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

9708/42 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) The article begins by stating that Malaysia is a market-orientated economy. Identify evidence in the article that
(i) supports this opinion; and
(ii) contradicts this opinion. [4]

supports the opinion:
there are a large number of small and medium sized enterprises
the government has abandoned protection of industry
existence of competitive prices
against the opinion:
there is government intervention in the economy
a large % of the output in manufacturing and agriculture is controlled by large industries who are likely to control prices (thus it may be thought not to be a free perfectly competitive market although large industries do exist in imperfect markets. It depends on how the candidate defines a market) (4)

(b) State <u>two</u> indicators which can be used to measure the performance of firms. [2]

Brief comment on two indicators, for example, profit levels, productivity, employment, research activity, economies of scale, price levels, optimum output, market size, turnover, sales.

(c) The article states that the aim of the government programmes is to encourage a better performance from SMEs.
Discuss how <u>two</u> of the government policies mentioned might be used to encourage a better performance from SMEs. [6]

Government policies mentioned are provision of loans, technical advice, information on prices, production and technology. Candidates can choose any two and suggest whether they might influence production and allocation of resources. Max 4 for any one. (6)
For a discussion of general government policies, with some implication or reference to SMEs; max 2.

(d) The article says that the development of SMEs has been given government priority as they are important to the economy. How far does the information support this statement? [8]

SMEs are large in number and employ over half the country's workforce.
However, they account for only 19% of the value of exports.
Also, the output SMEs produce is only 43.5% of the total; and in manufacturing, which is the sector which has the biggest value of output, their share is only 34.9%. The larger enterprises account for only 10.7% of the number of enterprises in manufacturing but produce, disproportionately, 65.1% of the manufacturing output.The largest % of SMEs by sector is in agriculture but agriculture accounts for only a small % of the output of the economy.
In services, SMEs account for 96.7% of the total number of enterprises but the remaining 3.3% of larger enterprises produce 43.4% of the output.(SMEs produce 56.6%).
The output and export value puts a different perspective on the importance of SMEs compared with the number of enterprises existing. Nevertheless they are a significant feature of the economy by number and number employed. (8)

Accept an alternative approach that discusses whether the government is, or is not, giving SMEs priority. Can use full marks for either approach.

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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 organize 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 so that the whole is well presented. New illustrations and apposite examples should be

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introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.
21–25 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 When buying goods not everyone buys the same standard product. There are some who want a cheap product even though it might be of poor quality, while there are those who are willing to pay more for a luxury or an individually-made product. Customers search for value but value is not just in the price.
(adapted from New York Times in the Observer 21.02.10)

(a) Explain the theoretical link between utility, price and the demand for a product. [12]

Explanation of utility, marginal utility, equi-marginal principle, derivation of demand curve. (12)

L4 For a sound analysis and explanation with clear understanding of the principles involved and a good structure to the answer. 9–12

L3 For a competent analysis but more limited explanation maybe of the link to the demand curve but still with a reasonable structure to the answer. 7–8

L2 For a more limited analysis probably explaining DMU but with either an incorrect statement of the equi-marginal principle or of a lack of connection to a demand curve and with a poorer structure to the answer 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 whether the economic analysis of a rational consumer estimating demand based on value (utility) is valid not only for standard products but also for poor quality and luxury products. [13]

Discussion of whether marginal utility can be applied to all products. Utility involves satisfaction. It might be that a cheaper product is just as acceptable as what would have been paid for a standard product – so the MU would have been above the price. The lower price gives greater consumer surplus. Alternatively, the cheaper product might have given less satisfaction so the MU would not have been as great and would still be proportional to the price. A dearer product could give greater satisfaction and still be accommodated into the theory.

L4 For a good discussion with a reasoned comment of both cheaper and dearer products, with a clearly structured answer and a conclusion. 9–13

L3 For a fair discussion but undeveloped answer or a more developed answer on either the cheaper or dearer product. A conclusion should be drawn. 7–8

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L2 For a limited but acceptable attempt to discuss the link to the theory but with inconclusive or unconvincing discussion 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

3 (a) Explain why there may be different levels of profit within perfect competition and between perfect competition and monopoly. [12]

Discussion of the possible changes in profit between short and long run in perfect competition and of the possibility of long-run supernormal profits in monopoly. (12)

L4 For a good discussion and comparison of the profit levels short and long run perfect competition, and perfect competition and monopoly. 9–12

L3 For a competent explanation with either a concentration on the short and long run in perfect competition or on the difference between perfect competition and monopoly or of a weak explanation of both aspects. 7–8

L2 For a limited discussion and only a brief comparison. 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

(b) Discuss whether the average variable cost has any significance in a perfectly competitive market structure in determining
(i) the output produced by a firm and (ii) the profit of a firm. [13]

Firm must cover AVC even in short run to remain in business. Output is determined by MC=MR above minimum AVC; AVC + AFC gives ATC which is compared with AR to determine profit. (13)

L4 For a good explanation of the link to both profit and output. The diagram will be clear and accurate. 9–13

L3 For a competent analysis but with a weaker structure to the answer. Diagrams will be less clear, not have complete labels, or contain a single error. 7–8

L2 For a more limited analysis with weak explanation of the significance. The diagram will be poor with more than one error. 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 Wage rates in some non-essential occupations, such as entertainment, are very high while wage rates in essential occupations, such as public sector hospital nurses, are much lower. This is unfair.

Analyse how economic theory can explain these differences in wage rates and consider whether you agree with the conclusion of this statement. [25]

Discussion of the determinants of wages. Candidates should discuss the theoretical analysis of what influences the wage rate through a consideration of the demand and supply of labour. Differences in wages may be influenced not only by market demand and supply but by imperfections caused by unions and whether workers are in the public sector and subject to government controls over wages. (25)

L4 For a thorough analysis of theoretical wage determination with a clear discussion of the role of unions and/or government policy together with a conclusion about 'fairness'. 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/or government factors but still with a conclusion. 14–17 (10–13 for demand and supply)

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L2 For a correct but undeveloped theoretical analysis with no institutional factors or only very brief mention of these factors and no conclusion. 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)

5 As part of the measurement of GDP governments calculate the level of investment expenditure.

(a) What determines the level of investment and how do changes in investment expenditure affect GDP? [12]

Investment is determined by the rate of interest, the cost and efficiency of capital equipment, changes in consumer demand and expectations. Changes in investment affect the level of GDP – the multiplier should be used to explain how this happens.

L4 For a good explanation with a comment on at least three determinants and their significance with a link to the multiplier. 9–12

L3 For a fair explanation but undeveloped answer covering either two of the determinants together with a link to the circular flow/multiplier 7–8

L2 For a limited but acceptable attempt to consider the determinants but with little development 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) Assess the difficulties of using GDP as an economic indicator. [13]

Assessment of the use of GDP as an indicator compared with alternative indicators.

L4 For a full coverage of problems of data collection, and a discussion of usefulness and drawbacks of using GDP. 9–13

L3 For a competent but more limited discussion of the validity of using GDP. 7–8

L2 For a general comment with nothing on alternative measures and only limited evaluation. 5–6

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. 1–4

6 It is sometimes stated that the economic growth rates of developed countries are higher than those of developing countries.

(a) Explain why developing countries often aim to increase economic growth. [12]

Explanation of the benefits of growth in terms of increases in income, productive capacity, trading position, employment, profitability, standards of living.

L4 For a sound explanation with clear understanding of the principles involved and a clear conclusion 9–12

L3 For a competent explanation but with limited development but still with a conclusion. 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

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(b) Assess the likely effectiveness of the types of policy the government of a developing country might use if it wished to increase economic growth. [13]

Accept any reasoned discussion of fiscal, monetary, direct intervention, trading policies and the effects of the policies chosen on economic growth.

L4 For a reasoned discussion and clearly structured answer with a competent assessment of the effect of the policies 9–13

L3 For an accurate but less developed discussion with brief evaluation of the effectiveness. 7–8

L2 For a limited but acceptable attempt to discuss policies but with no evaluation of their effectiveness 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 It is important to achieve economic efficiency in the use of resources. This can only be done if the private sector is increased in size. Government intervention in the economy should, therefore, be minimised.

To what extent do you support this argument. [25]

Candidates are asked to construct an argument. The elements in the argument must consist of

(i) a statement of the meaning of efficiency and whether it is important to achieve efficiency,

(ii) a consideration of whether the assertion is correct that the only means of achieving efficiency is if the private sector is increased in size and

(iii) whether, therefore, the conclusion in the statement is true.

L4 For an clear explanation of efficiency, a clear assessment of the assertion in the quote and a reasoned conclusion. 18–25

L3 For a competent explanation which does not fully analyse the meaning of efficiency or explains efficiency but does not fully deal with the assertion about the private sector. There will be some discussion but the evaluation will not be extensive. 14–17

L2 For an accurate though undeveloped explanation of efficiency but with very little evaluation of the role of the private and public sector and no conclusion. 10–13

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. 1–9

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