CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the May/June 2015 series

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

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Section A

1 (a) Overall world total grain supply was expected to be 3% lower due to adverse climate conditions which affected major suppliers.

Drought and heat wave
World demand increased 80+ million population increase
Grain was used to make bio-fuels.
Stocks declining therefore difficult to stabilise prices. **[3]**

(b) Prices rose so there was a potential increase in profits, but supply was variable. Both demand and supply showed an increased trend but there was a continued increase in consumption indicated by a "straight line" while production was more erratic with peaks and troughs resulting in periods of scarcity and surpluses.

Cost changes are unclear; there were stocks of cereals that were used but the overall effect is uncertain – it would depend partly on the elasticities of demand and supply.

Need some reference to both winners and losers for 4 marks. **[4]**

(c) Developing economies felt greater impact of price rises (50–70% of incomes spent on food). Scarcities (lower yields) meant some families had to ration consumption as prices increased. Prices more than doubled in some African countries.

Developed economies suffered losses of production due to climate but also faced competing demands for grain to make ethanol for car fuel. Impact of grain price increases was less (9% of incomes in USA spent on food).

No direct reference to numbers max 3 for one side well developed. **[5]**

(d) Any two aims can be chosen. Price stability; the effect would depend on the importance of cereal consumption in the price index. Employment; demand for cereals rose – this may affect employment and may reduce unemployment. Trade balance; there was a reduced home production in some areas and this would affect the balance of payments if the country relied on exports/imports of cereals. Growth; the variations in production and the growth of population together with higher prices may affect the economic growth of the country.

1 mark for identification of the macro aim and 3 marks for a consideration of the effect of cereal market on each aim – 2/3 for each developed aim 1 for conclusion. **[8]**

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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 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.

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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 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

Level	**1**	**2**	**3**	**4**
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13

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2 (a) A rise in income will cause an increase in demand for a normal good; the extent of the increase will depend on the income elasticity and will vary between a necessary good and a luxury good. Rise in income will not cause a rise in demand for an inferior good but a switch away from the good.

L4 (9–12) For a sound description of the analysis and a clear understanding of the principles involved.

L3 (7–8) For a competent comment but with limited elaboration, probably of elasticity, and description of how equilibrium is achieved.

L2 (5–6) For a correct description of part of the analysis, with little development.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Structural – technological change results in mismatch between skills of unemployed workers and skills required for jobs; cyclical – not enough aggregate demand to provide enough jobs; seasonal – temporary depending on time of year. Increased income/demand will not necessarily reduce structural unemployment, especially if it has been caused by replacement of workers by machines; - may reduce cyclical unemployment and such a reduction can be encouraged by government fiscal and monetary policy; – may change seasonal unemployment by increasing demand depending on whether it is co-incidental with the season causing the unemployment.

L4 (9–13) For clear explanation of different types of unemployment and a reasoned and well-argued discussion of the effects on each. A reasoned conclusion should be drawn.

L3 (7–8) For a clear explanation but undeveloped discussion of the effects with a limited conclusion.

L2 (5–6) For a limited attempt at the explanation and without a discussion of each type of unemployment.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial.

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3 (a) Explanation of profit maximisation, together with a diagram. Short run, monopoly likely to have a higher price, lower output, higher profit. Long run, ac may be lower due to economies of scale – may not result in lower price or lower profit.

L4 (9–12) For an accurate diagram and a sound explanation of the analysis with a clear contrast.

L3 (7–8) For a less accurate diagram or less competent explanation but with an attempt at the contrast between the markets.

L2 (5–6) For a correct explanation of part of the analysis, with little development.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Discussion whether firms decide to remain small and the different aims that a firm might have.

L4 (9–13) For with clear discussion of the reasons for small firms and two different aims. Syllabus mentions 'other objectives' and instances satisficing and sales maximisation. A reasoned conclusion is drawn.

L3 (7–8) For a clear discussion of the reasons for small firms and an undeveloped discussion of one alternative aim. Or, two alternative aims and a weaker comment on small firms. A limited conclusion is drawn.

L2 (5–6) For a limited attempt at both parts of the question.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial.

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4 Candidates should comment on the fact that in the product market, prices are not solely determined by supply and demand when there is imperfect competition. They should then explain the theory of wages recognising that the perfectly competitive model is also changed to accommodate trade unions and the government.

L4 (18–25) For a critique of the statement and a thorough explanation of the analysis of wage determination with a clear comparison of perfect and imperfect markets, mentioning trade unions and the government. There should be a conclusion and a well-structured answer.
(14–17 for demand and supply only)

L3 (14–17) For a weaker critique of the statement but a competent explanation of imperfect market wage determination together with a limited conclusion.
(10–13 for demand and supply)

L2(10–13) For a correct but undeveloped explanation with only a brief comparison and no real conclusion.
(6–9 for demand and supply)

L1(1–9) For an answer which contains inaccuracies and only a few correct points.
(1–5 or demand and supply only)

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5 (a) The indicator in the UK is two consecutive quarters of negative economic growth as measured by a country's gross domestic product (GDP); this may not apply in every country so accept comments about a significant decline in economic activity spread across the country lasting more than a few months, falling GDP, lower production, falling incomes, rising costs of living. The cautiousness about spending can result in reduced demand and reduced production, negative multiplier effects. But so can inflation putting pressure on reduced incomes with reductions in unessential expenditures; uncertainty about employment and reduced investment reinforces the trend.

L4 (9–12) For a sound explanation of the analysis, including the multiplier and a clear understanding of the principles involved.

L3 (7–8) For a competent comment but with limited elaboration of the analysis and alternative causes of recession.

L2 (5–6) For a correct explanation of part of the analysis, with little development.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Discussion and analysis of government policies, fiscal, monetary, regulations and their effects on employment, output and growth.

L4 (9–13) For a reasoned discussion on different types of policy with a comment on how the policies will affect a recession. A reasoned conclusion is drawn.

L3 (7–8) For a competent discussion but with less development and less comment on how the policies affect a recession. A limited conclusion is drawn.

L2 (5–6) For a weaker attempt which gives only a brief discussion.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

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6 (a) Description of the meaning of growth and a consideration of its consequences in terms of employment, incomes, demand, international competitiveness, possible pressure on price increases, detrimental effects of growth, externalities, resource depletion.

L4 (9–12) For a sound description of the growth and an extended critique of advantages and disadvantages of growth with a reasoned conclusion.

L3 (7–8) For a competent description but with limited critique of advantages and disadvantages, or a concentration on the advantages of growth with a limited conclusion.

L2 (5–6) For a brief but correct description but hardly any critique.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Note that table shows growth rates not absolute levels of GDP, but even so, GDP is not a good indication of development. Developed countries have negative or low change in GDP; developing countries have high change in GDP. Candidates should mention other characteristics of developing countries and discuss the drawbacks of using GDP, which include – the lack of value of non-marketed items (jobs done yourself) this is in MEW; the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being. Other indicators could be mentioned.

L4 (9–13) For a sound explanation of the characteristics and a thorough critique and discussion of the use of GDP with comment on the table.

L3 (7–8) For a competent comment but with limited discussion of the table and a good critique of the value of GDP.

L2 (5–6) For a correct explanation of the characteristics but scant reference to the table and only a brief discussion on GDP.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

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7 Candidates need to answer in terms of market failure and the meaning of the efficient use of resources and then consider the argument. Market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities, merit goods and of the need for public goods.

Government intervention can be through regulation, taxation, subsides, or ownership. Price policy should be to achieve economic efficiency. Economic efficiency should be explained in terms of productive and allocative efficiency. Neither is necessarily achieved simply because the government is involved in the production of the good or service.

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

L3 (14–17) For a competent explanation with either a 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 limited way but a conclusion should still be presented.

L2 (10–13) 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.

L1 (1–9) 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.

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