Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/41**

Paper 4 Data Response and Essays **October/November 2018**

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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LEVELS OF RESPONSE MARKING DESCRIPTIONS

Please also see the mark scheme for each part of each essay, detailing the ranges of marks to be awarded for each Level, and some illustrative content.

Level	**AO1**	**AO2**	**AO3**	**AO4**
L4	detailed knowledge of relevant facts and theory perceptive understanding of the specific requirements of the question throughout the answer	relevant, apposite illustrations and specific examples are introduced to add depth and fullness to the answer recognises the underlying economic concepts and principles and applies these in relevant situations to develop the answer	detailed, precise and purposeful description, explanation and analysis using appropriate economic terms and concepts correctly and fluently draws clear, reasoned conclusions a sound, well-structured answer	critical evaluation of the issues, considering relevant information and economic principles distinguishes between facts, hypotheses and/or value judgements challenges assumptions of the question or model
L3	adequate knowledge of relevant facts and theory a reasoned understanding of the question's requirements shown in the answer	some appropriate relevant illustration or examples seen but they may be quite general or not very full applies theory and facts with accurate reference to the question to develop the answer	straightforward, satisfactory analysis: generally clear statements, supported by reasoned arguments including some specific economic terms and concepts draws some conclusions a functionally organised answer	partly complete evaluation of the issues in terms of either relevant information or economic principles attempt to distinguish between facts, hypotheses and/or value judgements attempt to comment on assumptions
L2	identifies some relevant facts and/or theory the answer overall has a general relevance to the question, showing some understanding	illustration may not be fully relevant and is superficial or overgeneralised an accurate application of some related theory or fact(s), with little or no development	some analysis present but limited by omissions, error(s), irrelevant details or unclear communication conclusions may not be drawn from it a disorganised answer	some evidence of an ability to evaluate, discriminate, or to make basic judgements, considering some relevant information
L1	shows some relevant knowledge the answer indicates that the question has not been correctly understood	barely relevant, minimal or tangential illustration basic errors of theory or of fact with inadequate development	any analysis present is likely to have major errors, omissions or be mostly irrelevant	minimal or no evidence of the evaluation skills of criticism, judgement or discrimination in the answer

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Question	Answer	Marks
1(a)	**1 mark × 3** for: • production of electricity by wind-power is cheap, but the cost of building the power stations is high • production is erratic and depends on the wind. • effect on environment • price rises • effect on employment • subsidies are preventing investment in alternative efficient gas-powered production resulting in continued use of old power stations	**3**
1(b)	• equitable means fair **(1 mark)** • Article says elderly and poor have to pay for subsidies. Disproportionately hit hardest **(2 marks)** • small companies have to pay towards subsidies while large companies receive subsidies **(1 mark)** • there is detrimental effects on the landscape **(1 mark)** • article does not provide evidence for equity **(1 mark)**	**6**
1(c)	• Market has ease of entry, prices determined by demand and supply **(2 marks)** • There are small farmers (70% of population rely on agriculture) which might indicate a free market but there is counteracting evidence that large multinationals control seeds, grain and pesticides and their political power can restrict supply and control the market and that it is not free. Not enough information to make overall conclusion of the strength of each side. **(3 marks)**	**5**
1(d)	• Agriculture – large businesses can control the market and put pressure on small farmers to buy inputs. Industrial methods pollute the soil, damage water tables **(3 marks)** • Wind-power – large companies are subsidised, make profits – on an insecure supply; jobs lost, landscape changed, no reduction in carbon emissions. Energy-intensive industries driven abroad because of high operating costs **(3 marks)** Up to 4 for one side only	**6**

Question	Answer	Marks
2	*Explanation of meaning of efficiency and explanation of the analysis which ensures an efficient optimum may be reached. Productive efficiency makes the best use of resources, and allocative efficiency ensures that no one can be made better off without someone being worse off. Individual actions are not always best for society as a whole. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency. This could be by persuasion (nudge theory) rather than by enforcement. Nudge theory, originally an ethical idea not a government manipulative tool, involves designing choices to encourage decision making in wider positive interests of society. But it can be used in government context. Government intervention may thus be necessary, but it need not overcome inefficiency as there may be inefficiency in government through lack of information.* **L4 (18–25 marks):** for a thorough explanation dealing with productive and allocative efficiency and a comment on the importance of both concepts; and an accurate discussion of market failure, with examples and a conclusion about the need for government intervention and whether such intervention is a sufficient solution. **L3 (14–17 marks):** for a competent but less developed explanation of the terms with accurate but limited comment on the importance. Also for a more limited discussion of the reasons for market failure and the need for government but without a comment on whether such intervention is sufficient to overcome market failure. **L2 (10–13 marks):** for a correct but brief explanation with some attempt at analysis possibly with only one type of efficiency correctly elaborated, no comment on importance; and for a brief analysis of market failure with few examples and no conclusion about necessity of government intervention. **L1 (1–9 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**
3(a)	*Equilibrium is a relation between the marginal utility and the price. Can be explained using either marginal utility or indifference curves – marginal rate of substitution equal to the price ratio. Consideration of the assumptions rationality, sovereignty, the ability to measure utility, the relation between utility and price.* **L4 (9–12 marks):** for a clear explanation and a sound comment on the relation between the price and the satisfaction obtained, referring to more than one good. Clear comment on the assumptions. **L3 (7–8 marks):** for a less developed answer but which still refers to the equilibrium but probably concentrates on only one good. Weaker consideration of the assumptions. **L2 (5–6 marks):** for a brief attempt which does not clearly bring out the significance of the marginal analysis or which does not deal with any of the assumptions. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

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Question	Answer	Marks
3(b).	*Analysis of the difference between income and substitution effects and the overall effect on demand of a change in price. Whether demand will increase, and by how much for a price fall depends on the classification of the good but also on the price elasticity of demand. The company would also need to know if it increased production how that would affect costs – and thus profits.* **L4 (9–13 marks):** there are three aspects to the question: a clear explanation of the analysis – income, substitution; a comment on the effect on demand and a comment on the relation to revenue via elasticity. Good reasoned structure. **L3 (7–8 marks):** for a less developed analysis of the income substitution effects, or of the link to demand, or a weaker link to the revenue. Two aspects done reasonable well, or three less developed. **L2 (5–6 marks):** for an answer that either deals with one aspect well, or two with less clarity. **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
4(a)	*Theory predicts certain outcome based upon the demand (mrp) and cost/supply of labour. Explanation of determination of equilibrium output is required.* **L4 (9–12 marks):** for a clear explanation of the theory and derivation of equilibrium position, a comment about possible changes in mrp or supply. MRP necessary for L4. **L3 (7–8 marks):** for a briefer explanation of the theory without any comment on possible changes or with a briefer explanation of the determination of the equilibrium. **L2 (5–6 marks):** for a much less developed answer with no elaborative comment and a vague – or non-existent – mention about equilibrium. **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**
4(b)	*The analysis of imperfect competition should be explained; the final wage can be incorporated in the theory depending on the strengths of both sides in the bargaining process where there is monopsony. In the case of the doctors the TU did have some influence and the final wage was a compromise. This can be recognised by the theory and is not contradictory to it.* **L4 (9–13 marks):** for a reasoned and clear explanation with accurate development of theoretical difficulties and a recognition that the final wage can be incorporated in the theory. **L3 (7–8 marks):** for a clear but undeveloped explanation of the imperfectly competitive market but without an explicit comment on the case in the question. **L2 (5–6 marks):** for a limited and not clearly presented attempt to consider the theory and with a greater concentration on the descriptive elements and with no link to the case in the question. **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.	**13**

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Question	Answer	Marks
5	*Responses should provide a clear explanation of what economists mean by recession with the emphasis on low growth rates, deflation and rising unemployment. The link between recession and national debt and budget deficits should also be discussed. Analysis should then be used to explain how Keynesian demand management policies are supposed to work. An attempt should then be made to evaluate the extent to which Keynesian policies might be effective under the conditions described.* **L4 (18–25 marks):** for an answer that examines why Keynesian policies might not be effective. This should include traditional criticisms of such policies, for example Crowding Out and possible problems relating to balance of payments deficits. Also it is expected that discussion will make the link between existing high levels of national debt and that this problem would be made worse by continuing to allow substantial budget deficits. Alternative approaches might also be discussed and a conclusion provided. **L3 (14–17 marks):** for an analysis of how Keynesian solutions to the problem of high unemployment would operate in theory. This analysis would focus upon the use of budget deficits combined with a multiplier effect and how this might impact on the level of output and employment. **L2 (10–13 marks):** for an answer that describes the terms recession, budget deficits and national debt and makes some attempt to explain how Keynesian demand management policies are supposed to work. **L1 (1–9 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

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Question	Answer	Marks
6(a)	*When the money supply is increasing then this would normally lead to a fall in interest rates. This would not affect active balances based on the transactions/precautionary motives which are interest inelastic. A lower rate of interest would however affect the speculative demand for money which is influenced by an individual's expectations of what is going to happen to the level of interest rates in the future. The overall effect on the speculative demand will depend upon the starting point when the money supply is increased. If interest rates are already very low the demand for money will increase significantly. The use of credit/debit cards will decrease both the transactions and precautionary demand for money.* **L4 (9–12 marks):** for an answer that attempts to evaluate the relative importance of these changes in each case. Some attempt will also be made to discuss the extent of the impact by each change on each type of demand. **L3 (7–8 marks):** for an answer that analyses the effect of both these changes on each of the three motives for holding money. Answers should develop a logical argument to support their conclusion in each case. **L2 (5–6 marks):** for an answer that describes the possible effects of these changes on each type of money but does not provide any detailed comment or analysis. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
6(b)	*Quantitative Easing takes place when governments create money to purchase long term securities from banks or the non-bank public. This will cause the price of bonds to rise and cause downward pressure on interest rates. Also due to a fall in interest rates plus negative expectations, this is likely to depreciate the value of the currency. Lower interest rates might promote demand pull inflation and lower exchange rates might cause cost push inflation but there are a number of factors which might prevent such changes automatically causing inflation. Existing state of the economy, consumer/investor confidence, exchange rate management might influence the final outcome.* **L4 (9–13 marks):** for an answer that discusses the extent to which a reduction in interest rates combined with a reduction in exchange rates might impact on the price level. A conclusion will be provided. **L3 (7–8 marks):** for an answer that analyses why the purchase of securities will reduce interest rates and to what extent it will influence the money supply. Also analysis will be used to demonstrate the links between changes in the interest/exchange rate and possible changes in the rate of inflation. **L2 (5–6 marks):** for an answer that explains how Quantitative Easing will affect interest rates and the exchange rate but this will be descriptive rather than analytical and there will be only a very limited attempt to link changes in these variables to the rate of inflation. **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)	*Economic growth is measured by the change in GDP/GNP in a particular time period, allowing for changes in the price level. Sometimes per capita growth may be used to take into account changes in population. Economic development is a much wider term which encompasses reducing poverty; provision of education; provision of health care; maintenance of law and order. However, growth and development are linked because economic growth creates the wealth to provide education, health care and reduce poverty.* **L4 (9–12 marks):** for an answer that recognises the difficulties connected with establishing clear links but does provide a number of reasons why such links might exist and attempts to assess the strength of each link. A conclusion would be expected **L3 (7–8 marks):** for an answer that provides a detailed explanation of each term and expands upon basic text book definitions. There will be clear evidence of an attempt to show that the two terms are linked. **L2 (5–6 marks):** for an answer that attempts to explain and distinguish between the two concepts but that remains descriptive and that makes no attempt to link growth and development. **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**
7(b)	*There are two elements to this question. Answers should discuss the difficulties associated with alternative measures of GDP (income/output/expenditure). Then responses should address whether GDP can be used as a reliable indicator of living standards. Evidence should be produced to support the view that it is not a reliable indicator. Some reference to alternative indicators should be provided.* **L4 (9–13 marks):** for a response that discusses both parts of the question and which attempts to identify which are the key elements in both cases. Alternative indicators should be explained and discussed and a clear conclusion provided. **L3 (7–8 marks):** for an answer that provides a detailed account of reasons why GDP is difficult to measure, referring to at least two alternative ways of measuring GDP. Also responses should address a range of reasons why GDP is not a reliable indicator of living standards. A limited conclusion should be provided **L2 (5–6 marks):** for an answer that deals with only one part of the question or both parts in a superficial manner with no reference to alternative indicators. **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.	**13**

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