram and the imposition of a wage level agreed by a TU. Outcome would depend on where the wage rate is fixed. It is presumed that the wage rate would be higher than that obtained in the market. It could result in a reduction in employment or a constant employment with a higher wage, or both an increase in employment and wage. A diagram should be used.*<br><br>**L4 (9–13 marks)** for an sound clear explanation, clear diagram, and a discussion about the various alternatives of the fixed wage.<br><br>**L3 (7–8 marks)** for a less competent analysis of the analysis and a discussion of only one likely outcome. Diagram may have a small error in it.<br><br>**L2 (5–6 marks)** for a very brief explanation of the analysis, more inaccurate diagram, and little discussion of the outcome.<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory. | **13** |

| Question | Answer | Marks |
|---|---|---|
| 6 | **'The use of quantitative easing (QE) has the same effect on the economy as the use of Keynesian fiscal demand management policy. Both policies create employment in the short run at the expense of inflation in the long run.'**<br><br>**How far would you support this view?**<br><br>Explanation of quantitative easing and its potential effects on interest rates, the money supply and exchange rates and how these changes might affect employment and inflation. An explanation of how Keynesian demand management policies work, linking government budget deficits and their impact on inflation and employment. Both policy approaches should be linked using evaluative comment.<br><br>***L4)*** **(18–25)** *for a clear explanation of the impact of both quantitative easing and Keynesian demand management policies. Both policies should then be analysed regarding their effects on employment and inflation. A conclusion should discuss the extent to which the view under consideration can be supported.*<br><br>***L3)*** **(14–17)** *for relevant analysis of the potential impact of both policies on employment and inflation but no attempt to consider how far the stated view should be supported.*<br><br>***L2)*** **(10–13)** *for a descriptive explanation of how quantitative easing and Keynesian demand management policies might work with little attempt to link the two policies to the statement under consideration.*<br><br>***L1)*** **(1–9)** *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** |

| Question | Answer | Marks |
|---|---|---|
| 7(a) | **Explain the economic costs of unemployment and consider which is the most important.**<br><br>*A detailed explanation of the main costs of unemployment which refers to the waste of scarce resources, loss of tax revenue, the cost of the increase in government expenditure on welfare payments and any relevant social and economic costs. Consideration of the relative importance of each cost would address the second part of the question.*<br><br>**L4 (9–12 marks)** for a sound description of three economic costs of unemployment and an attempt to evaluate each cost and then provide a conclusion which considers which cost might be the most important.<br><br>**L3 (7–8 marks)** for relevant analysis that relates to at least two costs of unemployment with an attempt to establish the relative importance of each cost.<br><br>**L2 (5–6 marks)** for a limited, more general coverage of some of the costs associated with unemployment but no attempt to analyse the impact of these costs and no attempt to establish relative importance.<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory. | **12** |
| 7(b) | **'Government intervention in supply-side policies will not have a significant impact on unemployment whereas supply-side policies that increase aggregate demand because of a freer market will significantly reduce the level of unemployment.'**<br><br>**Discuss this statement.**<br><br>*A clear distinction should be made between interventionist supply side policies and market based supply side policies. At least two supporting examples should be provided in each case. A detailed discussion should then consider the extent to which each group of policies would reduce the level of unemployment.*<br><br>**L4 (9–13 marks)** for detailed analysis relating to both types of supply side approaches. Discussion relating to the extent to which the statement is accurate should then be combined with a reasoned conclusion.<br><br>**L3 (7–8 marks)** for a competent attempt to analyse the impact of both supply side policy approaches on unemployment but which does not attempt to evaluate the statement under consideration.<br><br>**L2 (5–6 marks)** for a descriptive account of different supply side policies and their effect on unemployment but no attempt to analyse or discuss the statement in the question.<br><br>**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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# Cambridge International AS & A Level

**ECONOMICS** **9708/42**

Paper 4 Data Response and Essays **October/November 2020**

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|---|---|---|
| 1(a)(i) | **Identify <u>two</u> economic policies the Uruguayan government has introduced that should increase economic growth.**<br><br>**2 x 1 mark**<br>encouraging new technologies/industries<br>low tax rates<br>economic zones<br>tagging of cattle<br>public spending on science and technology<br><br>**2 from** Fiscal Policy/Monetary Policy/Supply-side Policy for **1 max**<br><br>**No credit** for national minimum wage | **2** |
| 1(a)(ii) | **Explain how these policies should increase Uruguay's economic growth.**<br><br>**2 x 1–2 marks**<br>New technologies can boost productivity (1) + (1) for development of technology relating to economic growth.<br>Low tax regimes lead to more investment/greater entrepreneurial effort (1) + (1) increasing output.<br>Economic zones lead to inward investment (1) + (1) increasing the country's capital stock.<br>New industries (1) + (1) exporting to a wide international market.<br>Cattle tagging allows tracking (1) + (1) and increases beef exports.<br><br>**Note: Max 1** Development of general fiscal and/or monetary and/or supply side policy. | **4** |
| 1(b) | **The information states that in Uruguay there is a national minimum wage.**<br><br>**Using a diagram, discuss the likely effects of the introduction of a national minimum wage on labour markets.**<br><br>1 mark for correctly labelled diagram + 1 mark for identification of shortfall of demand over supply.<br>**Max 2 for diagram**<br><br>Discussion**:** 2 × (identification of point 1 + 1 for development)<br>• Predicted effect of higher wages, but lower level of employment<br>• Positive effect of minimum wage on productivity<br>• Reward other relevant answers | **6** |

| Question | Answer | Marks |
|---|---|---|
| 1(c) | **Using Figs. 1.1 to 1.4, comment on the macroeconomic performance of Uruguay.**<br><br>1 mark for 1 comment on each diagram (**max 4 marks)**<br><br>Credit answers that comment on either the overall trend in data **and/or** significant changes within the period.<br><br>For example:<br>GDP had risen by 17/18% / By more than Argentina or Brazil<br>Unemployment has varied over the years but the trend is upwards/ significantly in 2017<br>Annual inflation has generally fallen/peaked in 2016<br>Balance of trade has moved from deficit to surplus.<br><br>4 additional marks for linking the data in the diagrams together **or** explanations for changes in the data. At least 2 examples. Max 3 per example.<br><br>For example:<br>Trend in inflation decreased and the trend unemployment rose in line with Phillips curve<br><br>Increase in unemployment could be due to the minimum wage legislation**.**<br>Rise in GDP could be due to increased beef exports | **8** |
| 2(a) | **Explain the relationship between the pollution created by industrial production and economic efficiency.**<br><br>*Pollution as a negative externality. Identification and application of private and social marginal costs. Allocative efficiency defined. Relationship between externality and allocative.*<br><br>**L4 (9–12 marks)**. For an explanation which defines allocative efficiency, and examines the links between pollution, externalities and private and social costs.<br><br>**L3 (7–8 marks)** For an explanation which defines allocative efficiency and analyses externalities and private and social costs and but does not establish a clear link with negative externalities.<br><br>**L2 (5–6 marks)** For a description which attempts to link pollution and private and social costs **or** explanation of allocative efficiency and reference to pollution or P&S costs<br><br>**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** |

| Question | Answer | Marks |
|---|---|---|
| 2(b) | **Using diagrams, discuss whether the policies employed by governments to reduce allocative inefficiency are always effective.**<br><br>*Taxation, subsidies, monopoly legislation, quantity restrictions, maximum minimum pricing, bans.*<br><br>**L4 (9–13 marks)** For an answer which discusses 2 policies in detail or less developed discussion of 3 policies about the government's role and ability to reduce the inefficiency. Accurate diagrams. Max 11 if no conclusion<br><br>**L3 (7–8 marks)** For an answer which analyses 1 policy in detail or 2 less developed policies which mention the government's role. Diagrams may have elements of inaccuracy.<br><br>**L2 (5–6 marks)** For an answer which makes a limited attempt to explain 1 policy.<br><br>**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** |
| 3(a) | **Explain the roles of marginal costs and average costs in determining the profits of a firm.**<br><br>*Definitions of average and marginal costs, explanation of marginal cost = marginal revenue to establish profit maximising output. Relationship of average revenue and average costs in determining level of profit/loss. Reference to the long run and short run.*<br><br>*NB: MC=MR can be shown on a diagram.*<br><br>**L4 (9–12 marks)** For an explanation of the profit maximising rule MC=MR with an explanation that it is the difference in AR and AC which determines the level of profits/losses made. Reference to the long run and short run.<br><br>**L3 (7–8 marks)** For an explanation of the profit maximising rule MC=MR with limited reference to the role of AC or AR.<br><br>**L2 (5–6 marks)** For a limited description which defines MC and AC with limited reference to profits.<br><br>**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) | **Discuss whether mergers between firms always operate against the consumers' interest.**<br><br>*Disadvantages of mergers: existence of super normal profits due to monopoly power, higher prices, less choice, adverse effect of price discrimination on consumers.*<br><br>*Advantages of mergers Economies of scale, cost reduction, R&D and innovation leading to improved product quality, establishment of natural monopolies avoiding duplication, beneficial effect of price discrimination on consumers.*<br><br>**L4 (9–13 marks)** A balanced and developed discussion of benefits and disadvantages to the consumer of mergers. Max 11 if no conclusion<br><br>**L3 (7–8 marks)**. For an analysis which is largely one-sided but with some limited recognition of another viewpoint.<br><br>**L2 (5–6 marks)** For an answer which is one-sided description of either the benefits of mergers or the disadvantages of mergers.<br><br>**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** |
| 4 | **The wages of the Chief Executive Officers (CEO) of the six largest banks in the United States (US) were reported to be between 250 and 360 times the average pay of the staff in those banks. The six CEOs were all male.**<br><br>**Discuss the extent to which economic theory can account for these variations in wages.**<br><br>*Supply of and demand for labour, marginal revenue product theory (MRP), elasticity of supply and demand. Discrimination. Differing objectives of the firm.*<br><br>**L4 (18–25 marks)** For an accurate answer based on a discussion of differences in supply and demand and elasticities of labour including MRP. Reference to discrimination. The answer is be clearly linked to the **context of the question.** A conclusion is drawn. (max 21 if no conclusion)<br><br>**L3 (14–17 marks)** For an accurate answer based on an analysis of differences in supply and demand and some reference to elasticities of labour. (max L3 if no MRP)<br><br>**L2 (10–13 marks)** For an answer bases on a description of differences in supply and demand of labour.<br><br>**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** |

| Question | Answer | Marks |
|---|---|---|
| 5(a) | **Analyse the causes of unemployment and explain which cause could be most significant for your country.**<br><br>*Structural, frictional, seasonal, cyclical/demand deficient unemployment. Equilibrium/disequilibrium unemployment.*<br><br>**L4 (9–12 marks)** For a good analysis of 2 causes of unemployment and reference to a specific country.<br><br>**L3 (7–8 marks)** For a good analysis of 1 cause of unemployment and an explanation of other cause(s) of unemployment.<br><br>**L2 (5–6 marks)** For a good description of 2 causes of unemployment<br><br>**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) | **Discuss whether supply-side policies are the most appropriate for reducing unemployment**<br><br>*Explanation of supply-side policies from training, education, lower taxation limits on TU activity, subsidies, information and their impact on different types of unemployment. Consideration of fiscal policy and monetary policy on unemployment where supply side policies could be inappropriate.*<br><br>**L4 (9–13 marks)** For an answer which discusses how supply-side policies are appropriate to some causes of unemployment. But that fiscal policy or monetary policy may be more appropriate for other forms of unemployment. Max 11 if no conclusion<br><br>**L3 (7–8 marks)** For an answer which analyses the impact of supply-side policies on some causes of unemployment.<br><br>**L2 (5–6 marks)** For an answer which describes supply-side policies.<br><br>**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 |
|---|---|---|
| 6 | **"Investment by multinational corporations (MNCs) in a developing country always promotes sustainable economic growth in that country."**<br><br>**Discuss.**<br><br>*Investment and the multiplier effect on the demand for labour and production of goods and services. Sustainability and resource/production based MNC, impact of new techniques/technology on output/demand for labour. Impact of MNC on growth, balance of payments current/capital accounts, inflation, rural/urban balance and exchange rates. Production possibility frontier.*<br><br>**L4 (18–25 marks)** For a developed discussion of the advantages and disadvantages of MNC investment to promote **sustainable** economic **growth** in a developing country. A conclusion is drawn. (max 21 no conclusion)<br><br>**L3 (14–17 marks)** For a one-sided analysis of the impact of a MNC in a developing country or a less developed two-sided analysis. **Growth or sustainability** should be commented upon.<br><br>**L2 (10–13 marks)** For a limited description of the impact of MNC investment in a developing country.<br><br>**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** |

| Question | Answer | Marks |
|---|---|---|
| 7(a) | **Explain why gross domestic product (GDP) is widely used as a measure of economic growth and the standard of living.**<br><br>*Definition of GDP, use of GDP to measure total value of output of goods and services in a period of time. Growth rate measures changes in GDP over time. Total quantity of goods and services produced is often used to give an indication of standard of living.*<br><br>**L4 (9–12 marks)** For a definition of GDP. An explanation of economic growth and its link to changes in GDP over time and/or between countries. An examination of the link to the standard of living.<br><br>**L3 (7–8 marks)** For a definition of GDP and an explanation of economic growth and its link to changes in GDP over time and/or between countries **or** a definition of GDP and an examination of the link to the standard of living.<br><br>**L2 (5–6 marks)** For a description of GDP, economic growth and standard of living.<br><br>**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) | **Discuss why alternatives to GDP are increasingly used to measure the standard of living.**<br><br>*Discussion of limitations of GDP as a measure - inflation, population, PPP, non-marketed goods, crime, negative externalities, the nature of the goods and services produced. Consideration of an alternative measures such as Human Development Index (HDI), Measure of Economic Welfare (MEW), Human Poverty Index (HPI), Multidimensional Poverty Index (MPI).*<br><br>**L4 (9–13 marks)** For a developed discussion of the limitations of GDP and how the alternative measures to GDP deal with these limitations. Maximum 11 marks if no conclusion.<br><br>**L3 (7–8 marks)** For a analysis on the limitations of GDP and a reference to an alternative(s) measure to GDP or analysis of an alternative measure of SoL and a limited critique of GDP<br><br>**L2 (5–6 marks)** For an answer which describes the limitations of GDP or describes the alternatives to GDP.<br><br>**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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Cambridge Assessment International Education

# Cambridge International AS & A Level

**ECONOMICS** **9708/43**

Paper 4 Data Response and Essays **October/November 2020**

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 2020 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **10** printed pages.

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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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| Question | Answer | Marks |
|---|---|---|
| 1(a) | **The article mentions economic growth. What is meant by economic growth?**<br><br>An increase in the amount of goods and services (or real GDP) produced over a period of time. | **3** |
| 1(b) | **Explain how economic growth is linked to a country's level of development.**<br><br>Economic growth leads to increased output, employment, income, resource use, improved standard of living | **4** |
| 1(c) | **Explain why economic migrants are mainly from the developing economies.**<br><br>Rapid rise in labour force – developing economies population skewed towards younger work force.<br><br>Job creation in developing economies cannot keep pace with growth in work force. (compare estimated growth with that of China 1978–2011).<br><br>Situation in developing countries not helped by low investment by developed economies hence economic migration to developed countries | **4** |
| 1(d) | **Discuss, using the information, whether links between developed economies and developing economies are necessarily 'mutually beneficial'.**<br><br>For:<br>Capital investment out of savings from the developed world used for infrastructure and manufacturing creating jobs in the developing world. This reduces the need for economic migration.<br>Developed world receives dividends and profits increasing GDP.<br>Overall effect is an increase in economic growth (multiplier) in both sets of economies.<br><br>Against:<br>– Free trade (loss of comparative advantage) and migration are under attack because developed economies, like the USA, have protectionist policies as well as policies to halt inflows of migrant labour.<br>– Capital investment flows only about 2% of GDP of emerging economies which was the level in the 1980s. Flows reached maximum of 8% of GDP in 2005 but fell rapidly after world financial crisis in 2007–8.<br>– This low level limits economic growth and job creation. Forecast is that developing economies situation in this respect will worsen by 2030.<br>– Effect will be that economic migrants will place ever greater pressure on world economy in seeking jobs. Hence migration (legal and illegal) trends will increase.<br>– Income inequalities between developed and developing economies will widen. | **9** |

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| Question | Answer | Marks |
|---|---|---|
| 2(a) | **Explain what is meant by 'Pareto optimality' and whether it is correct to say that an optimal allocation of resources would result if a good's price equalled its marginal cost.**<br><br>*Optimal allocation involves Pareto allocative efficiency (cannot make someone better off without somebody being worse off) P = mc gives allocative efficiency but it should be MSC.*<br><br>**L4 (9–12 marks)** for explaining Pareto criteria and a clear explanation of p=mc, consideration of externalities – both positive and negative.<br><br>**L3 (7–8 marks)** for explaining Pareto criteria and for a less developed explanation, with either positive or negative externalities.<br><br>**L2 (5–6 marks)** for an idea of Pareto criteria but a poor explanation of p = mc with no externalities<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory. | |
| 2(b) | **Discuss why an optimal allocation of resources might fail to occur in practice and consider what could be done about this failure.**<br><br>*Discussion of reasons for market failure, public goods, market control in some market structures, externalities, and imperfect information. Government intervention by taxation, subsidies, regulation, persuasion, ownership.*<br><br>**L4 (9–13 marks)** for an analysis and developed evaluation of 4 issues. (any combination of reasons for failure and types of intervention) or an analysis of more than four issues with briefer comment and evaluation.<br><br>**L3 (7–8 marks)** For an analysis and comment of 3 issues or an analysis of more than three issues with briefer comment and evaluation.<br><br>**L2 (5–6 marks)** for an analysis and evaluation of two issues or an analysis of more than two issues with very brief comment and evaluation.<br><br>**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 |
|---|---|---|
| 3(a) | **Examine the analysis behind the downward sloping demand curve for a normal good.**<br><br>*Explanation of consumer equilibrium, its link to price changes and the construction of the demand curve. Either marginal utility or indifference curves may be used. Both determine the maximum satisfaction for a consumer. One relates the equilibrium directly to a point on the demand curve, the other does not.*<br><br>**L4 (9–12 marks)** for a sound explanation of the analysis and a clear comment on how a demand curve is formed as price changes affect equilibrium. A clear understanding of the principles involved.<br><br>**L3 (7–8 marks)** for an accurate reference to the question but with a more limited development probably without a good explanation of the construction of a demand curve. The answer will probably just refer to one point on the demand curve and not deal with price changes.<br><br>**L2 (5–6 marks)** for a briefer explanation of the analysis and equilibrium position but with no clear link to the demand curve.<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory. | **12** |
| 3(b) | **Use indifference curve analysis to discuss why a manufacturer might be interested in a consumer's reaction to an equal rise in price for a normal good and a Giffen good.**<br><br>*Discussion of effect on demand of a rise in price for normal, inferior, Giffen goods and for goods with different elasticities. The manufacturer would be interested in the effect on revenue of any change in price and the effect would depend on the type of good.*<br><br>**L4 (9–13 marks)** *for a clear analysis of price, income, substitution and an evaluation of different goods and link to revenue. Diagrams should be accurate.*<br><br>**L3 (7–8 marks)** *for a less precise analysis with minor errors in the diagrams and with a less competent link to revenue.*<br><br>**L2 (5–6 marks)** *for an answer that confuses income and substitution or does not comment on the revenue aspect.*<br><br>**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) | **With the aid of a diagram, consider what is likely to happen to the level of profit earned by a firm if barriers to entry are introduced in a perfect market.**<br><br>*Barriers to entry imply imperfect markets. AR becomes downward sloping and profits are likely to be higher than in perfect competition if profit maximising is still the aim. However, the firm may now have other aims and these may mean profits are not maximised and may not be higher than under perfect competition.*<br><br>**L4 (9–12 marks)** for a clear analysis, accurate diagram. Up to 10 if no alternative aims are considered.<br><br>**L3 (7–8 marks)** for a less developed analysis, no alternative aims and some minor imprecision in the diagram.<br><br>**L2 (5–6 marks)** for a brief account and an inaccurate diagram.<br><br>**L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory. | **12** |
| 4(b) | **Discuss why an industry might experience falling long-run average costs and comment on whether consumers might benefit from such a situation.**<br><br>*Discussion of cause of LRAC falling through economies of scale. Maximum profit output is likely to rise, price may well fall. It presumes that the market has sufficient demand for the product to maintain the output.*<br><br>**L4 (9–13 marks)** for a clear discussion of economies of scale and an evaluation about consumer benefit. If economies result in price reductions then consumers could benefit but price reductions would depend on the attitude of firm to profit earnings.<br><br>**L3 (7–8 marks)** for a briefer discussion about economies of scale and imprecision about whether consumers gain.<br><br>**L2 (5–6 marks)** for some inaccuracies in the account of economies, or very brief comment on only a couple of economies, and no discussion of consumer benefit.<br><br>**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 |
|---|---|---|
| 5 | **Marginal revenue productivity theory analyses why wage rates differ in imperfect markets.**<br><br>**Explain this analysis using a diagram and consider if a trade union negotiated a higher wage than determined by the market, whether the outcome would necessarily be the same as that in perfect competition.**<br><br>*Analysis of wage determination using MRP. Diagram is necessary. Wage rates differ depending on position of MRP and costs. Wage will be lower than under perfect competition. TUs may increase wages, the result on employment could be the same as under perfect competition but profits would still be higher. It is likely that employment would not be the same as under perfect competition – it could be higher (but wages would be lower than under perfect competition). Or employment could be lower (but wages would be higher than under perfect competition).*<br><br>**L4 (18–25 marks)** for clear analysis and comment on why there are differentials. Clear evaluation on different outcomes depending on where the union negotiates the wage level. Accurate diagrams.<br><br>**L3 (14–17 marks)** for a weaker analysis and poor comment on wage differentials. Less developed attempt to consider alternative outcomes depending on where the wage is negotiated. Probably only one outcome will be presented. Minor errors in the diagrams.<br><br>**L2 (10–13 marks)** for a poor analysis and no comment on wage differentials. The comparison with perfect competition will also be very weak. Very poor and imprecise diagrams.<br><br>**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 |
|---|---|---|
| 6(a) | **Explain the causes of demand deficient (cyclical) unemployment and consider which is the most important.**<br><br>*A definition of demand deficient unemployment and an explanation of the causes of demand deficient unemployment. Supporting diagrams should be provided. Each cause should be discussed in relation to its overall importance. For example, if this type of unemployment is caused by a fall in the level of exports, this will have potentially negative effects on the exchange rate which will have additional impact on other key macroeconomic performance indicators. The same approach could be applied to any of the other factors which might influence the level of aggregate demand.*<br><br>**L4 (9–12 marks)** for a sound explanation of at least two causes of demand deficient unemployment and attempt to discuss the relative importance of these factors in relation to their overall impact on unemployment. A clear attempt should be made to draw a conclusion based on the preceding argument.<br><br>**L3 (7–8 marks)** for a detailed explanation of one cause of demand deficient unemployment and an attempt to discuss its relative importance with a reasoned conclusion or a detailed analysis of the main causes of demand deficient unemployment but which does not address the second part of the question.<br><br>**L2 (5–6 marks)** for a descriptive approach that does not analyse the causes of demand deficient unemployment and which does not address the second part of the question. No conclusion will be provided.<br><br>**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 |
|---|---|---|
| 6(b) | **Critically evaluate the use of Keynesian demand management policies to solve the problem of unemployment.**<br><br>*The theory of Keynesian demand management policy will be explained. This will emphasize the role of the government and its use of budget deficits to stimulate aggregate demand. Diagrams should be provided to support this theory. Evaluation of the effectiveness of this theory might refer to problems such as: crowding out; risk of causing inflation; balance of payments problems or problems associated with the subsequent growth of the national debt.*<br><br>**L4 (9–13 marks)** for a response that clearly analyses the potential impact of demand management policies on the level of unemployment. At least two potential problems associated with this approach should be identified and their significance explained in detail. An attempt will be made to draw together the key points in the preceding discussion to form a conclusion.<br><br>**L3 (7–8 marks)** for an answer that focuses upon analysing how and why demand management policies might work but does not attempt to evaluate the effectiveness of this policy. An alternative approach might analyse how demand management policies work plus makes some attempt to evaluate the effectiveness of this policy. At least one problem should be identified and discussed.<br><br>**L2 (5–6 marks)** for a brief explanation of the meaning of Keynesian demand management policies but which does not develop any key points and does not attempt to discuss the effectiveness of these policies. No conclusion will be provided.<br><br>**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 | **'The rate of interest is one of the most important macroeconomic variables because changes in the rate of interest have a significant impact on each of the key macroeconomic aims.'**<br><br>**To what extent do you agree with this statement?**<br><br>*A brief introduction should explain the meaning of the rate of interest. The links between changes in interest rates and changes in employment, economic growth, inflation and the balance of payments should then be considered. For example, discussion might relate to the impact of a fall in interest rates on the exchange rate and how this change might subsequently affect imports and exports and ultimately the balance of payments. Either increases or decrease in interest rates can be discussed but it is important to establish the links between changes in interest rates and some key macroeconomic indicators. An attempt should also be made to consider the importance of these changes compared to the effect of changes in other variables, for example government expenditure/taxation.*<br><br>**L4 (18–25 marks)** for a detailed discussion of the impact of changes in interest rates on at least three macroeconomic goals. The extent of the impact should be considered in each case. Some attempt should then be made to decide, based upon the previous analysis, how important these changes might be. A conclusion will consider the potential impact of changes in other variables on the macro economy and to compare the relative importance of these changes in relation to the impact of interest rate changes.<br><br>**L3 (14–17 marks)** for an answer that focuses upon analysing the impact of interest rate changes on at least two key macroeconomic indicators. Also some attempt to discuss the effectiveness of these changes should be made. An attempt to decide whether the rate of interest is one of the main macroeconomic variables will be made but the comparison with changes in alternative variables will not be fully developed.<br><br>**L2 (10–13 marks)** for a more limited but acceptable attempt to establish the importance of changes in interest rates on the macro economy but does not provide any detailed analysis of the links between these changes and their final impact on the economy. No attempt to discuss the relative importance of interest rate changes will be made.<br><br>**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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