CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

9708 ECONOMICS

9708/41 Paper 4 (Data Response and Essays – Supplement), maximum raw mark 70

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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Section A

1 (a) Identify <u>three</u> reasons why temporary workers in India are disadvantaged compared with permanent workers. [3]

Temporary workers are paid half, or lower than, the permanent workers' rate, no/few extra benefits, minimum wage not applicable; do not have a permanent contract.

(b) Is the evidence given sufficient to support the statement that 'most manufacturing firms in India are small'? [4]

Firms with fewer than 10 workers high %, but this is a % and not an absolute amount; also, this only relates to permanent staff, not total numbers employed; further, do not know if they are manufacturing firms. Table gives 'all' firms. Small only relates to employment and not to output or turnover.

(c) Distinguish between fixed cost and variable cost and consider how temporary workers and managers would be classified. [3]

Fixed cost does not change with output, variable cost does. Temporary workers are a variable cost; managers are a fixed cost – allow variable if candidates refer to the long-run.

(d) Discuss whether the payment of low wages could be good for India's economy. [10]

Low wages means lower income, lower spending, lower demand, lower growth. However, there may be more demand from firms for workers, including foreign firms, which will increase employment and spending. Global competitiveness is increased. Low wages mean cheaper costs for business, maybe higher profits and more investment. Overall effect on the economy is uncertain as a theoretical discussion but India is among the group of emerging nations, which would indicate that it might contribute to a beneficial result. Up to 6 marks for one side; reserve 1 mark for conclusion.

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Section B

General Comments for section B:
The essay questions carry a maximum mark of 25. Try to 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 one 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 two 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 organize 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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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.

	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

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2 (a) Analyse whether there is a difference between:
- **the way the effects of an increase in price can be represented using a budget line, and**
- **the way the effects of an increase in price can be represented using a demand curve based on marginal utility theory. [12]**

Explanation of budget line and how an increase in price of one good causes the budget line to pivot. Budget lines alone cannot tell what happens to quantity demanded, although they may show a split between income and price effects. Explanation of utility theory and the link to a movement along a demand curve which can show how the quantity demanded changes. Should candidates understand the analysis but refer to a price decrease, not an increase, award up to L2 maximum. [12]

L4 For a good analysis with a reasoned comment of budget lines and demand curves/utility with a clearly structured answer and a conclusion. [9–12]

L3 For a fair analysis but undeveloped answer or a more developed answer on either budget lines or demand/utility. A conclusion should be drawn. [7–8]

L2 For a limited but acceptable attempt to analyse the link to the theory but with inconclusive or unconvincing discussion and no overall 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]

(b) Discuss what is likely to happen to the equilibrium price and output if a perfectly competitive firm were to become a monopolist. [13]

Perfect competition firm takes price given by the market demand and supply. Monopoly does not need to do this and can fix price. Market price is likely to be higher, market quantity is likely to be lower with monopoly – but this need not be so if there are economies of scale. [13]

L4 For a sound discussion and explanation with clear understanding of the principles involved and a good structure to the answer. [9–13]

L3 For a competent discussion but more limited explanation, maybe of the changes in the market situation rather than the firm but still with a reasonable structure to the answer. [7–8]

L2 For a more limited discussion probably explaining each structure briefly or a lack of link to the market and curve and with a poorer structure to the answer. [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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3 In the recession of 2012, some European firms declared that their profits were not as high as in the previous year.

(a) Explain how, in theory, a firm might try to increase its profits. [12]

Explanation of maximum profit analysis. Candidates could specify not just where maximum profits are but what a firm should do to achieve this. Such action would depend upon the assumed starting point. A discussion of how this might be achieved in alternative market structures would be valid. [12]

L4 For a good explanation of the link to both profit and output. Answer will clearly specify a change rather than just a maximum profit output. Some mention of alternative market structures to try and increase profits should be mentioned to achieve 11/12. [9–12]

L3 For a competent analysis but with a weaker structure to the answer. A clear indication of a change should be given although probably no mention, or very brief mention of alternative market structures. [7–8]

L2 For a more limited analysis with weak explanations. [5–6]

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

(b) Discuss what alternative objectives a firm might have apart from profit maximisation. [13]

Discussion of the alternative objectives, influence in the market, behavioural theories, managerial theories, balancing of aims of different parts of the company, pricing according to other firms in the market rather than according to profit maximisation. [13]

L4 For a sound discussion with clear understanding of the principles involved. [9–13]

L3 For an accurate reference to the question but with a more limited discussion. [7–8]

L2 For a discussion which contains minor errors or an undeveloped comment, not necessarily logically presented. [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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4 (a) Employment is likely to decrease if wages fall.
Employment is likely to decrease if wages rise.

Consider whether these apparently contradictory statements are true in the analysis of the demand for and supply of labour. [12]

In the factor market the S curve shows what would be supplied at a given wage. From the workers' perspective a fall in wages results in workers being less willing to supply labour – first statement true. A rise in wages would result in workers being more willing to supply labour (until the backward supply is reached) – second statement untrue. (Both are movements along the S curve).
However, where the equilibrium occurs/depends on demand as well as supply, if wages rise, employers are likely to demand less labour and employment is likely to decrease. Second statement true if the factor market and not the individual worker is considered. [12]

L4 For a good explanation, and conclusion, of the change on the individual and the market with relevant comparison. [9–12]

L3 For either a competent explanation of the effect on the individual or on the market, or a weaker explanation involving both aspects. [7–8]

L2 For a limited attempt probably dealing with one aspect only, or for dealing with wages only and no mention of employment. [5–6]

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

(b) Discuss how wage rates might differ between a perfect and an imperfectly competitive market for labour. [13]

Discussion of the level of wages in perfect and imperfect competition. Wages likely to be lower in imperfect competition unless market level is changed by government or union. [13]

L4 For a sound discussion clearly explaining the differences. [9–13]

L3 For a competent discussion with a weaker comparison of the two market structures. [7–8]

L2 For a general discussion with no real conclusion of the differences. [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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5 An economist stated 'you cannot encourage economic growth, and cut spending and increase taxes at the same time'. *(Source: The Times. 2011)*

(a) Explain the costs and benefits of economic growth. [12]

Explanation of the extent to which growth would either increase income, standards of living, economic development or destroy existing environments, cause overcrowding, congestion, pollution, negative externalities. A consideration of the short-run/long-run position and/or a comment on the differences in developed/developing countries could be given. [12]

L4 For a reasoned and well argued explanation with accurate development of the analysis referring to both benefits and costs. [9–12]

L3 For a clear but undeveloped explanation but one which still deals with both benefits and costs, including economic and social effects. [7–8]

L2 For a limited attempt to consider the theory with a concentration on the economic indicators reflecting output etc. only. [5–6]

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

(b) Discuss whether economic analysis can be used to support the statement of the economist. [13]

Discussion of the negative multiplier effect of reducing government expenditure and increasing taxes and its effect on national income. [13]

L4 For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved with a reasoned conclusion. If there is no critique then 10 marks maximum. [9–13]

L3 For a competent comment but lacking development. [7–8]

L2 For a limited discussion of the analysis but with only very brief development of the ideas. No multiplier: level 2 maximum. [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 Government economic policy should be directed to increasing the standard of living – employment, health, education and a sustainable environment. It should not concentrate on fixing prices, raising taxes and regulating bank lending.

Discuss whether there is any truth in this statement. [25]

Candidates should debate what the main government policy should be. They should question whether these, which may be expressed in the traditional economic macro aims of governments – price stability, growth, balance of payments problems – necessarily imply that there is no connection with employment, health, education, environment. Achievement of these policies may well be to use the methods mentioned or may be to use other methods. [25]

L4 For a reasoned and clear discussion with accurate development of an argument based on an understanding of theory. There will be good links to the statement together with a conclusion. [18–25]

L3 For a clear description together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive. A conclusion will be presented. [14–17]

L2 For a correct explanation but weak or ill-explained links to the statement. The explanation will be undeveloped; there will be some attempt at analysis but only limited evaluation with no conclusion. [10–13]

L1 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. [1–9]

7 The transfer of some functions of the public sector to the private sector is the best way of ensuring efficiency. It is, therefore, worthwhile.

Is this an argument with which you agree? [25]

Explanation of efficiency and a discussion of the relative merits of the private market and public sector. The private sector maybe competitive and possibly more productively efficient but there will be problems of market failure, information, externalities, merit goods and no public goods. The quote does specify 'some functions'. Candidates could consider which functions might be appropriate for a transfer.

L4 For a sound explanation of efficiency and a good discussion of the relative merits of each sector. A conclusion should be given with some reference to which functions may be better in the private sector. [18–25]

L3 For a competent explanation of efficiency but briefer discussion of the relative merits of each sector and no comment on which functions might be appropriate for the private sector. There should still be a conclusion. [14–17]

L2 For a more limited general description, rather than an analytical discussion with little attempt at evaluation and no conclusion. [10–13]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–9]

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