Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2021**

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 2021 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

© UCLES 2021

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.

© UCLES 2021

Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

© UCLES 2021

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Question	Answer	Marks
1(a)	**Comment on the relative significance of the growth in the number of all-electric cars for 2010–2016 compared with annual sales of all cars in the world.** • over the period both show an increase in total growth (1) • but scale of all-electric is 2 million which is only a small fraction (2.9 %) of total car sales in 2016 (69 million) (1)	**2**
1(b)	**Use the information to discuss what might happen to the long-run average cost of producing batteries for all-electric cars.** • Falling LRAC depends on economies of scale. LRAC comprises AFC and AVC [2]. • Output of electric cars is expected to rise significantly in the long run. As output rises, AFC may well fall because of economies of scale in production [1] • However, unless battery technology changes, AVC are likely to rise eventually. Batteries are a large component of the cost, and their manufacture depends on finite supplies of component metals. As demand increases, prices will rise as mineral reserves become depleted. This could counteract possible reductions in AFC. [2]	**5**
1(c)	**Use the information to assess whether it is likely that the switch to all-electric cars will substantially reduce world demand for oil.** Evidence that there will be a substantial reduction in demand for oil • Forecasters predict ⅓ cars will be electric by 2040 it must reduce demand for oil as a fuel. [1] Evidence against a large reduction in demand for oil: • In 2016 only 20 % of world demand for oil was for use as a fuel for cars. Demand for the other 80 % of uses do not have easy non-oil alternatives. Demand is, thus, relatively price inelastic. [2] • Demand for oil in emerging economies is also expected to continue to rise. They also do not have the resources to change the infrastructure to install charging points. Their demand for oil is also relatively price inelastic. [2] On balance the evidence suggest that oil demand will not be reduced substantially. [1]	**6**

Question	Answer	Marks
1(d)	**Assess the effects on the social costs of transport of replacing diesel and petrol engine cars with all-electric cars.** • Some understanding required of private costs plus external costs = social costs: reward a definition and/or diagram [2] • Petrol and diesel engines emissions linked to negative externalities due to causing pollution of the atmosphere and health problems especially for those living in urban areas:MSC > MPC [1] • Electric car use will lower external costs through eliminating carbon pollution [1] but there may still be as many cars so problems of traffic congestion, especially in urban areas, will continue to get worse as demand for cars increases. [1] • Other transport – ships, planes, heavy goods vehicles – will still depend on oil and will probably increase as demand increases. External costs are likely to rise. [1] • Therefore, external costs will not be eliminated entirely. Some negative external costs will be associated also with increased mining of metal ores.[1] • However, the beneficial consumption externality of electric cars makes MSB > MPB so they will be promoted as a kind of merit good. Overall balance is uncertain. [1]	**7**

© UCLES 2021

Question	Answer	Marks
2	**'The cause and extent of market failure depends entirely upon the type of market structure under consideration.'** **Discuss this statement.** *Market failure can be divided into two main areas. One area would link market failure to the type of good in consideration. This would include: merit goods, demerit goods and public goods. Alternatively market failure can also be linked to different types of market structure which would include: monopolistic competition, oligopoly and monopoly. All cases of market failure will be closely related to allocative and productive inefficiency.* *Candidates should begin by attempting to discuss the extent to which market failure depends **entirely** upon the type of market structure. Evidence should be provided which shows that some market structures, for example Monopoly can clearly be associated with market failure, in that equilibrium output in this type of market frequently produces both allocative inefficiency and X inefficiency. Similar conclusions might also be linked to other types of imperfect markets. However, it should also be recognised that positive and negative externalities associated respectively with merit and demerit good will also produce allocatively inefficient outcomes.* *Public goods might also be discussed in that their unique characteristics will lead to non-provision in a free market due to the free rider problem. Based on the above, a conclusion should be provided which questions the validity of the statement in its entirety.* **L4 (18–25 marks):** For a reasoned and clear discussion that identifies at least two types of market failure and discusses this using at least two types of market structure and two types of good or service. Analysis of the links will be combined with some evaluative comment relating to whether the cause of market failure depends **entirely** upon the type of market structure under consideration. A reasoned conclusion should be provided. Must mention efficiency to access L4 21 maximum if no conclusion. **L3 (14–17 marks):** For a developed comment together with limited analysis of different market structures and different types of product. There should be some discussion but the evaluation will not focus on whether market failure depends entirely upon the type of market structure under consideration. **L2 (10–13 marks):** For a brief explanation but weak or ill-explained links. The explanation will be undeveloped with some attempt at analysis but the emphasis will be on descriptive comment and the key element of the question will not be addressed. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

Question	Answer	Marks
3(a)	**Explain the factors which determine the elasticity of demand for labour and discuss the importance of the elasticity of demand for labour in relation to the effectiveness of a government's minimum wage policy.** *Responses should identify and explain some key factors which might determine the elasticity of demand for labour. Candidates might refer to: the proportion of labour costs in relation to a firm's total cost; the ease with which labour can be substituted by capital; the elasticity of the demand for the product produced; the time period under consideration.* *An attempt should then be made to link these factors in relation to a government's minimum wage policy. For example, labour operating in a monopolistically competitive market is likely to be producing a product which has an elastic demand. This means that if the imposition of a minimum wage leads to higher prices, there will be a significant decrease in the demand for the product and subsequently, a significant rise in unemployment. This suggests that a government minimum wage policy will have a substantially negative effect on the labour market.* *A similar approach might be adopted in relation to other factors referred to above. A conclusion should comment that the effectiveness of policy will depend upon the factor under consideration but also other factors should be taken into account, for example, the elasticity of supply of labour.* **L4 (9–12 marks):** For a clear explanation and analysis of at least two factors which might determine the elasticity of the demand for labour. The link between each factor and the subsequent effectiveness of a government's minimum wage policy should be clearly established and the effectiveness of the policy in each case should be discussed. Effectiveness would be primarily determined by the trade-off between the benefit of higher wages and the loss of jobs. A conclusion based on the preceding discussion should be made. **L3 (7–8 marks):** For a fair but undeveloped analysis perhaps concentrating on two factors but not fully linking the factors to the effectiveness of a government's minimum wage policy. Evaluative comment which directly addresses the specific question will not be provided. **L2 (5–6 marks):** For a more descriptive explanation that explains some key determinants of the elasticity of demand for labour but does not analyse the links between these factors and a government's minimum wage policy and does not attempt to discuss the effectiveness of this policy. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
3(b)	**'Monopsonist employers cause labour market failure while trade unions can solve this labour market failure.'** **To what extent do you agree that this view is accurate?** *There are two parts to this question. Each part should be addressed equally and a conclusion should then be provided which addresses the specific question.* *Market failure should be explained in relation to the monopsonist. This should include references to: labour exploitation in that the wage paid is significantly lower than the value added by labour; the level of employment is likely to be low; the wage level is likely to be low. The role of trade unions in the labour market should then be considered. Candidates might discuss how a trade union can help to correct market failure caused by monopsonist employers, through collective bargaining. Good responses will also recognise that trade unions can also cause market failure. For example by negotiating a minimum wage above the competitive market equilibrium wage rate or by restricting labour supply through the use of closed shop agreements.* *Based on the preceding analysis an attempt to assess the validity of the view in the question should then be made.* **L4 (9–13 marks):** For analysis which addresses both parts of the question. A clear attempt to evaluate the accuracy of the view under consideration should be demonstrated by comparing the type of market failure associated with monopsony with that of a trade union and recognising that in some circumstances, a trade union might help to correct market failure, while in other circumstances this might not be the case. This should be reflected by a conclusion which attempts to assess the validity of the view in question. **L3 (7–8 marks):** For an accurate reference to the question and clear analysis explaining the relationship between monopsony and market failure and also trade unions and market failure but with a more limited evaluation or limited attempt to discuss the validity of the view under consideration. **L2 (5–6 marks):** For a briefer analysis that examines two causes of labour market failure but does not use these differences to discuss the validity of the view under consideration. **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)	**Explain what economists mean by the marginal propensity to consume and consider the importance of this concept in relation to government macroeconomic policy.** *An individual's marginal propensity to consume (MPC) is the proportion of any additional income received by the individual which is spent on consumption. Basic Keynesian economic theory assumes that the marginal propensity to consume remains constant regardless of the level of an individual's level of income. It is more realistic to assume that the marginal propensity to consume will fall as individual income increases.* *Government macroeconomic policy focuses on key goals, including: high employment; high growth; low/stable inflation; stable balance of payments/exchange rate; re-distributing income. It is possible to link the concept of marginal propensity to consume to each of these key goals. For example, a government may increase expenditure to increase aggregate demand to increase output and employment. The ultimate impact of this additional expenditure will be determined by the multiplier effect which in turn, will be determined by the value of the marginal propensity to consume.* *Also, due to this multiplier effect, some of the subsequent further increase in income might be spent on purchasing imports and this is likely to have a negative impact on the balance of payments.* **L4 (9–12 marks):** For a response which clearly explains the concept of the marginal propensity to consume. An attempt should be made to analyse the importance of the MPC in relation to the use of government policy to achieve at least three macroeconomic goals. Also, also some attempt to evaluate whether the importance of the MPC might be different, depending upon the type of macroeconomic policy under consideration. An explanation of the multiplier should be provided. **L3 (7–8 marks):** For a competent analysis of the importance of the MPC in relation to two government policies relating to two macroeconomic goals but no attempt made to evaluate whether the importance of the concept might be different depending upon the macroeconomic policy under consideration. **L2 (5–6 marks):** For a descriptive comment on the meaning of marginal propensity to consume but only a very brief attempt to analyse the links between macroeconomic goals, macroeconomic policy and MPC. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
4(b)	**Discuss what determines the level of savings in an economy and assess the impact of an increase in the level of savings upon economic growth and employment.** *The level of savings in an economy will be determined by a number of factors, including income levels; rate of interest on savings; expectations of changes in inflation; expectations relating to employment and economic growth; attitudes to thrift; availability of government savings schemes. Some attempt should be made to discuss relative importance of an increase in the level of savings and growth and employment.* *The impact of an increase upon key macroeconomic indicators such as growth and employment, should be discussed. Different models might be used to assess the impact of an increase in savings. For example, a circular flow model using withdrawals and injections could be used in conjunction with appropriate diagrams to illustrate the potential impact of an increase in savings on the level of employment.* *Discussion relating to the extent of the impact should be provided and supported by a relevant conclusion.* **L4 (9–13 marks):** For a discussion that analyses at least two determinants of the level of savings in an economy plus evaluative comment which discusses the relative importance of these factors. Further analysis should be provided to link these determinants to growth and employment. An assessment of the strength of the impact in both cases should be made and supported by a conclusion. **L3 (7–8 marks):** For a less detailed analysis of one determinant with limited development that recognises and analyses the impact of this determinant on either growth or employment. However, there will be only a limited attempt to assess the impact of this change on the chosen macroeconomic indicator. **L2 (5–6 marks):** For a limited but descriptive explanation of some factors which might influence savings. Basic comment will be made linking savings and growth/employment but no analytical/discursive comment will be provided. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
5(a)	**Explain the quantity theory of money and discuss why the theory might not work in practice.** *Answers should clearly explain the Quantity Theory of Money. The key elements of the equation i.e. MV = PT should be provided, and each variable should be explained. The monetarist explanation of the use of this equation to explain the cause of inflation should be discussed and the key assumptions necessary to support this theory should be identified. It is important to recognise the monetarist approach which assumes that V and T are constant/stable. Based on this formula and assumptions, the theory predicts a direct relation between changes in the money supply and changes in inflation.* *However, the predictions of the theory are not always borne out in practice. In practice it could be argued that: it is very difficult to identify a precise measure of the money supply; the velocity of circulation is not always constant; T is the full employment level of output which also not always the case; sometimes it is changes in the demand for money which cause changes in the money supply, this undermines the basic premise of the theory.* *A conclusion should be provided based on the preceding argument.* **L4 (9–12 marks):** For a sound explanation of the Quantity Theory of Money which identifies the relevant equation and explains the component parts. Two key assumptions relating to V and T in the equation should be recognised. Some attempt should be made to evaluate the relative importance of these assumptions when considering the extent to which the theory might work in practice. A conclusion should summarize the preceding discussion. **L3 (7–8 marks):** For a competent explanation which clearly explains the key elements of the Quantity Theory of Money and analyses the links between the equation and the monetarist explanation of the cause of inflation. A limited attempt should be made to discuss how well this theory might work in practice. **L2 (5–6 marks):** For a brief and less developed explanation and some descriptive comment relating to its importance in relation to policies used to control inflation There will be no attempt to discuss the extent to which the theory might work in practice. **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)	**To what extent do you agree with the view that the control of inflation should be the most important macroeconomic aim?** *The four key macroeconomic goals should be identified. Different approaches might be adopted to determine whether the control of inflation is the most important. One approach might examine the impact of the failure to control inflation on the other macroeconomic goals. For example, a high rate of inflation might lead to reduction in investment and ultimately a reduction in economic growth.* *At the same time high inflation will make exports more expensive this would have a negative effect on the balance of payments, the exchange rate and the level of employment. Similar analysis might be used to consider the importance of the failure to achieve each of the other goals. Then an attempt to compare their relative importance and draw a conclusion which addresses the specific question should be made.* *An alternative approach might compare the benefits of achieving each macroeconomic goal and base a conclusion on this analysis.* **L4 (9–13 marks):** For a detailed analysis of the impact of the failure to achieve each goal on the economy. Each goal will be analysed in relation to its relationship with other macroeconomic goals. Evaluation of the overall extent of the impact should be made and based on this evaluation; a conclusion should be provided which addresses the specific question. Alternative approaches such as that outlined above will be accepted. **L3 (7–8 marks):** For an analysis of the impact of the failure to achieve each of three macroeconomic goals which must include the goal of inflation; the importance of each goal will be assessed and a limited attempt to provide a conclusion which addresses the specific question should be made. **L2 (5–6 marks):** For a response which is descriptive rather than analytical. Answers might focus on why some macroeconomic goals might be important but will not attempt to use analysis to determine whether inflation might be the most important. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

© UCLES 2021

Question	Answer	Marks
6	**'In developing economies an increase in GDP determines an increase in the standard of living. Foreign direct investment (FDI) will produce an increase in GDP therefore governments in undeveloped economies should encourage FDI.'** **How far do you agree with this statement?** *The statement contains three related parts; each part should be explained and discussed; links between each part should then be examined. For example, the link between an increase in GDP and the standard of living is subject to debate. The strengths/weaknesses of this link should therefore be discussed in the light of this debate. Foreign Direct Investment (FDI) should be explained, and some analysis provided to decide the extent to which an increase in FDI might produce an increase in GDP. A range of costs/benefits associated with FDI might be considered.* *Alternative approaches by undeveloped countries to FDI, which might also lead to an increase in economic growth and living standards, might be discussed.* *Based on the above analysis and evaluative comment, a conclusion should be provided which attempts to decide how far it is possible to agree with the statement under consideration.* **L4 (18–25 marks):** For a response which addresses each of the three parts of the statement. Analytical plus evaluative comment should be provided which assesses the extent to which the claims in the statement can be justified. A conclusion which summarizes the preceding analysis should be provided. **L3 (14–17 marks):** For accurate analysis of two parts of the statement which also questions the validity of each part under consideration. A limited conclusion which does not cover all three elements of the statement might be provided. **L2 (10–13 marks):** For a descriptive comment with limited development which does not question the validity of the separate parts of the statement and does not provide a conclusion. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

Question	Answer	Marks
7(a)	**Explain what is meant by infrastructure and consider the view that an increase in investment in infrastructure will promote an increase in both actual and potential economic growth.** *A clear explanation of what is meant by **infrastructure** should be provided along with supporting examples. Infrastructure provides the basic facilities which enable businesses to provide goods and services efficiently. Examples might include improved road/rail links; health/education facilities; power generation. Economic growth is attained by an increase in real GDP within a specific time period. A clear distinction should be made between actual growth and potential growth, ideally supported by relevant production possibility diagrams.* *An attempt should then be made to illustrate why an increase in investment in infrastructure will initially lead to an increase in aggregate demand which might lead to an increase in the actual growth rate. Also, the relationship between an increase in investment and infrastructure and potential economic growth should be analysed.* *A conclusion should be provided that recognises that both actual and potential economic growth are likely to be affected but one will be a short run effect and its extent will depend upon the existing state of the economy while potential growth will be attained in the long run and will depend upon the nature and extent of the level of investment.* **L4 (9–12 marks):** For demonstrating a clear understanding of the meaning of infrastructure and making the clear distinction between actual and potential economic growth. Economic analysis of the impact of this type of investment on both types of growth will be provided. Evaluative comment will also be provided which distinguishes between the short run and long run impact and which also recognises the impact will depend upon the existing state of the economy. A conclusion will consider the validity of the view in question. **L3 (7–8 marks):** For an attempt to analyse the impact of this type of investment on both actual and potential growth but which does not provide any evaluative comment and which does not provide a conclusion. **L2 (5–6 marks):** For a competent comment which explains what is meant by infrastructure and which also distinguishes between actual and potential growth. However, the distinction will be based on description rather than analysis. No attempt will be made to consider the specific view. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
7(b)	**To what extent do you agree that it is not possible to achieve economic growth without simultaneously causing a balance of payments deficit?** *Answers should establish that economic growth and a stable balance of payments are key macroeconomic goals. Alternative policies required to promote economic growth should be explained and analysed. Candidates should then proceed to examine the potential impact of economic growth on the balance of payments.* *Alternative approaches which use circular income flow or Keynesian AD/AS analysis might be used. Evaluative comment will attempt to consider the extent of the impact of economic growth on the level of national income and imports. Similarly, analysis of the links between policies to promote economic growth and a balance of payments deficit will be discussed. For example, economic growth should lead to a rise in incomes which is likely to lead to a higher level of imports which, in turn, would cause/increase a balance of payments deficit.* *Evaluative comment will consider the extent of the impact of economic growth and a balance of payments deficit. A conclusion, based on the preceding analysis, will then attempt to show how far it is possible to agree with the statement under consideration.* **L4 (9–13 marks):** For an answer that examines alternative policies to achieve economic growth. For example, short run demand side and long run supply side. Responses will analyse and evaluate the impact of at least one approach on a balance of payments deficit. A conclusion will discuss the extent to which the outcome referred to in the statement is possible. **L3 (7–8 marks):** For an answer which analyses the impact of economic growth on a balance of payments deficit with some evaluative comment or a response which analyses both elements of the question but makes no attempt to discuss the view under consideration. **L2 (5–6 marks):** For an answer which explains policies which can be introduced to achieve economic growth but focuses upon describing the potential impact on a balance of payments deficit. A conclusion will not be provided. **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**

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **October/November 2021**

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 2021 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

© UCLES 2021

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.

© UCLES 2021

Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

- **a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
- **b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
- **c** DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
- **d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
- **e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
- **f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
- **g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

© UCLES 2021

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Question	Answer	Marks
1(a)	**Using the information, explain the predicted effect of the development of super-airlines on the concentration ratio in the European airline market.** • The number of airlines will decrease (1) • Market share/the concentration ratio will increase/change in control of top 5 airlines 50 % to 77 % (1) • The market will become more oligopolistic (1) 2 marks maximum	**2**
1(b)	**'Large airlines benefit from economies of scale'** **With the use of an example and a diagram, explain how a large airline can benefit from economies of scale.** • Explanation of economies of scale (1) Example: e.g. technical (1) leading to falling LRAC (1) • Diagram the LRAC of the remaining airlines Axes $/Cost and Quantity (1) Labelled LRAC/LRATC (1)	**5**
1(c)	**Explain what is meant by a contestable market and discuss how making the airline market more contestable could benefit passengers.** • Definition of a contestable market (1): the threat of competition on existing firms (1), reference to low barriers to entry (1) • Benefit to passengers: prices, quantity or quality of service 2 examples × 2 marks	**6**
1(d)	**Identify the market structure for airlines in Europe in 2019 following the development of the super-airlines and discuss how airlines may compete in this market structure.** • Oligopoly (1) • Discussion of 3 forms of oligopolistic competitive behaviour, price cutting, product innovation, advertising and marketing, level of service (product innovation) 3 × 2 marks.	**7**

© UCLES 2021

Question	Answer	Marks
2	**Discuss whether market failure can be successfully eliminated by governments.** *Market failure can be caused by lack of imperfect competition with productive or allocative efficiency failure, imperfect information, externalities (positive or negative), missing markets/public goods. Reference to allocative and productive efficiency.* *Methods of reducing market failure: indirect taxation or subsidies, direct provision or legislation.* *Problems of government intervention. Lack of information, speed of response.* **L4 (18–25 marks):** The analysis of three methods of reducing market failure and a comment on a government's success in eliminating market failure. A conclusion is reached for 22–25 marks. **L3 (14–17 marks):** For an answer that analyses two methods of reducing market failure. **L2 (10–13 marks):** For an explanation that analyses one method of reducing market failure or describes two methods of reducing market failure. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**25**

Question	Answer	Marks
3(a)	**Use marginal utility analysis to explain the derivation of the individual demand curve for good** *Marginal utility analysis:* *Explanation of total utility(TU) and marginal utility (MU) and falling MU.* *Link to ratio of MU_x to P_x .* *Principle of equi-marginal equality explained. $MU_x/P_x = MU_y/P_y$* *Development of the effect of a change in P_x on MU_x and thus demand by an individual. Conversion to an individual's demand curve and then a market demand curve.* **L4 (9–12 marks):** For an answer that gives a sound explanation of the change in equilibrium when the price of one good changes in relation to the price of another good. The equi-marginal principle is used to analyse this effect. Extension of individual demand to market demand curve. Max 9 For individual demand curve with no reference to the market. **L3 (7–8 marks):** For an answer that develops the analysis to the equi-marginal principle in relation to two goods and then attempts to determine an individual demand curve. **L2 (5–6 marks):** For an answer that explains total and marginal utility and its link to the purchase of one good. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
3(b)	**Use indifference curve analysis to discuss whether the demand curve for a good will always slope downwards.** *Indifference curves, budget lines defined, the effect of shifts in the price and the budget line. Split of change in quantity demanded into income effect (IE) and substitution effect (SE). Impact of the size and sign of such changes on the slope of demand curve.* **L4 (9–13 marks):** For an answer that discusses the influences of the size and the sign of the IE and SE on the effect on demand of a change in the price of a good and recognises this may produce an upwards sloping demand curve. A conclusion is reached for 12/13 marks. **L3 (7–8 marks):** For an answer that analyses the effect of a change of price on the demand for a good and includes reference to IE/SE. **L2 (5–6 marks):** For an answer that describes budget lines and indifference curves and identifies the equilibrium position. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

© UCLES 2021

Question	Answer	Marks
4(a)	**Explain the link between diminishing marginal returns and the shape of a firm's short-run marginal cost curve and short-run total average total cost curve.** *Explanation of diminishing returns in terms of one fixed factor plus increasing quantities of a variable factor on marginal physical product. The effect of the change in marginal physical product on the short-run marginal cost curve. The changes in the short run marginal costs (MC) determine the shape of the short-run average total cost curve (ATC).* **L4 (9–12 marks):** For an answer that gives a clear explanation of diminishing marginal returns and explains the links to the MC. The link between the short run marginal cost curve and the ATC is determined. **L3 (7–8 marks):** For an answer that gives a clear explanation of diminishing marginal returns and links it to the MC. **L2 (5–6 marks):** For an answer that gives a clear explanation of either diminishing marginal returns or MC and ATC. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
4(b)	**Discuss whether consumers or producers benefit more from the practice of price discrimination.** *Definitions of price discrimination (PD). Explanation of PD. Discussion of the impact of PD on both the consumer and the producer.* **L4 (9–13 marks):** For an answer that explains fully when price discrimination can occur and discusses the impact on **both** the consumer and producer. A conclusion is reached for 12–13 marks. **L3 (7–8 marks):** For an answer that gives a limited explanation of when price discrimination can occur with a limited analysis of its impact. **L2 (5–6 marks):** For an answer that explains price discrimination. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

© UCLES 2021

Question	Answer	Marks
5	**Discuss the extent to that gross domestic product (GDP) is a useful measure of living standards and economic development.** *Definition of GDP explanation of real GDP per head and its link to measuring the standard of living (SoL). Explanation of economic development (ED). A comment on the relationship between SoL and ED. Problems of measuring GDP in general and especially in developing countries.* *Relevance of GDP as a measure. Relevance of alternative measures of SoL HDI, MEW HPI or MPI.* **L4 (18–25 marks):** For an answer that defines living standards in terms of real GDP per head and develops an argument that links it to ED. The link between GDP and SOL and ED is explicitly discussed. Detailed discussions regarding to the limitations of measuring GDP. A candidate may refer to one or more alternative measures of measuring GDP. A conclusion is reached for 22–25 marks. **L3 (14–17 marks):** For an answer that defines SoL in terms of real GDP per head. Some reference is made to the limitations of measuring GDP or one alternative measure of GDP. **L2 (10–13 marks):** For an answer that defines living standards in terms of real GDP per head of population. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**25**

Question	Answer	Marks
6(a)	**Explain the difference between the frictional unemployment and real wage (classical) unemployment.** *Definition of frictional unemployment and explanation of how it is temporary as workers leave their job or are dismissed and are searching for another job. Real wage unemployment due to the exercise of trade union power/minimum wage legislation to raise the wage rate above the equilibrium wage.* **L4 (9–12 marks):** For an answer that explains both forms of unemployment and the difference is made clear. **L3 (7–8 marks):** For an answer that explains one form of unemployment and the other form is described. **L2 (5–6 marks):** For an answer that explains one form of unemployment is or both forms of unemployment are described. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
6(b)	**Evaluate the policies available to a government to reduce the level of structural unemployment.** *Definition of structural unemployment. Supply side policies: education and training, reduced corporation tax allowing more growth and employment, increased minimum wage acts as an incentive to work, subsidies for housing costs, reduction of trade union power.* *Aspects of fiscal policy relevant to structural unemployment can be accepted e.g. tariffs.* **L4 (9–13 marks):** For an answer that evaluates three policies available to a government to reduce structural unemployment. **L3 (7–8 marks):** For an answer that explains two policies to reduce structural unemployment and a limited attempt to evaluate is made **L2 (5–6 marks):** For an answer that explains one policy to reduce structural unemployment. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

Question	Answer	Marks
7(a)	**Explain the quantity theory of money and consider its relevance for a country's macroeconomic policy.** *Definition of the 4 terms PTM and V in the QTM. Explanation of the interaction of the terms of PT=MV and the implications of changes in money supply M on price level P. The relevance for macroeconomic policy is considered e.g. a reduction in the rate of inflation.* **L4 (9–12 marks):** For an answer that defines the terms of and explains the meaning of QTM clearly and understands it as a theory of prices/inflation. The assumptions of the theory are identified. Its relevance to macroeconomic policy. **L3 (7–8 marks):** For an answer that defines the terms of and explains the meaning of QTM clearly and understands it as a theory of prices/inflation **or** the assumptions of the theory are identified. **L2 (5–6 marks):** For an answer that describes the meaning of the terms in the QTM clearly and makes an attempt to link the theory to inflation. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
7(b)	**Discuss whether fiscal policy alone can promote a more equal distribution of income.** *Definition and explanation of a more equal distribution of income. Definition of fiscal policy. Explanation of effects of taxation in terms of reducing income of the rich and the effect of government spending on the poor. Discussion of redistributive effects on rich and poor of fiscal changes.* **L4 (9–13 marks):** For an answer that provides an explanation of the meaning of a more equal distribution of income. A clear discussion of three policies that may promote a more equal distribution of income. A conclusion is reached for 12/13 marks. **L3 (7–8 marks):** For an answer that provides an explanation of the meaning of a more equal income distribution. A clear analysis of two policies that may promote a more equal income distribution. **L2 (5–6 marks):** For an answer that makes a statement of the meaning of a more equal income distribution and a description a policy that may promote a more equal distribution of income. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. **Note:** Answers be rewarded at the appropriate level if candidates refer to relevant monetary and supply side policies that promote a more equal distribution of income.	**13**

© UCLES 2021

Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/43**

Paper 4 Data Response and Essays **October/November 2021**

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 2021 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

© UCLES 2021

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.

© UCLES 2021

Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

  From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Question	Answer	Marks
1(a)	**Use a marginal revenue product diagram to illustrate what will happen to wages as a result of the changes mentioned by the critic of the free movement of labour (in the second paragraph).** In imperfect competition MRP (1) diagram showing supply curve moving down to right (1) and equilibrium wage falling (1). If perfect competition is used, supply should be linked to industry supply causing firm's supply to move down.	**3**
1(b)	**What do the high numbers of workers migrating from Eastern Europe to other countries in the EU suggest about the state of their own economies compared with the country to which they migrate?** Lower wages for the same skills; higher unemployment / fewer job opportunities; weaker infrastructure and welfare systems; lower living standards.	**4**
1(c)	**Explain whether the introduction of a minimum wage will always result in a different outcome for employment from that which would occur in a free market**. Minimum wage might increase unemployment if it is higher than the wage based on supply and demand for labour. If it is lower than the market wage there will be no effect on employment. In imperfect competition (monopsony) the result will vary depending on extent of the increase, could have a rise in wage and employment, or a rise in wage but a decrease in employment.	**5**
1(d)	**With the help of information in the article assess whether the increasing numbers of migrant workers are an advantage or a disadvantage to the receiving country.** Positive effects • skills of migrant workers can complement those domestic workers and increase productivity and therefore increase economic growth • earnings of migrant workers can create jobs – multiplier effect – increase in AD • without migrant workers the level of AS could not meet AD causing inflation • migrants fill jobs where there are labour shortages • research shows migrant workers make a positive contribution to the taxes which is higher than payments for welfare and public services spent on migrants. Negative effects • EU workers have taken to jobs of domestic workers increasing unemployment • Increased competition for jobs drives down wages with a loss of government tax revenues • EU workers willing to accept lower wages, causing industrial unrest. Come to some overall conclusion = 1 mark	**8**

Question	Answer	Marks
2	**Analyse the reasons why it might be thought necessary for a government to control dominant firms in an industry and consider the methods it might use to achieve such control.** *Explanation that there may be a lack of efficiency due to overproduction or under production. There could be higher prices, lower output, higher profits. Discussion of the methods: taxes, subsidies, licences, regulation, information, permits, 'nudge' incentives, granting property rights, privatisation, nationalisation, and the relevance of the choice to either over or under production.* **L4 (18–25 marks):** for an analysis of the first part of the question and a critical discussion of at least three methods of control and their effectiveness and application. (Taxes and the opposite subsidies should count as one alternative). **L3 (14–17 marks):** for a critical competent discussion of at least two methods or a weaker comment on at least three methods. **L2 (10–13 marks):** for a competent comment on one method or a briefer comment on two methods. **L1 (1–9 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

Question	Answer	Marks
3(a)	**Explain the theory of how a consumer decides to achieve the situation described as 'equilibrium' when purchasing two different products.** *Marginal utility is significant in relating the utility/satisfaction to the price in determining equilibrium quantity bought. Candidates can use either MU theory or marginal changes on indifference curves related to budget lines. If MU is used, they must relate it to two products.* **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. **L3 (7–8 marks):** for a less developed answer but which still refers to the equilibrium but probably concentrates on only one good with MU or is unclear about the relevance of the tangency with indifference curves. **L2 (5–6 marks):** for a brief attempt which does not clearly bring out the significance of the marginal analysis. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
3(b)	**Two shops sell clothes. One has luxury fashionable designs. The other has cheaper inferior alternatives. Both shops decided to have promotional sales with price reductions.** **Consider how indifference curve analysis could be used to explain a consumer's reaction to both the price reductions.** *Analysis and comment on income and substitution effects using indifference curves of a price change for a luxury good and an inferior good.* **L4 (9–13 marks):** for an understanding of the meaning of the two concepts and a correct analysis of the direction of change for both concepts for both types of good. **L3 (7–8 marks):** for a less accurate understanding – probably evidenced by a weak analysis of the income effect on inferior goods, or a confusion with a Giffen good. **L2 (5–6 marks):** for an unclear answer which distinguishes between the effects but gets the direction of change incorrect; or one that concentrates on one type of good. **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)	**Explain the difference between, and the purpose of, integration between firms and a cartel.** *Explanation of integration – vertical and horizontal; increase size of firm, ensure supply of inputs; control sales outlets or get better access to customers; cartel – to achieve higher profits, control the market, fix quotas, work as a group.* **L4 (9–12 marks):** for a clear understanding of both integration and cartels with a good comment on the purpose of both. **L3 (7–8 marks):** for a weaker understanding of both concepts or a concentration on and good understanding of one of the concepts or a weaker explanation of the purpose. **L2 (5–6 marks):** for an undeveloped comment on one of the concepts. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

© UCLES 2021

Question	Answer	Marks
4(b)	**'In large firms the long-run average cost falls as output increases and consumers benefit from lower prices. In small firms it does not. There is, therefore, no place in a modern economy for small firms.'** **Do you agree with these statements?** *Consideration of whether costs necessarily fall, whether consumers necessarily benefit if they do, whether there is no place for small firms, and a conclusion about the statement.* **L4 (9–13 marks):** for clear analysis and discussion of all parts of the question including the purpose and reasons for small firms and a conclusion. **L3 (7–8 marks):** for an answer that concentrates on two of the parts of the statement but still with a reasoned structure, or comments on all three parts but with little analysis. **L2 (5–6 marks):** for a more limited answer probably giving a longer comment on economies of scale and falling costs without considering the rest of the statement in any detail. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
5(a)	**Explain the role of liquidity preference in the determination of interest rates and assess its importance.** *Liquidity preference should be explained as that part of an individual's assets which are held in cash rather than government securities or other assets. Key determinants such as the level of income and interest rates should be referred to. Answers should recognise that liquidity preference determines the demand for money and that it is the interaction of the market forces of supply of and demand for money which will determine interest rates.* **L4 (9–12 marks):** for an answer that questions some of the assumptions which underlie liquidity preference theory. Also, some attempt might be made to discuss alternative approaches to interest rate determination which question the role of liquidity preference as a key determinant. **L3 (7–8 marks):** for an answer that demonstrates an understanding that liquidity preference represents the demand for money and when this is combined with the supply of money, we can show how market forces determine interest rates. A supporting diagram might be provided. **L2 (5–6 marks):** for an answer that is limited to explaining what is meant by liquidity preference and which describes some factors which might influence liquidity preference **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)	**Keynes argued that the rate of interest will not ensure that the level of savings will equal the level of investment in an economy because savings and investment are undertaken by different individuals for different reasons.** **Explain this statement and discuss how far you would support this view.** *Responses should explain the traditional theory of the relationship between interest rates and savings/ investment. If there was a surplus/deficit in relation to savings and investment, it was assumed that interest rate adjustment would ensure that these two would return to equilibrium. Keynes argued that savings were more likely to be determined by the level of individual's income and investment was more likely to be determined by investor confidence. Hence, there was no reason to support the view that interest rates will return to equilibrium based on changes in interest rates.* **L4 (9–13 marks):** for responses that makes an attempt to assess how far they would support this Keynesian position. This would require a discussion relating to the importance of income changes on the level of savings and investor expectations of future profits on the level of investment. A conclusion which comments upon how far the candidate agrees with statement should be provided. **L3 (7–8 marks):** for a response that analyse why interest rate changes will impact upon savings and investment and why this will ensure a return to equilibrium via market forces. Some attempt should be made to explain why Keynes argued that other factors were more important determinants of savings/investment. **L2 (5–6 marks):** for an understanding of the traditional explanation of the relationship between interest rates and savings/investment. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

© UCLES 2021

Question	Answer	Marks
6(a)	**Explain how governments measure economic growth and discuss why this measurement is important.** *Economic growth should be defined as the change in real GDP in a specific time period. Measurement would require a monetary measure of the value of GDP using either income, expenditure, or output method. Importance relates to the relationship between changes in measured real GDP, changes in wealth and subsequent changes in living standards. Also, this measurement allows some assessment of the performance of those responsible for managing the economy and for those attempting to compare national economic performance with main international competitors* **L4 (9–12 marks):** for an answer that attempts to explain how a government measures economic growth and then discusses why this measurement is important. In particular, would expect comments on impact on living standards. Also, issues relating to the need to assess the performance of government's managing of an economy might be discussed, as well as how this might be used to influence future government macroeconomic policy. **L3 (7–8 marks):** for an answer that refers to measurement and makes some attempt to analyse why this measure is important. **L2 (5–6 marks):** for an answer that provides a brief account of what constitutes economic growth and a description of each of the alternative ways of measuring economic growth. **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)	**'Economic growth will always decrease the level of unemployment but this will usually create significant problems in relation to attaining other key macroeconomic aims.'** **How far do you agree with this statement?** *Answers should address both parts of the question. How far economic growth will decrease unemployment should be discussed by linking growth to output, income and employment. Candidates might also question whether economic growth will **always** reduce unemployment. For example, new technology might lead to increase in output via increases in productivity, at the expense of jobs. The second part of the question requires candidates to discuss possible conflicts between attaining economic growth, controlling inflation and reducing balance of payments deficits.* **L4 (9–13 marks):** for an answer that discusses the possibility that in certain circumstances, economic growth might not decrease the level of unemployment and provides supporting examples. At least two potential problems relating to the attainment of other macroeconomic goals should be discussed. **L3 (7–8 marks):** for an answer that analyses the relationship between a growth in output and a subsequent increase in employment. Diagrams might be used to support the analysis. At least one potential problem relating to the attainment of other macroeconomic goals should be identified. **L2 (5–6 marks):** for an answer that describes why economic growth might create jobs and makes some attempt to explain why other macroeconomic goals might be affected. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
7	**The International Monetary Fund (IMF) lends money to developing countries but requires that these countries reduce existing restrictions on imports, focus on the export of primary goods and accept a devaluation of their currencies.** **Based upon the above, assess whether developing countries should continue to borrow money from the IMF.** *Answers should focus on examining the potential effects on a developing country of each of the three IMF requirements referred to in the question. In each case, an attempt should be made to assess whether the negative effects of these requirements might be greater than any benefits associated with the loan. Removing restrictions might cause balance of payments problems, focusing on exporting primary goods might lead to instability of income and low rates of productivity, devaluation might lead to cost push inflation.* **L4 (18–25 marks):** for an answer that uses an analysis of each of the requirements and attempts to evaluate the relative importance of their combined effect on an undeveloped economy. Good responses will also comment on the potential benefits of the IMF loan and attempt to form a conclusion which assesses whether, in the light of the restrictions, it would still be beneficial to take out the loan. **L3 (14–17 marks):** for an answer that analyses the potential impact of each of the requirements referred to in the statement and combines this with an analysis of the potential benefits of the IMF loan. **L2 (10–13 marks):** for a competent comment on each of the three effects but does not develop points and makes no reference to the potential benefits of the IMF loan. **L1 (1–12 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**