**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Advanced Subsidiary Level and GCE Advanced Level**

# MARK SCHEME for the May/June 2012 question paper

# for the guidance of teachers

## 9708 ECONOMICS

**9708/41** Paper 4 (Data Response and Essays – Supplement), maximum raw mark 70

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

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

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## Section A

**1 (a) Is this information on the size of the economy (GDP) enough to conclude that the average person in Italy is better off than the average person in Ireland? Briefly explain your answer. [3]**

Economy size is higher but no information on population. Possibly better off as unemployment is lower and negative growth is lower but not able to be definitive. Conclusion required for full marks (3)

**(b) (i) The economic growth rates are shown to be negative. Explain what economic theory suggests might happen to the level of unemployment in an economy if the growth rate figure is negative. [4]**

Theory suggests that negative growth would have an impact, on output and hence on unemployment. With negative growth it would be expected that unemployment would rise. Candidates could explain briefly how the changes in income and employment occur. (4)

**(b) (ii) What evidence is there from the information whether there is any link between the economic growth rates and unemployment? [3]**

There is unemployment with negative growth but larger negative growth doesn't necessarily mean larger unemployment. For example, Italy's negative growth is higher than Greece, Portugal and Spain but its unemployment rate is lower than that in all three countries. We do not know what the growth and unemployment rates were in the previous year so cannot really conclude how the change in growth affected unemployment in the year shown. (3)

**(c) In 2010 there was much concern about the weakness of the economic situation in Greece compared with the other European countries shown. How far can the data be used as evidence to support that concern? [4]**

Unemployment and the negative growth are both below the average of the other countries so Greece is in a better position and not a worse position. The information does not support the concern. However with a relatively smaller negative growth it still has a government debt of 124% of GDP which is the highest of the countries shown. This is why there was so much concern and the information does support that worry. (4)

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**(d) Discuss the possible effects on economic growth and unemployment of the policies suggested by the Spanish Government. [6]**

Spain proposed (i) raising the retirement age, (ii) reducing public spending (iii) increasing taxes and (iv) increasing measurers to stop tax evasion

(i) Raising retirement age increases labour supply. Changes in the labour supply have an uncertain effect on growth. Increased labour supply might result in lower average wages. Spending may then not change overall, or, if the increased labour is employed at the lower ends of the pay scales, spending may go up as lower wage earners spend a higher proportion of income. Increased spending may increase growth. Or alternatively the increase in labour supply may increase unemployment and this will not increase growth.

(ii) Reducing public spending may have the effect of reducing incomes and reducing spending which affects growth.

(iii) Increased taxes may reduce investment and reduce growth, may increase unemployment which is already high.

(iv) Increasing measures to stop tax evasion might increase government revenue and allow additional government spending (6)

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## Section B

**General Comments for section B:**
The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. If there is any doubt in your mind, give the benefit of doubt to the candidate.

The difference in grades should be assessed on the ability of the candidate to demonstrate the various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) - which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

**Mark 1–9 (Linked to level one in individual question notes).**

1-5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.

6-9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

**Mark 10–13 (Linked to level two in individual question notes).**

10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.

12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

**Mark 14–17 (Linked to level 3 in individual question notes).**

14 –15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.

There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions

16-17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

**Mark 18–25 (Linked to level 4 in individual question notes).**

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer

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so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

20-25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.
Corresponding marks for sub-sections.

| | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| **Total Mark 10** | 1–3 | 4–5 | 6–7 | 8–10 |
| **Total Mark 12** | 1–4 | 5–6 | 7–8 | 9–12 |
| **Total Mark 13** | 1–4+ | 5–6+ | 7–8+ | 9–13 |
| **Total Mark 15** | 1–5 | 6–8 | 9–11 | 12–15 |

**2 (a) Explain, using a budget line diagram, whether**
**(i) the substitution effect of a price change and**
**(ii) the income effect**
**would be similar for a normal good and an inferior good. [12]**

Substitution effect would be in the opposite direction to the price change for both goods. Budget line pivots from a point on one axis (6) The income effect is in the same direction as the substitution effect for the normal good but in the opposite direction as the substitution effect for the inferior good. Budget lines alone would not enable the determination of the actual amount bought.(6) (12)

*L4 For a sound explanation of both changes with an accurate clear diagram and a clear understanding of the principles involved 9–12*
*L3 For an accurate reference to the question but with a more limited explanation perhaps concentrating on one of the types of good, or minor errors in the analysis or in the diagrams 7–8*
*L2 For an explanation of one of the changes for both goods or both the changes for one good, or a combination of the two but with inaccurate diagrams to support the text 5–6*
*L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1–4*

**(b) Discuss the extent to which the law of diminishing marginal utility may be used to determine the market demand for a good. [13]**

Explanation/discussion of DMU and its link to the amount a consumer is willing to buy and the formation of an individual demand curve. Discussion of calculation of market demand curve by adding individual demand curves. (13)

*L4 For a reasoned and clear discussion, logically presented 9–13*
*L3 For a fair but undeveloped discussion probably with either a brief comment about the individual demand curve or no discussion about the market demand curve 7–8*
*L2 For a limited explanation with only a brief comment 5–6*
*L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1–4*

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**3 (a) Distinguish between perfect competition and monopolistic competition. [12]**

Explanation in terms of criteria for perfect competition and the similarities/differences that occur in monopolistic competition. Candidates should also comment on the likely aims of the two structures – profits, output, prices.(12)

*L4 For an explanation of both market structures – criteria, aims, likely profits with a conclusion. 9–12*
*L3 For a competent explanation which does not fully analyse both types of of market structure. There will be some comment but the analysis will not be fully developed or extensive. 7–8*
*L2 For an accurate though undeveloped explanation concentrating possibly on either the criteria or the aims probably presented as two separate parts of the answer with no direct distinction drawn. 5–6*
*L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. 1– 4*

**(b) Discuss whether oligopoly is likely to be the most realistic market structure in a mixed economy. [13]**

Discussion of the characteristics of oligopoly relating them to a mixed economy where profit motive, brand loyalty, larger firms, non-price promotions, barriers to entry, collusion are likely to be found. Candidates should discuss whether these characteristics are found in other market structures and which structure is the more likely. (13)

*L4 For a good discussion of market structures and their relevance to reality. A conclusion should be drawn. 9–13*
*L3 For a competent explanation of the characteristics but with an undeveloped comment on the likelihood of finding oligopoly rather than other market structures. 7–8*
*L2 For a limited explanation and only a brief comparison and comment on the significance of oligopoly - with no conclusion 5–6*
*L1 For an answer which has some basic correct facts but includes irrelevancies. There will be errors of theory or omissions of analysis. 1–4*

**4 In 2010 the directors of a major UK chocolate firm, worth over £10 billion, recommended that its shareholders accept a takeover offer from a large US food firm. The firm would not then be controlled in the UK. It was feared that some production in the UK would cease.**

**(a) Analyse what economic theory suggests might be the outcome of such a takeover for the enlarged firm and its workers [12]**

Candidates need to recognise that this is a large multinational organisation. The takeover will increase the original company's costs:–fixed and variable, but it might make economies of scale possible. Some parts of the production will be duplicated and it is stated that some parts would have to be closed to achieve these economies. For the worker, the takeover might result in redundancies, moving to a new location, increased competition for any likely promotion. Up to 8 for discussion of the company. (12)

*L4 For a sound analysis and discussion with clear understanding of the principles involved and a reasoned conclusion. 9–12*
*L3 For a competent analysis but more limited discussion and development but still with a conclusion. 7–8*

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*L2 For a correct explanation, probably concentrating on the probability of economies of scale and without concluding comment. 5–6*
*L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–4*

**(b) Discuss the possible macroeconomic outcomes for a domestic economy of such a takeover by a foreign firm. [13]**

Candidates should discuss the likely effects on the economy in terms of injections and withdrawals. £10 billion has been spent and production may become more efficient. However, possible redundancies would have a likely impact on the workers' spending and government payments for the unemployed. There would also be a possible effect on the balance of payments depending on whether the profits remain in the UK or are sent to the US. (13)

*L4 For a good discussion with a reasoned comment of both possible injections and withdrawals and clearly structured answer with a conclusion of the likely significance of each 9–13*
*L3 For a fair discussion but undeveloped answer of both injections and withdrawals or a fuller answer of either injections or withdrawals 7–8*
*L2 For a limited but acceptable attempt to consider the impact on the economy but with little development and no overall conclusion 5–6*
*L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–4*

**5 Discuss whether the higher wage rates paid in some occupations occur solely because some trade unions have a stronger bargaining power than others. [25]**

Discussion of determinants of wages. Candidates should discuss the theoretical analysis and how it is moderated by the existence of unions and discuss whether it is likely that unions are the sole reason for higher wages in some occupations. They may influence the level of wages but would not be the sole determinant. Theoretical analysis without marginal revenue productivity approach has, in the past, not merited the full range of marks. (25)

*L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and their likely significance over other factors. 18–25 (14–17 for demand and supply only with institutional factors and government policy)*
*L3 For a competent explanation but with limited discussion of unions and their significance. 14–17. (10–13 for demand and supply)*
*L2 For a correct but undeveloped theoretical analysis with very bald comment about the role of unions. 10–13 (6–9 for demand and supply)*
*L1 For an answer which contains inaccuracies and only a few correct points 1–9 (1–5 for demand and supply only)*

**6 Population is increasing most rapidly in countries that can least afford it if they wish to encourage economic growth.**

**(a) What are the main characteristics of a developing country? [12]**

Description of the nature of a developing economy in terms its GDP, GDP per capita, productive capacity, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population. (12)

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*L4 For a sound description with clear understanding of the characteristics and a clear conclusion 9–12*
*L3 For a competent description but with limited development. 7–8*
*L2 For a general description of only some of the factors and no conclusion.5–6*
*L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–4*

**(b) If a developing country wishes to become developed, the main aim of its government should be to control the growth of its population. Discuss this opinion. [13]**

Candidates should present a reasoned argument about what they consider to be the most important, or main, aim a government should follow. They should consider the importance of controlling the population growth and discuss what might happen if population increased very fast, but they should also comment on other aims and hopes and discuss which is the more significant. (13)

*L4 For a reasoned discussion and clearly structured answer mentioning various alternative together with a conclusion 9–13*
*L3 For a discussion, but without such a full development or probably not mentioning a range of alternatives and with weaker conclusion. 7–8*
*L2 For a limited but acceptable attempt to discuss one policy with brief comment on population and without any conclusion. 5–6*
*L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. 1–4*

**7 Explain the difference between productive and allocative efficiency and discuss the suggestion that it is only possible to achieve such efficiencies through government intervention. [25]**

Economic efficiency should be explained in terms of productive and allocative efficiency. Candidates should then consider whether the market ever achieves such efficiencies. They may be possible in a perfect market but the reality is that there will be inefficiencies due to market failures – excess profits, lack of information, externalities, merit goods, public goods might all prevent the achievement of efficiency. Whether the efficiency can instead be achieved by government intervention should also be discussed. Candidates could debate what type of intervention might be suitable. (25)

*L4 For a thorough discussion of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented. 18 –25*

*L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. 14 –17*

*L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. 10–13*

*L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. 1–9*

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