Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **May/June 2019**

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.

Cambridge International will not enter into discussions about these mark schemes.

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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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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

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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)	**Identify two ways in which kiranas compete for customers.** Must be distinct points: • exotic / fresh produce / quality • government intervention • prime locations • credit facilities • home delivery • sourcing products not normally stocked • local knowledge **2 × 1 marks**	**2**
1(b)	**What can be concluded about the groceries and vegetables trade in India from Fig. 1.1?** Candidates can write about the type of store and / or the composition of the grocery / vegetable trade. For example: • Online grocers least used, more for groceries than vegetables • Stalls and kiranas most used, vegetables the most common closely followed by grocery and vegetable sales, relatively few groceries-only customers • Supermarkets the second most-used with limited vegetables sales • Home delivery kirana customers more grocery-heavy, in contrast to those who visit the shops and stalls. **5 × 1 mark**, based on Fig. 1.1	**5**
1(c)	**Use economic analysis to suggest the market structure in which kiranas operate and explain how equilibrium is reached by a firm in such a market.** **1 mark** for identification of Monopolistic Competition **Up to 2 marks** for explanation / characteristics **Up to 3 marks** for analysis of Monopolistic Competition short run **or** long run equilibrium. If wrong market structure identified allow up to 3 marks for analysis of short run or long run equilibrium of the market chosen. Diagrams are not essential.	**6**

Question	Answer	Marks
1(d)	**Discuss how it might be possible for supermarkets in India to compete with the stalls and kiranas.** **Up to 4 marks** for analysing why it might be possible: • Supermarkets can enjoy economies of scale, reduces LRAC and therefore prices allowing them to compete. • For example can spread the cost of advertising across multiple stores to increase their demand, can buy products in bulk and so enjoy lower unit costs, can use specialisation of labour. • Credit facilities, delivery quality. **Up to 4 marks** for analysing why it might not be possible: • Many good sites already occupied by kiranas, therefore a barrier to location. • Small shops compete on knowledge, convenience and personal relationships, hence still attract consumers. • Large proportion of India's population lives in rural villages and may be many kilometres from supermarkets. • Average incomes for many are low therefore idea of weekly / monthly shop is limited and therefore limits supermarket demand. **1 mark** for a conclusion. **NOTE: max. 7 marks**	**7**

Question	Answer	Marks
	Section B: Essays The Essays are to be assessed using the Levels of Response approach, process and generic grid of descriptions. The descriptions in the grid are generic so that answers to all Essays are assessed against a common set of criteria. The mark scheme for the Essays includes indicative content describing the likely approaches and relevant arguments candidates may make in their answers, but there will be a variety of relevant, valid responses seen. The mark scheme also includes the mark bands to be used for each level for each question.	
2	**Explain what is meant by 'market failure' and consider how far government intervention can reduce market failure.** *Market failure explained in terms of lack of knowledge, externalities and inefficiency, (productive and allocative) public goods and their effect on price and output produced. A discussion of the forms of government intervention regulation, state provision and taxation / subsidies and the degree to which they can reduce market failure. The limits of government knowledge limiting the beneficial outcome.* *Note: merit and / or demerit goods are one form of market failure; positive and / or negative externalities are one form of market failure.* **L4 (18–25 marks)** For a thorough explanation of 2 forms of market failure. A discussion of 2 forms of government intervention and how successful that intervention might be. A conclusion is drawn (Max. 21 no conclusion) . **L3 (14–17 marks)** For a thorough explanation of 1 form of market failure and 1 form of government intervention and how successful that intervention might be. **Or** A limited explanation of 2 forms of market failure and 2 forms of government intervention **L2 (10–13 marks)** For a limited explanation of 1 form of market failure and 1 form of government intervention or which focusses only on market failure. **Or** An answer which is largely descriptive. **L1 (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 contains irrelevancies and errors of theory.	**25**

Question	Answer	Marks
3(a)	**A recent newspaper article commented on the fact that a pharmaceutical company charged customers in the United States (US) US $800 per treatment whilst it charged customers in Egypt US $80 for the same treatment.** **Explain why the company might follow this policy and what conditions are necessary to allow the policy to be successful.** *An explanation of price discrimination – marginal revenue (MR) differs between markets with the same marginal cost (MC). Explanation of the conditions necessary for its successful implementation, price maker, barriers between markets and differing price elasticity of demand.* **L4 (9–12 marks)** For an explanation of how the firm benefits from charging differing prices in different markets and the 3 conditions necessary for price discrimination. **L3 (7–8 marks)** For an answer which explains how a firm benefits from charging differing prices in different markets and a limited explanation of the necessary conditions. **L2 (5–6 marks)** For a limited description of both aspects of the question. **Or** An answer that explains price differences rather than Price Discrimination. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
3(b)	**Discuss whether oligopolistic industries always operate against the interests of consumers.** *Oligopoly behaviours e.g. collusion, price fixing, barriers to entry preventing competition. But benefits for consumers, e.g. new product development, economies of scale, price discrimination, price wars.* **L4 (9–13 marks)** For a comprehensive discussion of at least 2 factors in favour and 2 factors against the consumers' interest. Max. 11 if no conclusion. **L3 (7–8 marks)** For a largely one-sided discussion of factors for or against. **Or** A limited two sided discussion. **L2 (5–6 marks)** For a limited discussion of oligopoly. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

Question	Answer	Marks
4(a)	**Analyse how an individual consumer's demand curve for a product is derived and consider how this may be linked to its market demand.** *Candidates can use either a marginal utility or an indifference curve approach.* *Marginal Utility: explanation of marginal and total utility, the equi-marginal equilibrium, the change in price of one good and the resultant establishment of the new equilibrium and its consequence for demand.* *Indifference Curve: explanation of the shape of an indifference curve and a budget line, the point of tangency to establish demand, followed by a change in price and change in quantity, linked to an individual's demand curve.* *The aggregation of individual's demand curves to make the market demand curve.* **L4 (9–12 marks)** For a sound explanation of marginal utility, and the link to equi-marginal equilibrium. The effect of a change in price on demand for a good linked to an individual demand curve and hence the aggregation of individual demand to construct a market demand curve. **Or** For an accurate analysis of an indifference curve map and budget line tangency. Change in price shifting budget line and impact on individual demand curve and hence the aggregation of individual demand to construct a market demand curve. **L3 (7–8 marks)** For a sound explanation of marginal utility, and the link to equi-marginal equilibrium. The effect of a change in price on individual demand. **Or** For an accurate analysis of an indifference curve map and budget line tangency. Change in price shifting budget line and impact on individual demand curve. **L2 (5–6 marks)** For a limited explanation of equilibrium. **Or** For an explanation of an indifference curve map and budget line tangency. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**

Question	Answer	Marks
4(b)	**Use indifference curve analysis to distinguish between the effect of an increase in income on a consumer's demand for a normal good and an inferior good.** *Analysis to show the effect of an outward shift in the budget line on the demand for a normal (positive) good and inferior (negative) good.* **L4 (9–13 marks)** For a thorough analysis of the effect of an increase in income on both normal and inferior goods. **L3 (7–8 marks)** For a thorough analysis of the effect of an increase in income on **either** a normal **or** an inferior good. (This may be shown indirectly through a change in real income following a price fall.) **L2 (5–6 marks)** For an explanation of a normal good and an inferior good with some link to indifference curves. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

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Question	Answer	Marks
5	**Cyclical and structural unemployment are the most common types of unemployment.** **Explain the causes of these types of unemployment and assess the effectiveness of government policies to reduce them.** *An analysis of the cause of cyclical unemployment – lack of aggregate demand and structural unemployment – a lack of demand for a particular good or service.* *Fiscal, monetary and supply-side policies need to be identified and analysed and linked to the structural or cyclical unemployment.* **L4 (18–25 marks)** For a thorough explanation of the causes of both types of unemployment. Two policies chosen need to be analysed and explicitly linked to these types of unemployment with an assessment of their effectiveness. A conclusion is required. (Max. 21 no conclusion.) **L3 (14–17 marks)** For a limited explanation of the causes of two types of unemployment and a limited analysis of two policies. **L2 (10–13 marks)** For an accurate description of the two types of unemployment and a description of government policies. **L1 (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 contains irrelevancies and errors of theory.	**25**

Question	Answer	Marks
6(a)	**The US Federal Reserve pursued a policy of quantitative easing (QE) for several years.** **Explain how the quantitative easing affects the level of economic activity in a country.** *The injection of money into the economy to boost spending. The central bank creates new money electronically to buy financial assets like government bonds. This cash injection lowers the rate of interest and boosts asset prices, which increases wealth and supports spending, increasing AD and stimulating employment and growth.* **L4 (9–12 marks)** For a thorough explanation of QE and the effects on the money supply and interest rates and the consequences of lower interest rates or the wealth effect of higher bond prices and its effect on 2 forms of economic activity (e.g. unemployment, investment, econ growth, exchange rates / balance of payments or inflation). **L3 (7–8 marks)** For a sound explanation of QE. The effect on the money supply and interest rates and the consequence of lower interest rates on 1 form of economic activity. **L2 (5–6 marks)** For a limited description of QE and a brief link to economic activity. **Or** A good description of QE but no clear link to economic activity. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**

Question	Answer	Marks
6(b)	**Discuss how far (i) an increase in wages and (ii) a loss of business confidence might affect the rate of interest.** *Identification of the relevance of increases in wages on the transaction and precautionary for money (liquidity preference (LP)) and the effect on interest rates. The effect of a fall in confidence on the demand for money.* **L4 (9–13 marks)** For a thorough discussion of the effect of an increase in wages on the different components of LP and the effect of a decrease in business confidence on the LP curve and the effect on the rate of interest. The changes may be considered individually or simultaneously. Max. 11 if no conclusion. **L3 (7–8 marks)** For a good explanation of either wages or business confidence on the LP curve and on the rate of interest. **Or** A limited explanation of both wages and business confidence. **L2 (5–6 marks)** For a limited explanation of wages **or** deteriorating business confidence on LP. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. **Max. L2** for a good explanation based on other approaches.	**13**
7(a)	**Explain what is meant by actual economic growth and potential economic growth.** *A definition of actual economic growth (SR) in terms of an increase in real gross domestic product per annum. Potential economic growth (LR) as the change in economic capacity which may or may not be immediately utilised. Use of the production possibility frontier (PPF) to explain actual and potential economic growth. An appropriate AS & AD analysis is acceptable. Keynesian 45° diagram.* **L4 (9–12 marks)** For a thorough explanation of both terms. **L3 (7–8 marks)** For a thorough explanation of one term and a description of the other. **L2 (5–6 marks)** For a limited description of both terms. **Max 5 marks** for an accurate explanation but the terms and explanations are mismatched. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**

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Question	Answer	Marks
7(b)	**'Health, education and savings are the most important factors in determining long-term development in developing countries.' Comment on this statement.** *Links between the 3 factors and development.* *Relevance of other factors in developing countries. For example foreign trade, trade substitution, FDI, infrastructure, technology, social and environmental elements.* *It is the interplay between the factors which leads to greater or lesser success.* **L4 (9–13 marks)** For a good discussion of the contribution of the three factors health, education and savings to economic development and a discussion of the role played by other factors in promoting economic development. The links between the factors e.g. which leads to reinforcement of the individual effect. Max. 11 if no conclusion. **L3 (7–8 marks)** For a discussion of the contribution of the three factors health, education and savings mentioned above to economic development. **and / or** a limited discussion of other factors. **L2 (5–6 marks)** For a limited description of 2 of the 3 factors affecting economic development. **Or** A limited description of other factors. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**