**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**Cambridge International Advanced Level**

# MARK SCHEME for the October/November 2014 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.

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## Section A

**1 (a) Distinguish between the type of integration likely to occur in Australian supermarkets and the integration intended by Cisco. [3]**

Vertical applied to supermarket = 1
Horizontal applied to Cisco = 1
Further development e.g. backwards for vertical/same stage of production or equivalent = 1

**(b) What is likely to happen to employment if both examples of integration occur? [3]**

Cisco, stated that employees would be integrated into Cisco, employment would be stable in the short run but it is unlikely that a merger would take place without some rationalisation by the company in terms of the labour force.
Supermarkets; employment in other manufacturing could well decrease in the long term although it might be safeguarded in the short term. If the supermarket makes its own products there may be an increase in employment for the supermarket. Overall result is uncertain.

**(c) The article concludes that Australia's long-term food security will be weakened. Analyse why this conclusion is made and discuss whether you support it. [4]**

The article says that Australia's manufacturing sector needs profits to allow research and development. The article says that without research there will be a decline in production. (The reason/logic of this statement is not clear). Without production there will be no security and Australia will be a food importing nation. (3) A conclusion should be given. (1)

**(d) Does the evidence in the article suggest that integration is beneficial? [10]**

Vertical – to supermarket, there is a gain; to producer, a possible gain in short term from increased orders, less certain in long term if supermarket does not keep them as a supplier; to consumer, a gain in short term, less certain in long term as product range may be reduced.
Horizontal – encourages research, reduces cost to customer, Cisco profits likely to be increased, all gains.
Candidates should state an overall 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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**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 |

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**2 'The purchases a consumer makes are based upon marginal utility. It is this alone that determines market equilibrium in perfect competition. Supply has no relevance.' Is this true? [25]**

Explanation of marginal utility analysis and the link between utility and the demand curve. Individual demand curves can be used to achieve market demand curves. Discussion of the importance of supply. Market equilibrium in perfect competition cannot be obtained from market demand curve alone.

L4 For a clear explanation of the link between utility and demand, cost and supply, the construction of market equilibrium, a clear assessment of the assertion in the quote and a reasoned conclusion. [18–25]

L3 For a competent explanation which does not fully analyse the link between utility and market demand or the link between cost and supply. There will be some discussion but the evaluation will not be extensive with some limited conclusion. [14–17]

L2 For an accurate, though, undeveloped explanation of utility and supply but with only limited evaluation and 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]

**3 Discuss the similarities and differences between a firm's likely price and output policy in perfect competition and oligopoly. [25]**

Similarities: possible aims of profit maximisation, calculation of costs, recognise changes in costs, interested in calculating possible revenue. Differences: in oligopoly discussion of recognition of the fact that firms can manipulate prices, can practise price discrimination, but need not change prices with every change in market demand (kinked demand curve), do have differentiated products, do recognise the inter-relations between the products of one firm and the actions of another, may or may not learn from results of changes in price and influence on demand.

L4 For a thorough explanation of the theory, a clear analysis, with a discussion which leads to a reasoned conclusion. [18–25]

L3 For a competent explanation which does not fully analyse the theory but makes some attempt at evaluation with a limited conclusion. [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]

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**4 A huge company with a turnover of $99.3 billion paid its chief executive $10.9 million in 2011. At the same time it was reported that the company did not pay what was regarded as a living wage to all its employees.**

**(a) Use economic analysis to help explain why there can be wide differences in wage rates. [12]**

Candidates should give an explanation of the factors affecting wage rates. A comment on demand and supply, on marginal productivity, on skills, scarcity, on rates in competitive industries.

L4 For a sound explanation with clear understanding of the principles involved. [9–12]

L3 For a competent explanation but with limited development. [7–8]

L2 For a general explanation of only some of the factors. [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 how this analysis could be adapted if a trade union intervened in the process of wage determination. [13]**

The implication is that there is imperfect competition. This may result in 'exploitation'. They should then discuss how the wage rate could be fixed to avoid exploitation. This might involve negotiation with a union, with a conciliation tribunal, or with government intervention. A solution may be reached without the need for government intervention by bargaining between the union and the employers. A conclusion should be presented.

L4 For a reasoned discussion and clearly structured answer with sound knowledge of the analysis and a reasoned conclusion. [9–13]

L3 For a discussion, but without such a full development, but still with a conclusion. [7–8]

L2 For a limited but acceptable attempt to describe the theory but without any real development nor any 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]

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**5 (a) Identify <u>two</u> government macroeconomic aims and analyse how a boom will bring beneficial changes for consumers and producers. [12]**

Accept any two. Candidates are likely to choose from GDP, price levels, employment, balance of payments.

L4 For a reasoned and clear explanation of at least two indicators with the analysis logically presented with a realisation that benefits/drawbacks will vary depending on which group is being considered. [9–12]

L3 For a fair but undeveloped explanation of two indicators and weaker analysis of the differences for the two groups. [7–8]

L2 For a weak explanation of two indicators and their effects or a fuller explanation of one indicator and its effects. [5–6]

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

**Lord Skidelsky, Keynes's biographer, stated that Keynes believed that 'to cut government spending was completely the wrong policy in a slump'. (*Source: The Times)***

**(b) Discuss why cutting government spending might be considered to be the wrong policy in a slump. [13]**

Discussion of effect of a fall in government spending, a fall in injections causing national income to fall via multiplier process. An evaluation of why this might be the wrong policy in a slump should be given.

L4 For a sound discussion of the multiplier with good application of the effect of decreases in government spending and a clear understanding of the principles involved. An evaluative comment should be provided. [9–13]

L3 For an accurate discussion of the multiplier but with a more limited comment on the application related to a decrease in government spending in a slump. [7–8]

L2 For a discussion of the changes in the components of AD and limited comment on the application. [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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**6 (a) Use liquidity preference theory to explain why there is a demand for money. [12]**

Expect transactions, precautionary, speculative descriptions. Up to 6 marks for first two, 6 marks for speculative.

L4 For a sound explanation with good application and a clear understanding of the principles involved. [9–12]

L3 For an accurate reference to the question but with a more limited explanation and minor errors in the analysis. [7–8]

L2 For a correct explanation but undeveloped comment, not necessary logically presented. [5–6]

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

**My higher income will make me happier. It will make other people unhappy.**

**(b) Discuss whether the main aim of government policy should be to achieve a more equal distribution of income. [13]**

Candidates should state the macroeconomic aims of the government. They should reflect upon the significance and importance of the different aims in different economic circumstances. Whether income distribution is the most significant may well depend on the situation facing the economy rather than purely a decision in principle. A conclusion should be drawn. [13]

L4 For a sound explanation with good application and discussion with illustration and a clear understanding of the principles involved and a reasoned conclusion. [9–13]

L3 For an accurate explanation of the aims but with a more limited comment on the application to income distribution with a limited conclusion. [7–8]

L2 For a weaker discussion and illustration which lacks any real development. [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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**7 (a) How effective is the measurement of economic growth as an indicator of how a developing country's standard of living compares with other countries? [12]**

Consideration of the value of GDP but also of other factors which might be important which are not included directly in GDP – health, housing, education, crime, income distribution. Difficulties of comparing different cultures, climates.

L4 For a reasoned and clear discussion, logically presented. [9–12]

L3 For a fair but undeveloped discussion but with accurate reference to the question. [7–8]

L2 For a limited discussion with little comment. [5–6]

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

**(b) Discuss whether economic growth would necessarily lead to a more efficient use of resources in developing countries. [13]**

Explanation of the meaning of allocative efficiency and productive efficiency. Economic growth would not necessarily ensure that either occurs; growth of itself has negative aspects as well as positive ones. There may need to be some regulation of market failures by means of subsidies, regulation, taxes, prohibitions, ownership, provision of government services. It might be possible to achieve productive efficiency but more difficult to measure and achieve allocative efficiency.

L4 For a reasoned and clearly structured answer which gives an explanation of both types of efficiency and a discussion effect of growth. A reasoned conclusion should be drawn. [9–13]

L3 For a fair explanation but with a weaker or undeveloped discussion on the application but still with a limited conclusion. [7–8]

L2 For an answer which concentrates on the explanation but does not explore the discussion and has no 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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