Cambridge International AS & A Level

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ECONOMICS **9708/43**

Paper 4 Data Response and Essays **May/June 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)	• income is a flow of money received at intervals • wealth is a stock of assets	**2**
1(b)	• equality is when people are treated the same (1) • equity is when people are treated fairly, but differently, having taken into account their different circumstances (1) • preventing tax evasion is treating everyone the same – equality, the amount of tax paid may be different depending on circumstances – equity (1) • more public services – depends on how the services are allocated – could be equality or equity; (1-2) • higher wages for lower paid –could be equality if dealing with the same job but different pay rates; may be equity if there is thought to be unfairness in current system of pay. (1)	**6**
1(c)	Tax havens assist global capitalism to work: Businesses need to be encouraged to take risks and innovation and thereby increase the size of national income through the investment multiplier. This creates employment through an increase in AD. More likely to undertake deals if tax is low. Effect of this is weakened if MNCs pay low wages and send profits to tax havens. Positive link: Tax havens are used by entrepreneurs/MNC's to shelter incomes from taxation. These incomes could be used as investments by the MNC's to create further wealth in countries where they operate. Negative link: Income inequalities are becoming greater between rich and poor in both developed and developing countries. Taxes create resentment and may prevent investment and impede economic growth.	**6**
1(d)	Governments face a shortfall in revenue. Therefore to cover government expenditure they need to borrow more because tax revenues are below potential. Education suffers, health care suffers. If the 'rich' do not pay sufficient tax there is an opportunity cost. Provision of welfare programmes, education, health provided by governments will be affected. Quote examples from text e.g. African countries. Governments incur administrative costs trying to recover tax which could be better spent on services. Government's macro-aims are affected e.g. capital outflows create balance of payments deficits. Governments may have to make welfare payments to unemployed workers if MNCs fail to invest profits back into the businesses where they were generated. But paying lower taxes could be profitable for companies who might then re-invest, research more and employ more people.	**6**

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Question	Answer	Marks
2(a)	*Margin is significant in relating the utility/satisfaction to the price in determining equilibrium quantity bought. Candidates can use either marginal utility theory or marginal changes on indifference curves related to budget lines.* **L4 (9–12):** for a clear explanation and a sound comment on the relation between the price and the satisfaction obtained, referring to more than one good **L3 (7–8):** for a less developed answer but which still refers to the equilibrium but probably concentrates on only one good **L2 (5–6):** for a brief attempt which does not clearly bring out the significance of the marginal analysis **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**12**
2(b)	*Social efficiency/allocative efficiency requires that marginal social costs and marginal social benefits are equal at the point of output. For productive efficiency to occur the firm is producing at its lowest average cost for the output concerned. (Not necessarily the lowest overall average cost).* **L4 (9–13):** for an understanding of the link of marginal to allocative efficiency and average to productive efficiency with a conclusion **L3 (7–8):** for a less accurate understanding – probably evidenced by a weak conclusion of the role of marginal and average in the different efficiencies **L2 (5–6):** for an unclear answer or one which concentrates on one of the efficiencies **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
3	*Costs will increase initially as research is expensive but in the long run average costs would decrease. Candidates should explain how economies of scale affect costs. Market structure is likely to become more imperfect and this may lead to potentially higher profits and higher, not reduced, product prices. Small firms are unlikely to be able to afford the research.* **L4 (18–25):** for clear explanation of economies of scale; consideration of likely effect on prices and profits as industries become larger and the market more imperfect. Conclusion should be given to a reasoned answer **L3 (14–17):** for an answer that concentrates more on one side – either economies or the market structure: or a briefer explanation of both parts; a conclusion should still be given **L2 (10–13):** for a more limited answer probably concentrating on economies. Maximum 11 if no conclusion **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
4(a)	*Theory predicts certain outcome based upon the demand (MRP) and cost/supply of labour. Explanation of determination of equilibrium output is required.* **L4 (9–12):** for a clear explanation of the theory and derivation of equilibrium position, a comment about possible changes in MRP or supply with a comment about the precision of the theory. 7–8 marks if demand/supply approach used **L3 (7–8):** for a briefer explanation of the theory without any comment on possible changes or without a comment on the precision of the theory. 5–6 marks if demand/supply approach used **L2 (5–6):** for a much less developed answer with no comment on the precision of the theory and vague mention about equilibrium. 3–4 marks if demand/supply approach used **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. 1–2 marks if demand/supply approach used	**12**
4(b)	*Candidates could discuss whether it is possible to determine precisely the MRP curve (or the demand curve), could discuss problems of measuring productivity. They could also discuss the problems of determining the marginal cost. These difficulties are accentuated, and the theory becomes even less realistic, when either trade unions or governments influence the determination of wages. There could be a range of outcomes depending on the bargaining strengths of each side.* **L4 (9–13):** for a reasoned and clear explanation with accurate development of theoretical difficulties. 7–8 marks if demand/supply approach used **L3 (7–8):** for a clear but undeveloped explanation which is limited to either the demand side or the supply side. 5–6 marks if demand/supply approach used **L2 (5–6):** for a limited attempt to consider the theory and with a greater concentration on the descriptive elements. 3–4 marks if demand/supply approach used **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. 1–2 marks if demand/supply approach used	**13**

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Question	Answer	Marks
5(a)	*Candidates will provide a clear definition of the term 'deflationary gap' supported by an accurate, clearly labelled supporting diagram which identifies the deflationary gap. Some attempt should be made to establish why this might cause economic problems such as high levels of unemployment, low levels of economic growth and low consumer/investor confidence.* **L4 (9–12):** for an answer that extends the range of reasons why a deflationary gap might produce negative outcomes, such as potential long run negative effects on expectations or the existence of a liquidity trap. Responses which attempt to locate possible positive effects, for example lower cost of living, improvement in the balance of payments, should also be rewarded. There should be a conclusion. **L3 (7–8):** for an answer that makes some attempt to analyse why a deflationary gap is likely to be associated with negative outcomes such as unemployment and/or low growth rates. **L2 (5–6):** for answer that describes what is meant by a deflationary gap and is supported by a reasonably accurate diagram. **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
5(b)	*Responses should indicate a clear understanding of what is meant by a budget deficit and the economic circumstances where governments would choose to use them. Reference should then be briefly made to the problems created by a deflationary gap and the links between these and the use of budget deficits. Some attempt should be made to discuss the effectiveness of using budget deficits and also some consideration of alternatives such as the reliance on the operation of market forces and/or the use of supply side policies.* **L4 (9–13):** for responses that recognise there are problems associated with deficit financing such as crowding out, long term effects on the price level. Higher level four responses will then consider alternative approaches such as supply side policies and/or market liberalisation. A conclusion should be provided. **L3 (7–8):** for responses that analyse the links between the use of budget deficits and deflationary gaps. Clear diagrams illustrating how deficits can be used to close the gap will be provided. Some attempt should be made to develop answers which recognise that budget deficits alone are unlikely to solve problems associated with negative expectations. **L2 (5–6):** for an understanding of the term budget deficit and how this might provide a solution to the problem of a deflationary gap. Answers will be descriptive and not go beyond linking the policy to key issues of unemployment and low growth rates. **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
6(a)	*Candidates should explain that the quantity theory of money uses an identity where total expenditure equals total income, and this can presented in the form MV = PT. Each variable should be explained and the key assumptions relating to V and T established. Then the direct link between changes in the money supply and the price level should be identified and discussed in relation to other economic policies which might be used to reduce inflation.* **L4 (9–12):** for an answer that attempts to evaluate the relevance of the theory to policies used to control inflation. Difficulties relating to how we measure the variables might be discussed and/or the effectiveness of polices based on this theory in relation to alternative policies **L3 (7–8):** for an answer that uses the formula to analyse the potential impact on the price level when the money supply increases and which recognises the importance of reducing the growth of the money in order to control inflation **L2 (5–6):** for an answer that states the formula and explains each variable and the assumptions which are made regarding V and T **L1 (1–4):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**12**
6(b)	*Answers should explain the nature of the Phillips curve and how it was derived. Discussion relating to the suggested 'trade off' between inflation and unemployment should be provided. Alternative explanations of the relationship between inflation and unemployment should also be considered, as well as an attempt to evaluate whether inflation can be controlled without raising the level of unemployment. A conclusion is required.* **L4 (9–13):** for an answer that discusses the contention and identifies alternative explanations of the relationship between inflation and unemployment. Some reference to problems with empirical evidence or the neglect of inflationary expectations might be discussed. A conclusion should be provided **L3 (7–8):** for an answer that analyses the relationship between inflation and unemployment and which provides an accurately labelled supporting diagram. Comments upon the particular shape of the curve and/or it was derived might also be made **L2 (5–6):** for answer that demonstrates knowledge of the relationship between inflation and unemployment as indicated by the Phillips curve **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	*Answers should clearly distinguish between economic growth and development and examine the extent to which economic growth relies solely on higher levels of investment. Alternative ways of achieving economic development should be discussed and the role of private sector investment as an alternative to government investment should also be considered. A conclusion should be drawn based on the preceding discussion.* **L4 (18–25):** for an answer that examines the extent to which economic development can only be achieved by economic growth and which discusses whether economic growth is the sole determinant of investment. A conclusion would be required **L3 (14–17):** for an answer that attempt to analyse the relationship between change in the level of investment and changes in growth and how this might impact on the level of development **L2 (10–13):** for an answer that provides a descriptive account of the difference between economic growth and economic development and the difference between government and private investment **L1 (1–9):** 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**

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