CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9708 ECONOMICS

9708/42 Paper 4 (Data Response and Essays – Supplement), maximum raw mark 70

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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Section A

1 (a) In what type of market structure is Unilever likely to be operating? Explain your answer. [3]

It is a large multinational company so the size would indicate that it is in an imperfectly competitive market. This means it has some control over its price decisions, that it has branded products, which implies that it advertises. Allow 1 mark for market economy/mixed economy/diversified market provided there is an explanatory reason.

(b) Why might it be thought that there could be a conflict between Unilever's stated objective and its policy concerning its suppliers? [5]

It has an aim of doubling its size. This might indicate that it hopes to achieve economies of scale. However, elements of their business would seem to be towards perfect competition and against the idea of larger size as they wish to deal with 500 000 small farmers. It also had a policy of improving efficiency by reducing international suppliers. It says its future aim would be to halve our environmental impact. However, rather than limiting its transport and distribution to a few suppliers as it did in the past it is now expanding its distribution network with more demand on resources and transport pollution.

(c) GSK's new drug was expensive to research and develop. Why might a company conduct research and development (R&D) if it is so expensive? [4]

It is presumed that the company wishes to make profits and to expand. It is hoped that the cost of research would help achieve this by creating a new product for which there is a large demand and that revenues from this product would more than offset the research costs.

(d) Discuss whether there is enough evidence in the information to conclude that the objective of Unilever and GSK is not that of profit maximisation. [8]

There would still seem to be a desire for profit maximisation in the statements about doubling the size of the business (Unilever), and the wish to still make profit (GSK initial pricing). However, the article does not give information about the pricing of other products, and the comparative profits with other competitors are not known. Against the notion of a pure profit aim are the statements from Oxfam about Unilever and the government policy towards GSK's supply policy. It may be, however, that this agreement with the government is more likely to secure a constant demand for GSK from government hospitals and would in the long run enable a more secure growth in profits. The overall conclusion is uncertain.
Up to 4 for each company but reserve 1 for a stated conclusion to the question.

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Section B

General Comments

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. 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 various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim (b) of the syllabus has been achieved as well as aim (a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1–9 (Linked to Level 1 in individual question notes)

1–5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.

6–9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory or an inadequate development of analysis may be evident.

Mark 10–13 (Linked to Level 2 in individual question notes)

10–11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.
There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.

12–13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14–17 (Linked to Level 3 in individual question notes)

14–15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application.
There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.
Clear statements, supported by reasoned arguments, should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

16–17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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Mark 18–25 (Linked to Level 4 in individual question notes)

18–20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21–25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.
Be positive in your marking, awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

Level	**1**	**2**	**3**	**4**
Total Mark 12	1–4	5–6	7–8	9–12
Total Mark 13	1–4+	5–6+	7–8+	9–13

2 (a) Use the theory of marginal utility to analyse how a consumer will normally buy more of a product at a lower price than at a higher price and explain how this theory can be used to derive a market demand curve. [12]

Explanation of the meaning of utility and the analysis of the equi-marginal principle which underlies an individual demand curve. The sum of individual demand curves form the market demand curve. Whether individual utilities can be added is debatable.

L4 For a reasoned explanation linked to more than one good and clearly structured answer which deals with a market demand curve. [9–12]

L3 For a fair explanation utility but an undeveloped answer which deals with more than one good but makes no reference, or just passing reference, to a market demand curve. [7–8]

L2 For a limited attempt which does not clearly determine the equilibrium position for more than one good and makes no reference to a market curve. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

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(b) Economic texts examine market equilibrium. Discuss whether it is the consumer or the producer who determines the equilibrium market price and whether consumers have the same power in all types of market structure. [13]

Candidates should consider both whether the market is controlled by the producer and not the consumer, and whether the same situation applies in all market structures. The balance between producer and consumer sovereignty may vary between goods and markets but the producer is not the only determinant of market price and output.

L4 For a reasoned discussion dealing with both parts of the question. The answer should be clearly structured with a conclusion. [9–13]

L3 For a fair discussion but undeveloped answer which may concentrate on one part of the question or deal with both parts but briefly. There should still be a conclusion. [7–8]

L2 For a limited attempt which deals with only one part of the question and which does not have a conclusion. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

3 (a) Analyse whether in a perfectly competitive labour market it is true that a profit maximising firm will employ labour only up to the point where the marginal revenue product of labour is at its maximum. [12]

Analysis of wage determination in perfect competition using marginal revenue product. Candidates should show the link between the market wage and the firm. Candidates should conclude that the proposition in the question is untrue.

L4 For a sound explanation of theory and a clear understanding of the principles involved linking the market and the firm, with a conclusion. [9–12]

L3 For a competent explanation with limited development but still with some mention of the link between the market and the firm and with a conclusion. [7–8]

L2 For an undeveloped explanation with no link to the market, nor a conclusion. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

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(b) Discuss whether the marginal revenue productivity theory of wages is useful in explaining wage determination in an imperfect market where there is a trade union. [13]

Candidates should discuss the difference between perfect and imperfect markets, recognise that there would be a difference, in the theory, in the shape of the demand/supply/marginal cost/marginal revenue productivity curves. Candidates should also discuss how institutional factors such as a trade union and collective bargaining might have an effect on the final wage and employment level.

L4 For a reasoned and clearly structured answer dealing with theory and institutional aspects. [9–13]

L3 For a fair but undeveloped answer maybe concentrating on either the theory or the institutions or commenting on both but only briefly. [7–8]

L2 For a limited but acceptable attempt to consider the possible differences. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory. [1–4]

4 In the economic recession of 2011 many private sector firms were still able to announce that they were successful and had made substantial profits. Large bonuses were paid to directors and shareholders received large dividends.

Discuss whether it is better for an economy if the allocation of resources is left entirely to the private sector operating through the market system. [25]

Candidates should discuss first what is meant by resources and then consider whether resources should be allocated by the private sector and the market system. They should comment on whether high profits necessarily mean that the private market system is not a suitable means of allocation. High profits could well generate further investment, income and employment. However, it might not always be the case that the market system is the best allocative means. Candidates should also comment on the possibility of other market failures even if high profits do not rule out market system allocation.

L4 For a clear consideration of each stage of the suggestion in the question. A reasoned conclusion should be presented. [18–25]

L3 For a competent but more limited comment – maybe concentrating on general market failures without considering the particular implication in the question. [14–17]

L2 For an undeveloped discussion of the implication concentrating on only one aspect and with no overall comment on the conclusion in the question. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

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5 (a) Explain, using the concept of the multiplier, the possible link between a fall in interest rates and an increase in national income. [12]

Explanation of comparison of changes in interest rates against prospective yields of investment, short-term versus long-term considerations. Link between investment and national income with an explanation of the multiplier.

L4 For a sound explanation of both parts of the question, – interest/investment; investment/income – and a clear understanding of the principles involved. [9–12]

L3 For a competent comment but with limited elaboration of the analysis although the multiplier should be mentioned. [7–8]

L2 For a correct explanation of either the link between interest and investment but with no mention of the multiplier process; or a very poor link between interest and investment but a brief description of the multiplier. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

(b) Discuss whether the use of fiscal policy is the only effective means of stimulating economic growth. [13]

Discussion of fiscal policy with possible effects on demand side or supply side – with a comment on alternative means of stimulating economic growth – maybe through monetary policy, maybe through regulation changes.

L4 For a sound explanation of the analysis and a clear understanding of the principles involved with a good comparison and discussion of alternatives and a conclusion. [9–13]

L3 For a competent comment but with limited elaboration of alternative policies but still with a conclusion. [7–8]

L2 For a correct explanation of part of the analysis, with little comment on alternative policies. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1– 4]

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6 While the overall aim may be to improve the economy, governments find that their macroeconomic policies sometimes conflict with each other. Explain why some government economic policies may conflict with each other and discuss which should be given priority. [25]

Discussion of different government macroeconomic aims and the possible conflicts, for example, employment against inflation, growth against price stability, income equality against restriction in demand.

L4 For a thorough explanation of the aims, a competent account of different conflicts, a discussion of relative merits and a reasoned conclusion, and an evaluation which states which policies are preferred and why. [18–25]

L3 For a competent explanation but with a more limited development. There should still be a conclusion with an attempt to give a reason why certain policies were chosen. [14–17]

L2 For an accurate though undeveloped explanation with some attempt at analysis but only limited evaluation. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory. [1–9]

7 A country has a high level of unemployment and a low level of GDP. Discuss whether this situation is a good indication that the country is a developing country. [25]

The two indicators mentioned are high unemployment and low GDP. Candidates should discuss the relevance of each as an indicator of a developing economy. High unemployment can occur in developed countries – although the type of unemployment may differ from that in developing countries. The use of GDP is not a good indicator of developing status. Candidates should mention other characteristics of developing countries and discuss the drawbacks of using GDP, which include – the lack of value of non marketed items (jobs done yourself) this is in MEW; the underground economy; the effect of externalities; the distribution of income; the size of the population; whether expenditure has been on production which increases standard of living in the future but not necessarily in the short term; whether the increase in production has been at the expense of leisure time and well-being.

L4 For a comment on both indicators mentioned in the question and a thorough explanation of the difficulties of using GDP, with illustration and/or examples (see general descriptors). There should be a conclusion. [18–25]

L3 For a competent explanation which does mention both indicators but which does not fully analyse the difficulties of using GDP but makes some attempt at evaluation. A brief conclusion should be stated. [14–17]

L2 For an accurate though undeveloped explanation probably concentrating on the use of GDP and with no real attempt to draw a conclusion. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer is mostly irrelevant. [1–9]

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