Cambridge International AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **May/June 2017**

MARK SCHEME

Maximum Mark: 70

Published

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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	**Knowledge and understanding**	**Application**	**Analysis**	**Evaluation**
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

Question	Answer	Marks
	Section A: Data Response	
1(a)	• More money leads to depreciation • Increase in S of money may lead to domestic inflation • US exports become relatively more expensive or imports relatively cheaper • This leads to fall in demand for US$ • And leads to a depreciation of the $ **(Maximum 4 marks)** OR • Increase in S of money lowers the rate of interest • encouraging more consumer or producer spending on imports • this leads to an increase in supply of US$ • and this leads to a depreciation of the $ **(Maximum 4 marks)** Candidates may gain 4 marks from an answer which combines elements of these two approaches. Accept other appropriate answers e.g. reduction in portfolio demand for US$ or capital outflows.	**4**
1(b)	Up to 2 marks for: • supply side, change in aggregate supply • e.g. deregulation, training Up to 2 marks for: • QE changes aggregate demand • e.g. increase in money supply, central bank purchase of bonds	**4**
1(c)	• 1 for description of population factor + 1 for analytical development, • 1 for description of oil price + 1 for analytical development • 1 for description of GDP data + 1 for analytical development. • 1 for impact of exchange rate changes + 1 for analytical development 3 × 2 marks	**6**
1(d)	Finance Minister: • regards QE as a primary tool • QE leads to lower interest rates • stimulates aggregate demand and economic growth Companies: • concentrate on consolidation/mergers not expansion • prefer supply side tools • QE distorts value of US$ • pension funds viewpoint Up to 4 marks for comments from Companies' / Pension funds Up to 4 marks for comments of Finance Minister. **(Maximum 6 marks)**	**6**

Question	Answer	Marks
Section B: Essays The Essays are to be assessed using the Levels of Response approach, process and grid. The grid is generic so answers to all Essays are assessed against a common set of criteria. The mark scheme below includes some indicative content describing the most likely approaches and relevant arguments candidates may make in their answers, but there will be a large variety of relevant, valid responses seen. The mark scheme below also includes the mark bands to be used for each level for each question.		
2	*(i) Explanation of indifference curves, equilibrium point, (ii) link between indifference curves and demand curve, (iii) discussion of how reduced price can affect equilibrium/demand for a luxury product, shift of budget line, income substitution effects, (iv) advertising, change in tastes would change the shape of the indifference curve.* **Level 4 (18–25 marks):** for an answer illustrating all the 4 elements of the question, equilibrium, construction of a demand curve, change in demand, and change in shape of indifference curve and a conclusion. No conclusion max. 22, 18–19 marks if 3 elements well done with a conclusion. **Level 3 (14–17 marks):** for a less developed answer that deals with 3 points. **Level 2 (10–13 marks):** for a limited answer that deals with only 2 points. **Level 1 (1–9 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**

Question	Answer	Marks
3(a)	*Motives for price leadership and/or price discrimination. Price leadership refers to a situation where prices and price changes are established by a dominant firm which other firms in the industry adopt and follow. When price leadership is used to facilitate collusion, the price leader will generally tend to set a price high enough so that the least cost-efficient firm in the market may earn some return above the competitive level. Price discrimination is the charging of different prices for the same product with same production costs. Conditions for price discrimination.* **Level 4 (9–12 marks):** for both terms explained, sound elaboration of both terms given **Level 3 (7–8 marks):** for both terms explained with briefer comment and elaboration **Level 2 (5–6 marks):** for an answer that concentrates on one term, with only brief mention of second term. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
3(b)	*Discussion of the various aims of the firm, profit maximising, behavioural, managerial, satisficing, and a consideration of whether profit maximising is the main aim and whether it is possible to calculate mc and mr.* **Level 4 (9–13 marks):** For a reasoned and well-argued discussion with clear explanation of a range of aims and comment on possibility of using mc=mr rule in reality together with a conclusion. Max. 11 if no critique of mc = mr rule. **Level 3 (7–8 marks):** For a clear but undeveloped discussion of profit maximisation plus one alternative developed in depth or 2+ briefly. **Level 2 (5–6 marks):** For a limited attempt to consider the question which concentrates on profit maximisation with limited reference to alternative aims. **Level 1 (1–4 marks):** 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)	*Description of transactions, precautionary and speculative motives.* **Level 4 (9–12 marks):** for a sound description and a clear understanding of the principles involved for all three motives **Level 3 (7–8 marks):** for a competent comment with limited development of 3 motives, or a fuller development of two motives, **Level 2 (5–6 marks):** for a correct but brief description **Level 1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	*Analysis of the theory of wages distinguishing between perfect and imperfect markets and recognising that the success of a higher wage claim will depend on where the original wage level was and how much extra the claim was for. There is a bigger scope for wage claim success in imperfect competition.* **Level 4 (9–13 marks):** for an analysis of wage determination including a clear analysis of MRP and a clear comparison of perfect and imperfect markets recognising the comparison of the initial and the final wage level. There should be a conclusion. (Without MRP cannot reach L4) **Level 3 (7–8 marks):** for a weaker analysis and critique of the possibility of wage increases but a competent explanation of imperfect market wage determination. **Level 2 (5–6 marks):** for a correct but undeveloped analysis with only a brief discussion. **Level 1 (1–4 marks):** 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	*Explanation of meaning of GDP; analysis of effect of interest rates on investment, saving, spending, and link between these variables and GDP. Understanding of leakages and injections. Multiplier / accelerator.* **Level 4 (18–25 marks):** for a sound explanation and discussion with good illustrations and a clear understanding of the principles involved with accurate links and a reasoned conclusion referring to the question, explicitly. No conclusion max. 22. **Level 3 (14–17 marks):** for a competent explanation with an accurate but limited discussion without a full analysis of the links. **Level 2 (10–13 marks):** for a correct but undeveloped explanation with some attempt at analysis but only brief discussion. **Level 1 (1–9 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**
6(a)	*Developed countries: explanation of why they prevent development, e.g. protection of environment, costs of development. Developing countries: explanation of encouragement of development of rural areas, e.g. to increase employment, raising GDP.* **Level 4 (9–12 marks):** for a sound explanation and a clear understanding of the different issues involved in both circumstances. **Level 3 (7–8 marks):** for a competent comment but with limited elaboration of one side of the question. **Level 2 (5–6 marks):** for a correct explanation of some of the issues involved. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
6(b)	*Discussion of the weakness of using GDP can be partly overcome by using real GDP per capita but it omits social issues – education, health, sanitation, working hours – doesn't include unpaid work, informal economy, quality of goods, types of goods, environmental issues, distribution of income, sustainability. These qualitative factors are considered with other indicators.* **Level 4 (9–13 marks):** for a sound explanation and discussion with good illustrations and a clear understanding of the relevance of both types of data and a relevant judgement. **Level 3 (7–8 marks):** for a competent comment with limited development and discussion, brief recognition of importance of social factors. **Level 2 (5–6 marks):** for a correct explanation but undeveloped comment. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
7(a)	*Potential benefits of a competitive market: lower prices, greater output, greater allocative and productive efficiency, higher welfare, lower barriers to entry, reduced risk of price discrimination and predatory pricing, more internationally competitive. Potential limitations of monopolised markets: deadweight loss, inefficiencies Reward candidates who recognise the potential benefits of monopoly.* **Level 4 (9–12 marks):** for a sound explanation with good illustrations and a clear understanding of key features of market structures. **Level 3 (7–8 marks):** for a competent comment but with limited elaboration or comment on all the elements. **Level 2 (5–6 marks):** for a correct but undeveloped comment on two of the elements. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
7(b)	*Explain the meaning of efficiency and consider forms of market failure with examples, merit / demerit goods, public goods, information failure, natural monopoly (but **not** monopoly).* **Level 4 (9–13 marks):** for a thorough explanation and a reasoned discussion dealing with productive and allocative efficiency and 3 possible reasons for market failure, together with a judgement. **Level 3 (7–8 marks):** for a competent explanation and a reasoned discussion dealing with both aspects of efficiency and possible 2 reasons for market failure. **Level 2 (5–6 marks):** for a correct but undeveloped explanation with some attempt at analysis but only brief discussion. **Level 1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

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