Cambridge International AS & A Level

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ECONOMICS **9708/42**

Paper 4 Data Response and Essays **March 2018**

MARK SCHEME

Maximum Mark: 70

Published

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

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

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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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ASSESSMENT OBJECTIVES

The skills listed below are what we expect candidates to be able to do. The marks in the mark scheme reward candidates who demonstrate these skills, so they are helpful to keep in mind if you have any doubts as to whether or not something is worthy of credit.

AO1 Knowledge and understanding	Demonstrate knowledge and understanding.
AO2 Application	Interpret and apply knowledge and understanding to information presented in written, numerical or graphical form.
AO3 Analysis	Analyse economic issues and arguments, using relevant economic concepts, theories and information, and communicate conclusions in a clear, reasoned manner.
AO4 Evaluation	Critically evaluate economic information, arguments, proposals and policies, taking into consideration relevant information and economic principles and distinguishing facts from hypothetical statements and value judgements.

LEVELS OF RESPONSE MARKING APPROACH

The essay questions in Section B are marked using Levels of Response. They carry a maximum mark of 25 each. Most of them are split into two parts, where part (a) is worth 12 marks and part (b) is worth 13 marks. However, some essays are set as a single question worth 25 marks.

Try not to 'bunch' marks, but use the whole mark range. Do not reserve (e.g.) high Level 4 marks ‘just in case’ something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, then it must be rewarded appropriately. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the skills described in the assessment objectives and not purely on the ability to itemise further facts from the content of the syllabus. All of the essays test the four assessment objectives above.

LEVELS OF RESPONSE MARKING PROCESS

There are two steps that need to be taken in awarding the mark for the essay questions:

Step 1: Determine the level – start at the highest level and work down until you reach the level that best describes the answer. Use a ‘best-fit’ approach: which level does it most closely resemble overall, considering all of the assessment objectives on balance?

Step 2: Determine the mark within the level by considering the following:

- Consistently meets the criteria; clear evidence of the qualities of the level = at the top of the level
- Meets the level’s criteria but with some slight inconsistency or some parts of the criteria not addressed = at the middle or above the middle of the level (depending on number of marks available)
- Just enough achievement for this level on balance = either below the middle or at the middle of the level (depending on number of marks available)
- Answer is on the borderline of this level and the one below, i.e. it there is only limited evidence it meets the criteria for this level = at the bottom of level

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LEVELS OF RESPONSE MARKING DESCRIPTIONS

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

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

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Question	Answer	Marks
1(a)	an increase in the amount of goods and services produced (1) per head of the population (1) over a period of time (1) real terms takes account of price changes (1)	**4**
1(b)	Variable costs change with output; fixed costs do not – and are constant in the short run. (1–2) Steel could affect either, depending on what it is used for but it is more likely to affect variable costs. (1–2)	**4**
1(c)	Steel is a key material used in manufacturing. Firms that buy steel have benefited from lower world prices (45% lower in a year). Therefore production costs are lower and product prices will be more competitive. On the other hand excess world supplies will continue to outstrip demand and prices could fall further. Excess supply, buyers have more power over market.	**4**
1(d)	Market failure: inefficient allocation of resources – maybe due to monopoly, information failure, externalities or need for public goods. (1–2) The case for intervention is based on the need to preserve jobs and help sustain the local economy near steel plants. In the short run the government could subsidise production until such time as world demand increases and prices of steel rise (temporary external shocks); The danger of foreign suppliers that undercut UK steel prices is not really a case of market failure but market forces working. Local industry costs are too high; industry uncompetitive. However, if there is 'dumping' then it can be a market failure. Government may fear future increase in prices leaving UK economy vulnerable to dependence on foreign steel and wish to support home industry. This is not a case of market failure. Also, if the steel industry is a high cost industry with overcapacity it could be unsustainable in the long run. If supported it would require public funds which would mean less spent on other projects. No real evidence for improved efficiency from this. Not really market failure.	**8**

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Question	Answer	Marks
2	*Theory states that consumers maximise satisfaction by relating utility to price; this is shown by indifference curves and budget lines. Income changes shift budget lines parallel; price change of one good causes a budget line to pivot. Equilibrium is changed – the extent and direction depending on the type of good. Nudge theory seeks to persuade. It could be represented by a change in perceptions or taste shown by the shape of the indifference curve. It does not invalidate the notion of equilibrium and maximising satisfaction according to the new shape of the curve.* **L4 (18–25)** for a clear analysis of ICs and an explanation of income and price changes, a link between nudge theory and with a concluding paragraph. **L3 (14–17)** for a clear analysis of either price or income changes or a weaker analysis of both but still with an attempt to consider the link to nudge theory, although not so conclusively. **L2 (10–13)** for a less developed analysis of the IC theory and a poor attempt at discussing the persuasive effect of nudge theory on the shape of the curve. **L1 (1–9)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**25**

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Question	Answer	Marks
3(a)	*Equity – fairness; efficiency – making best use of available resources; Pareto – cannot make someone better off without making someone else worse off. Allocative efficiency and Pareto are linked. There is no link to equity – Pareto optimality does not necessarily imply equity.* **L4 (9–12)** for a clear explanation of all three terms and a conclusion about the links **L3 (7–8)** for an explanation of two of the terms and a conclusion about one of the links **L2 (5–6)** for a poor explanation of the terms or a clear explanation of only one of the terms with weak comment on the links. **L1 (1–4)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**12**
3(b)	*Discussion of the merits of small firms, which type of market makes them successful and a discussion of the merits of larger companies – economies of scale – with a conclusion about the relative strengths and weaknesses of both small and large firms.* **L4 (9–13)** for a discussion of both types with positive and negative aspects; up to 10 with no conclusion **L3 (7–8)** for a weaker discussion that concentrates on the merits of either large or small firms with little positive comment on the other type; **L2 (5–6)** for a very undeveloped answer that briefly considers either the merits or disadvantages of one type of firm without a conclusion **L1 (1–4)** 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)	*Candidates need to explain MRP theory and the equilibrium position of the firm. It is a large company so it can be presumed that the market is imperfectly competitive. Demand decreases are reflected in shifts of AR and MR in the product market, which in turn affects the MRP in the factor market.* **L4 (9–12)** for a clear analysis of MRP theory; an explanation of the equilibrium and a comment on how that will change if the MRP curve shifts **L3** (**7–8)** for a weaker but correct analysis of the theory and a poor attempt to explain how the MRP curve might shift to create a new equilibrium **L2 (5–6)** for a limited attempt at MRP theory maybe not recognising the imperfect market and no attempt to consider the shift of the curve **L1 (1–4)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**12**
4(b)	*If price is above ATC it will be making supernormal profit. It need not stop production either because it still makes normal profit, or reduced supernormal profit in the long run or even if the price is still above the AVC in the short run. This assumes an aim of profit maximisation. The firm may have other aims apart from profit maximisation and these, such as satisficing, may also mean production does not have to cease.* **L4 (9–13)** for an accurate analysis distinguishing between supernormal and normal profit and for a correct discussion of the significance of the AVC in the short and long run, and a comment on possible alternative aims together with a conclusion **L3 (7–8)** for a weaker analysis probably concentrating on the supernormal/normal profit with no mention of the role of the AVC, or no mention of alternative aims **L2 (5–6)** for an undeveloped explanation of the supernormal profit position but with no recognition that the firm can continue either because profits are still normal, or because, in the short run price is still above AVC, or because it had alternative aims **L1 (1–4)** 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(a)	*Transactions demand is a demand for an active balance. It depends upon the level of income and the frequency of income payments. It is interest inelastic. Speculative demand for money is determined by expectations of the future rate of interest of long term government securities. These are known as idle balances and closely related to changes in the rate of interest. Importance will vary depending upon the state of economy, the level of income and the rate of interest.* **L4 (9–12)** for an answer that attempt to discuss the relative importance of each type of demand in an economy. For example, in a recession when incomes are low and interest rates are low, it is likely that the speculative demand for money would be more important than the transactions demand. **L3 (7–8)** for an answer that provides a detailed account of the key differences between the two types of demand for money and which attempt to analyse the link between different changes in an economy and their impact on both the transactions and speculative demand. **L2 (5–6)** for answer that explains the difference between the transactions demand and the speculative demand for money but is not fully developed **L1 (1–4)** 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(b)	*Answers should explain the meaning of a budget deficit. The potential effects of large budget deficits on an economy should be identified. A distinction should be made between the short run effects associated with financing a budget deficit and the potential long run effects of deficits on national income. Links should then be established between these effects, ie changes in interest rates and changes in the level of income and how they might affect the demand for money. It is likely that in the short run the speculative demand will fall due to rising interest rates while in the long run transactions demand will rise due to a rise in the level of income.* **L4 (9–13)** for an answer that focuses upon the difference between the two positions in the statement. Responses will recognise the short run interest rate changes might affect the speculative demand for money but this will depend whether existing interest rates are already high. Also there will be some attempt to evaluate whether the income effect will significantly increase the demand for money. References to the existing state of the economy might be made. A conclusion should be provided which recognises that both claims can be reconciled . **L3 (7–8)** for an answer that distinguishes between the short run effect of a budget deficit and the potential long run effect on the level of national income and which attempts to link both these effects to the motives for demand for money **L2 (5–6)** for an answer that describes a budget deficit, how it might be financed and how it might affect the national income **L1 (1–4)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**13**

Question	Answer	Marks
6(a)	*Responses should distinguish clearly between autonomous investment and induced investment, recognising that the former will come from outside the circular flow of income while the latter will depend upon changes in the level of income. There should be some discussion whether a link can be established between the two types of investment. This link should rely upon the relationship between the multiplier effect on income and the accelerator effect on investment.* **L4 (9–12)** responses attempt to show how the multiplier and accelerator might interact and to evaluate key factors which will determine the extent of the interaction. For example the level of autonomous investment's impact on the level of income will depend upon the multiplier which, in turn will be influenced by leakages from the circular flow. This in turn will determine the level of induced investment which will also depend upon the capital/output ratio. **L3 (7–8)** for an analysis of how autonomous investment can impact on the level of income through the multiplier effect and for analysis of the relationship between changes in income and changes in investment through the accelerator effect. **L2 (5–6)** for an answer that provides a clear description of the difference between the two types of investment and which also links both types to income and changes in the level of income **L1 (1–4)** for an answer that shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies.	**12**

Question	Answer	Marks
6(b)	*Answers should identify and explain the key conditions introduced by governments which might promote investment in the private sector. These might include low interest rate policy, favourable taxation, direct government support. Discussion should then focus upon whether the private sector should be solely responsible for investment. This might look at circumstances in which public sector investment might be needed, for example providing public/merit goods. A conclusion should then be provided based on the preceding discussion* **L4 (9–13)** for an evaluative answer which discusses whether ALL investment should be carried out by firms in the private sector. Candidates to recognise that some investment, for example relating to merit/public goods or in natural monopolies should be left to governments. A conclusion addressing both parts of the statement should be provided. **L3 (7–8)** for an answer that identifies a range of possible conditions created by governments which will have a positive effect on the level of investment by firms in the private sector. **L2 (5–6)** for an answer that provides a superficial description of the conditions which governments might create to promote investment but does not fully develop the links between these conditions and subsequent investment **L1 (1–4)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**13**

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Question	Answer	Marks
7	*A clear explanation of the export-led growth hypothesis should be provided. Alternative ways of achieving growth should be explained and the difference between achieving growth by internal means should be clearly established. The main part of the discussion should relate to specific problems that might face developing economies which attempt to achieve export-led growth. This should be compared with the costs and benefits of stimulating growth internally using policies to promote direct investment carried out by multinational companies.* **L4 (18–25)** for an answer that evaluates the relative success of each type of policy by using a cost/benefit approach in each case. It is important to recognise the specific conditions required for success in each case and the extent to which this is likely to be achieved in an developing economy. A clear comparison should be in evidence and a conclusion provided based upon the preceding discussion. **L3 (14–17)** for an answer that analyses the problems faced by a developing economy when attempting to generate export-led growth. The response will also consider the analysis which underpins the promotion of foreign direct investment by multinational companies **L2 (10–13)** for an answer that discusses policies that can be used to promote economic growth but does not explain export-led growth and does not distinguish between export led growth and internal methods of achieving growth. Also there would be no attempt to put into the context of a developing economy. **L1 (1–9)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory	**25**

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