Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **May/June 2021**

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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Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

  From this it follows that we:

  (a) DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
  (b) DO credit alternative answers/examples which are not written in the mark scheme if they are correct
  (c) DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
  (d) DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
  (e) DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
  (f) DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
  (g) DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

Question	Answer	Marks
1(a)	**The article refers to macroeconomic policy aims. Identify and explain <u>two</u> such macroeconomic policy aims.** Any two aims (2) explanation (2)	**4**
1(b)	**Is there evidence in the article that a knowledge of behavioural economics can help public policy?** • evidence of possible reduction in unemployment • evidence of possible increases in tax payments which could help reduce budget deficit • evidence of persuasion to increase savings might help stop demand inflation	**4**
1(c)	**The article says that 'efficiency is measured by relating inputs to outputs'. Is this how economic theory states that efficiency is determined?** Partly it is for productive efficiency – cost against output; not really the case for allocative efficiency.	**5**
1(d)	**The article deals with an improvement in well-being. Discuss whether there are any economic indicators that could be used to assess whether well-being has become better or worse.** Explanation of indicators such as HDI, MEW, GDP per capita; comment on why they are relevant to measuring well-being.	**7**

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Question	Answer	Marks
2	**Assess the suggestion that a free market economy is neither possible nor desirable.** *Explanation of meaning of the free market economy and its link to an efficient allocation of resources. Distinction between productive and allocative efficiency.* *Discussion of whether it is desirable – individual actions are not always best for society as a whole. Discussion of whether it is possible – existence of market failure and necessity/desirability of government intervention to achieve efficiency* **L4 (18–25 marks)** For a thorough explanation and a reasoned discussion dealing with both desirability and possibility; efficiency and possible reasons for market failure/government intervention. A conclusion should be drawn. Max 21 no conclusion. **L3 (14–17 marks)** For a competent explanation of the meaning of pure market. The analysis will probably concentrate on either the desirability or the possibility with little reference to the other. **L2 (10–13 marks)** For a correct but undeveloped explanation with some attempt at analysis but only brief discussion with no conclusion. **L1 (1–9 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

Question	Answer	Marks
3(a)	**Explain what is meant by the concept of the 'equilibrium position of a consumer' and how the concept might be used to construct a demand curve for a good.** *Explanation of consumer equilibrium using either marginal utility or indifference curves. The equilibrium must be related to a point on the demand curve and then there should be an explanation of how other points on the demand curve might be caused.* **L4 (9–12 marks)** For a sound explanation of the analysis and a clear link to the demand curve caused by either changes in price or changes in marginal utility. With accurate diagrams and a clear understanding of the principles involved. **L3 (7–8 marks)** For an accurate reference to the question but with a more limited explanation showing the effect of a change in price with the budget line but not linked to a demand curve, **L2 (5–6 marks)** For a briefer explanation of the analysis and equilibrium position but with no link to the demand curve; or with inaccurate diagrams and weak explanation. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
3(b)	**Distinguish between the income and substitution effects of a change in a good's price and analyse why the effect of a change in price is not always the same for different goods.** *A price fall is reflected in a change in the budget line (pivot from point on axis of the good with no price change) with a subsequent change in equilibrium. The equilibrium change involves substitution and income effects. Substitution effect would be in the opposite direction to the price change. The income effect is represented by a parallel shift of the budget line is in the same direction as the substitution effect for the normal good but in the opposite direction for an inferior and Giffen good. Demand will increase for a normal good, but the extent will depend on elasticity, it will increase for an inferior good but not as much as for a normal good. For a Giffen good the final demand is less than the original demand.* **L4 (9–13 marks)** For a reasoned and clear discussion, logically presented dealing with income, substitution effects and at least two different types of good, (normal, inferior, Giffen). **L3 (7–8 marks)** For a fair but undeveloped discussion probably concentrating on income, substitution. Mention might be made of different elasticities of a normal good or of the difference between normal goods and inferior/Giffen. There would be only a brief comment on the individual demand curve or no discussion about the demand curve. **L2 (5–6 marks)** For a limited explanation with a lack of development of both income/substitution and different types of good. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
4(a)	**What costs ought a profit-maximising firm take into consideration when making decisions about price and output?** *Comment on different types of cost. If the aim is profit maximising, then the significance of marginal cost should be mentioned and the significance of average total cost in the long run and average variable cost in the short run.* **L4 (9–12 marks)** For a consideration of profit maximising position and role of ATC in long run and AVC in the short run. **L3 (7–8 marks)** For an answer that concentrates on the profit maximising position and the role of ATC in the long run. AVC will probably be omitted. **L2 (5–6 marks)** For an answer that concentrates only on the profit maximising position. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	**'Price discrimination is always possible but never desirable.'** **Do you agree with this opinion?** *This requires an explanation of price discrimination and an evaluation of whether it is always possible and whether there might be benefits from price discrimination if it means the firm can continue operating to avoid shutting down.* **L4 (9–13 marks)** For clear analysis of possibility/profitability of price discrimination (separate markets, different price elasticities of demand) and potential benefits. **L3 (7–8 marks)** For an analysis of the possibility of price discrimination, probably concentrating on either separate markets or different elasticities and very limited comment on potential benefits. **L2 (5–6 marks)** For an analysis of price discrimination that is incomplete and with no evaluation of its potential benefit to the firm. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
5	**'Wage differentials can be explained by economic theory. They are a sign of the power of a firm to exploit its workforce and are unjust.'** **Do you agree with this view?** *The question presents an assertion. Candidates should discuss whether the theory does explain differentials in wage rates, and comment on the conclusion presented. Candidates should consider what is meant by 'differential'. Is it different wages for the same job between people with the same experience or different wages for different jobs, or different levels of experience?* *It is likely that in imperfect competition (monopsony) wage rates may be lower than in perfect competition, but the differential might also be due to differences in supply and in the shape of the MRP curve. Differentials may also be due to differences in private/public sector pay and possible political issues in fixing wage rates.* **L4 (18–25 marks)** For a thorough analysis of theoretical wage determination, a clear discussion about the meaning of differential, and consideration of what might cause differentials in wages. There are three parts to consider: whether wage differentials can be explained by the theory, whether they are the result of the power of the firm and whether they are unjust, Expect a comment on all three parts. **L3 (14–17 marks)** For a competent explanation of wage theory but with a weaker use of the analysis. There will be a more limited discussion of the meaning of differential. Expect a comment about two of the parts of the question. **L2 (10–13 marks)** For a correct but undeveloped descriptive approach with scant comment on the meaning of differential and a comment about only one of the parts of the statement. **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 is mostly irrelevant.	**25**

Question	Answer	Marks
6(a)	**Distinguish between a country's national debt and its public sector budget deficit and consider which is the more important.** *Candidates should clearly distinguish between the national debt and the public sector budget deficit. The national is the cumulative amount of debt which consists of the total amount of money borrowed from the private sector and other purchases of government securities since the government began borrowing.* *The public sector budget deficit occurs when a government spends more than its income in a particular time period, usually one year. Both are important due to their potential effects on the macro economy. Interest has to be paid on the national debt and this has an opportunity cost regarding the use of scarce public sector resources. The budget deficit has to be financed and this has important implications for the impact of this on key macroeconomic indicators.* **L4 (9–12 marks)** For an answer that provides a clear explanation of both terms and why each is important in relation to macroeconomic policy. An attempt should be made to evaluate the relative importance of each indicator and also an attempt should be made to show how both elements are linked. A conclusion should provide evidence of some consideration of why one indicator may or may not be more important than the other. **L3 (7–8 marks)** For responses that demonstrate a good grasp of both indicators and why both indicators are important by linking each to macroeconomic management. No attempt will be made to examine the relative importance of each indicator and the conclusion will not be fully developed. **L2 (5–6 marks)** For a description of both indicators but with a limited attempt to establish the importance of each indicator. There will be little reference to the potential links between the indicators and no discussion regarding their effect on key macroeconomic indicators. No conclusion will be provided. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
6(b)	**Discuss the effectiveness of alternative macroeconomic policies used to reduce a public sector budget deficit.** *Short run policy approaches can be divided into those based on increases in the level of taxation and those related to cuts in public expenditure. Longer term measures might relate to supply side policies used to achieve economic growth.* *The effectiveness of each group of measures can be analysed by assessing their relative impact on the deficit in the short run and long run and considering costs associated with each policy alternative.* **L4 (9–13 marks)** For a discussion that refers to at least two groups of alternative macroeconomic measures and attempts to assess the costs/benefits associated with each approach. Good responses will identify the distinction between short run and long run approaches. A reasoned conclusion should be provided. **L3 (7–8 marks)** For analysis of how different macroeconomic policies might be used to reduce a budget deficit but no attempt to distinguish between short run and long run approaches and no attempt to discuss which policy option might be the more effective. **L2 (5–6 marks)** For an answer that describes how a budget deficit can be reduced but does not provide any supporting analysis of how each policy might work and only partially attempts to develop points raised. No conclusion will be provided. **L1 (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
7(a)	**Explain and critically evaluate the quantity theory of money.** *The quantity theory of money is based on the assumption that there is a direct relationship between a change in the money supply and the rate of inflation. The theory uses the equation MV= PT. This assumes that V is constant and T is constant (i.e. consistent with the full employment level of transactions). On this basis, any change in M (the money supply) will have a direct effect on P (the price level).* *Critics question both of these assumptions and also point out that it is extremely difficult to measure the money supply and also difficult to effectively control the money supply.* **L4 (9–12 marks)** For a clear explanation of the quantity theory of money and the assumptions upon which this theory is based. At least **two** critical evaluation points should be raised which question the assumptions and the ability to measure/control some of the variables in the equation. **L3 (7–8 marks)** For detailed analysis of the quantity theory and how it is supposed to work in practice. This should be supported by some ~~critical~~ comment based on the assumptions of the theory. **L2 (5–6 marks)** For some knowledge of the quantity theory of money and how it might be used to support the monetarist explanation of the cause of inflation. Key assumptions relating to this theory might not be considered and critical comment will be brief and undeveloped. **L1 (1–4 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.	**12**

Question	Answer	Marks
7(b)	**Monetary policy relies heavily on the theory of a monetary transmission mechanism.** **Explain how a monetary transmission mechanism works and discuss its effectiveness.** *The monetary transmissions mechanism links changes in the money market to changes in the goods market. Changes in the money supply will change interest rates which will impact on the level of investment and ultimately this will change real variables such as output and employment.* *Evaluative comment might refer to the liquidity trap, an inelastic MEC curve, the effect of negative expectations on investment, a possible weak multiplier effect or the negative feedback effect of an increase in income on the rate of interest.* **L4 (9–13 marks)** For a detailed explanation of the Keynesian monetary transmission supported by an accurate, clearly labelled diagram. Responses should identify at least **two** reasons why the link between the money market and goods market might be weak. Based on the preceding evaluation a conclusion should comment on the effectiveness of the theory. **L3 (7–8 marks)** For clear analysis of the links between the money market and the goods market supported by an accurate, relevant diagram. Some evaluative comment will be provided but not fully developed. Conclusion will be brief. **L2 (5–6 marks)** For a descriptive approach that does not support comment with an appropriate diagram with very little comment relating to the effectiveness of the process and no attempt to provide an appropriate conclusion. **L1 (1–4 marks)** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**