Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

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:

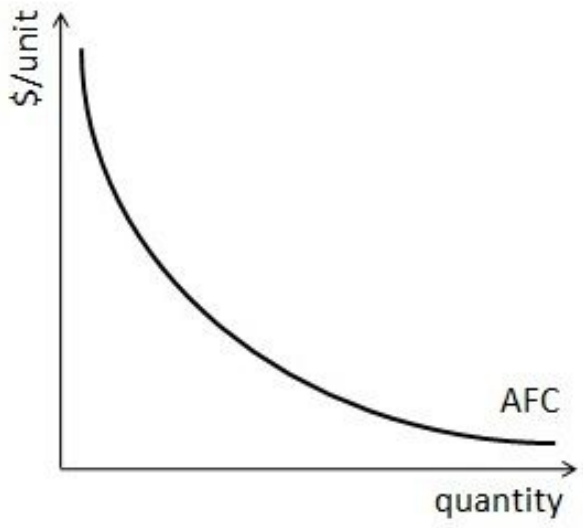
- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, 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.

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Question	Answer	Marks
1(a)	**Using the information, explain the market structure that exists in aircraft manufacturing.** • Oligopoly (1) • as two firms dominate the whole market (1)	**2**
1(b)	**Explain why the two companies might be concerned about the potential entry of China into the aircraft manufacturing industry.** • potential entry provides a contestable market (1) as new entrant can undercut prices (1) • presence of new entrant (1) will reduce demand for other suppliers (1) • limits pricing ability of existing firms (1) and reduces profit (1) • could cause existing firms to spend increase cost (1) by spending more on marketing/research and development. (1) 2 × (1+1)	**4**
1(c)(i)	**Using an example from the information, explain the meaning of fixed costs.** • R&D / marketing/brand development (1) • Does not increase or decrease as level of output changes (1)	**2**
1(c)(ii)	**With the aid of a diagram, explain the link between an increase in an aircraft manufacturer's level of output and its average fixed costs.** • As the total number of aircraft produced increases, the average fixed cost decreases (1) • Because the same amount of fixed costs is being averaged out/divided over a larger number of aircraft (1) • Up to 2 for diagram: axes accept $, costs on vertical axis (1), AFC curve (1)  	**4**

Question	Answer	Marks
1(d)	**Discuss whether economic theory can explain how two companies will compete with each other when they dominate a market.** Future competition possible through A brief discussion of competitive strategy/behaviour • price competition e.g. price wars, kinked demand curve, game theory approach • non-price competition product innovation, marketing • answer based on alternative objectives: sales revenue maximisation/satisficing Up to 4 marks per argument At least 2 arguments are needed for 7 marks. Plus Conclusion – 1 mark	**8**

Question	Answer	Marks
2(a)	**What is meant by 'efficiency' in relation to the use of resources?** *Definitions and explanations of productive efficiency operating on the lowest average cost curve and allocative efficiency where Price = Marginal Cost (MC). The relationship between resource use and PE and the allocation of resources and AE.* **L4 (9–12 marks)** For an answer which has a full discussion of 2 from productive, allocative, dynamic or Pareto efficiency. Needs reference to resources. 9/10 if resources linked to one form of efficiency and 11/12 if reference is made to both forms of efficiency. **L3 (7–8 marks)** For an answer which is a full analysis of **one** efficiency and a description of another. **L2 (5–6 marks)** For an answer which is good description of one form of efficiency **or** a limited description of 2 forms of efficiency. **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
2(b)	**'Market failure can always be overcome to increase economic efficiency.'** **How far do you agree with this statement?** *Explanation of forms of market failure. Methods of reducing market failure: indirect taxation or subsidies, direct provision or legislation. Problems of imperfect government information.* **L4 (9–13 marks)** For an answer which identifies **two** forms of market failure and which discusses **two** methods of improving efficiency. A conclusion is reached for 12/13 marks. **L3 (7–8 marks)** For an answer which identifies **one** form of market failure and which analyses **one** method of improving efficiency and a description of another. **L2 (5–6 marks)** For an answer which describes methods of improving efficiency. **L1 (1–4 marks)** For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**
3(a)	**Use indifference curve analysis to explain how an individual's demand curve for an inferior good is derived.** *Definitions and explanations of Indifference curves (IC) and budget line (BL). The use of tangency of IC to BL to determine demand. The shift of the BL to reflect price change. The connection of changes in price to the shape of the demand curve, or candidates may suggest a change in income and the budget line shift causing a shift in the demand curve for an inferior good.* **L4 (9–12 marks)** For an answer which explains the meaning of indifference curves and budget line. The analysis of the effect of a change in price shifting the BL and the effect on demand. The derivation of the demand curve is explicit using reference to the income and substitution effects, or a shift of the demand curve for a change in income. **L3 (7–8 marks)** For an answer which explains the meaning of indifference curves and budget line. The analysis of the effect of a change in price shifting the BL or a shift in the BL. **L2 (5–6 marks)** For an answer which explains the meaning of indifference curves and budget line. **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
3(b)	**Discuss the relative importance of marginal cost and average variable cost in determining short-run production decisions.** *Definition of marginal costs (MC) and average variable cost (AVC) and relationship to the short run. Changes in marginal cost and the determination of equilibrium output. The relationship of output to short run profit. The relationship of MC, AVC to short run close-down of the firm.* **L4 (9–13 marks)** For a response which clearly defines MC and AVC. The determination of the short run equilibrium output and discusses how differences in these costs and average revenue will determine the short-run shutdown point. **L3 (7–8 marks)** For a response which clearly understands MC and AVC and analyses short run equilibrium output. **L2 (5–6 marks)** For a response which understands MC and AVC. **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
4	**Evaluate whether the theory of wage determination can account for wage differentials (i) between a director and a general worker in the same company and (ii) between two workers doing the same job in different companies.** *Explanation of the theory of wages based on demand and supply: demand based on marginal productivity theory and price/marginal revenue of the item produced and individual with income and substitution effects leading to market supply. Theoretical approach based on perfect markets. Comment on the impact of elasticities of demand and supply. Real world exploration of the limits to perfect competition, imperfect information, lack of labour mobility, discrimination and monopsony, trade union intervention, minimum wage boards.* **L4 (18–25 marks)** For an answer which discusses the theory of wages in terms of marginal revenue product theory and labour supply. Some reference to the impact of elasticities of labour. Both elements (i) and (ii) are directly addressed. Imperfections are commented upon to account for differences in wages. A conclusion is reached for 22–25 marks. **L3 (14–17 marks)** For an answer which analyses the theory of wages demand and supply of labour. Limited reference to elasticities. Either (i) or (ii) is addressed. An imperfection is commented upon to account for differences in wages. **L2 (10–13 marks)** For an answer which describes the theory of wages in terms of supply and demand to explain different levels of wages. Economic rent may be commented upon. **L1 (1–9 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**25**

Question	Answer	Marks
5	**Discuss the extent to which the Human Development Index (HDI) and the Measure of Economic Welfare (MEW) provide better measures of living standards than Gross National Income (GNI).** *Explanation of alternative measures HDI and MEW of the standard of living (SoL). Definition of GNI and explanation of real per capita GNI and its link to measuring the standard of living (SoL). Explanation of the relevance and limitations of the alternative methods and GNI to the problems of measuring alternative and GNI in developing countries – statistical problems cost of collection/accuracy of collection.* **L4 (18–25 marks)** For an answer which describes the **three measures** of the SoL. A sound discussion of the limitations/difficulties of the GNI and one other measure. A conclusion is reached for 22–25 marks. **L3 (14–17 marks)** For an answer which describes GNI and an alternative measure of the SoL. Some limited analysis of the limitations/difficulties of either measure. **L2 (10–13 marks)** For an answer which explains GNI as a measure of the SoL. Some limitations of GNI are identified. **L1 (1–9 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**25**

Question	Answer	Marks
6(a)	**Explain the causes of unemployment and consider which is most likely to occur in a developing country.** *Explanation of Frictional, Seasonal, Structural and Cyclical as causes of unemployment,* ***alternatively*** *an explanation in terms of voluntary/involuntary unemployment. The relevance of one of these types of unemployment to developing countries is explained.* **L4 (9–12 marks)** Explanation of three causes of unemployment: or voluntary/involuntary unemployment is made and then consider their relative significance for developing countries 11/12 marks. **L3 (7–8 marks)** Explanation of three causes of unemployment: or voluntary/involuntary unemployment is made or **two** causes and their significance. **L2 (5–6 marks)** Explain two causes of unemployment: or voluntary/involuntary unemployment is made. **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 whether solving the problem of unemployment should be the main policy objective for the government of a developing country.** *Identification of possible government policy objective. Discussion of significance of unemployment as the only policy objective. Discussion of significance of alternative policy objectives: inflation, growth balance of payments and equality. Identification of other government objectives for developing countries: inflation, growth, balance of payments, distribution of income.* **L4 (9–13 marks)** For an answer which discusses **three** alternative policy objectives and whether they are as important as unemployment. A conclusion is reached for 12–13 marks. **L3 (7–8 marks)** For an answer which analyses **two** alternative policy objectives and a comment of their significance. **L2 (5–6 marks)** For an answer which considers **one** alternative policy objective. **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
7(a)	**Explain what is meant by quantitative easing (QE) and consider whether it is an effective policy to be used in a recession.** *QE is the purchase of both government and commercial bonds. This increases their price and reduces the rate of interest. The Increase in bonds has an income effect which can boost spending as should the reduction in interest rates. The fall in interest rates should also increase investment. The effect is to increase the growth rate and also increase the rate of inflation. Limitations of QE e.g. the liquidity trap.* **L4 (9–12 marks)** For an answer which gives a sound discussion of the QE process and its links to its effects on investment/consumption/asset prices and inflation/economic growth/employment. Effectiveness of QE for 10–12 marks. **L3 (7–8 marks)** For an answer which gives a sound analysis of QE and some links to its effect on investment/consumption/asset prices and inflation in a recession. **L2 (5–6 marks)** For an answer which gives a description of QE. **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
7(b)	**'Policies to achieve economic growth will inevitably cause a government budget deficit.'** **How far do you agree with this statement?** *Fiscal, monetary and supply side policies. Definitions of short- or long-term growth. Relevance of multiplier concept, marginal efficiency of capital (MEC) and interest rates, the availability of savings and supply side factors population, education. Definitions and explanation of a budget deficit.* **L4 (9–13 marks)** For a discussion of **two** policies and their effect on either type of economic growth and accurate links to a budget deficit. **L3 (7–8 marks)** For a response which gives a sound analysis of **one** policy and a less developed reference to a **second** policy. Only **one** form of economic growth **or** links to a budget deficit are commented upon. **L2 (5–6 marks)** For an explanation of **one** policy and its links to economic growth. **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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