Cambridge International AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

ECONOMICS **9708/43**

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

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Level	**AO1**	**AO2**	**AO3**	**AO4**
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

Question	Answer	Marks
1(a)	• It is usually applied to possible conflicts of interest that may result between shareholders (principal) and the management (agent) of a firm **(1 mark)** • or in this case between those who form the rules (government - principal) and those who carry out the rules (businesses – agent) **(1 mark)** • The conflict could occur because businesses do not seek to achieve what is good for the wider society **(up to 2 marks)**	**4**
1(b)	Producing at an output which is either: • not productively efficient – minimum cost for the output in question **(up to 2 marks)** • or allocatively efficient – marginal social cost does not equal marginal social benefit **(up to 2 marks)**	**4**
1(c)	• Internalising externalities – transferring costs that are currently paid by those who do not cause them to those that are responsible for their cause **(up to 2 marks)** • Comment on the meaning of c-b analysis and an explanation that c-b analysis can give a monetary value to the costs which can then be allocated to the business. Comment on the difficulties of calculating all of the costs **(up to 4 marks)**	**6**
1(d)	Inadequate: cost-benefit has limitations – but it does not say what limitations; directives result in an inefficient public sector – although this is not specified why this is; there is crowding out – private businesses are discouraged from investing by large government expenditure which may well require borrowing money and rises in interest rates; it does not create a dynamic new environment or new products. Current economies have to deal with challenges of climate change, youth unemployment, and rising inequality and there is no evidence that the current situation achieves this. Adequate; government creates a bigger national output which benefits everyone; new products have been funded by government – examples are given. Article is mainly against MFT as a solution to the current situation but there could be other evidence to support the justification which is not given.	**6**

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Question	Answer	Marks
2	*Explanation of change in demand caused by lower price; mention of income and substitution effects and the difference between normal, inferior and Giffen goods. Revenue change will depend partly on the type of good and partly on the price elasticity of demand. Revenue will increase with a normal good with elastic demand. Bus journeys used to be classified as inferior goods but candidates could debate whether that is still the case. Increasingly, they are preferred to travel by car because of congestion and parking charges.* **L4 (18–25 marks):** for a clear explanation of different types of good, of income and substitution effect and of the possible changes on revenue depending on the price elasticity of demand, and a comment on the likely elasticity of bus travel. **L3 (14–17 marks):** for a more limited explanation of different types of good, with weaker distinctions between income and substitution effects. A comment should be provided on elasticity but the particular link to bus travel will probably be omitted. **L2 (10–13 marks):** for a brief explanation but with no distinction between income and substitution effect, no link to bus travel in particular and a general comment on price elasticity of demand. **L1 (1–9 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**
3(a)	*Price discrimination requires separate markets – either by ignorance, irrationality, or geography; no possibility of re-sale of product; similar products. It can be first degree discrimination – different price for each person reflecting consumer surplus; second degree – discounts for bulk purchases; 3rd degree – different prices for different groups of consumers. To be profitable the markets need to have different elasticities of demand.* **L4 (9–12 marks):** for a clear explanation of how it occurs, explaining the separate markets and the requirement for different elasticities. Types of discrimination may be mentioned for 11–12. Costs are the same for the room whichever way it is booked as it is for the same time period; practice of different rates is price discrimination. **L3 (7–8 marks):** for a weaker explanation of the possibilities of price discrimination but with a comment on the profitability. A judgement on the example in the question should be given. **L2 (5–6 marks):** for a poor explanation of the possibility, no comment on the profitability (or vice versa) and poor link to the example given. **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)	*This question requires a comparison of monopoly and perfect competition showing higher prices, supernormal profits and lower output in monopoly. The analysis presumes that the cost curves are identical for both markets and this need not be the case particularly with economies of scale.* **L4 (9–13 marks):** for a clear comparison of the markets and a discussion of the effect of economies of scale on the cost curves, and thus on the price, profit and output. The diagram should be accurate, clearly labelled and a judgement on the universality of the theory should be given. **L3 (7–8 marks):** for a less developed discussion on the comparison or an answer that concentrates too much on possible economies of scale without considering the effect of these on the comparison with perfect competition. The diagram will have lack of clarity but a judgement on the theory should be given for 8. **L2 (5–6 marks):** for a weak answer with an unclear comparison or a more descriptive account of different economies. The diagram will be poor and badly labelled. **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**
4	*Candidates should consider each part of the statement. The theory of wage determination should be explained and a comment given on how the outcome may be affected by the existence of trade union bargaining, by minimum wages affecting the supply, by large monoposonies forcing down wages from the competitive level, by whether the worker is in the private or public sector. A link to the specific examples given should be made and a conclusion of the possible usefulness of the theory should be given.* **L4 (18–25 marks):** for a thorough explanation of the analysis of wage determination with a clear comment on how unions, minimum wages and large monopsonistic businesses, public/private sector may be used to explain the difference in wages. There should be a conclusion and a well-structured answer. **L3 (14–17 marks):** for a weaker explanation of the theory with an undeveloped comment on how the outcome might be affected by unions, minimum wages, public/ private sector. Their explanation may still be competent but the link to the particular examples would probably be brief. **L2 (10–13 marks):** for a correct but undeveloped analysis with much briefer comment on the different factors affecting the outcome and little, if any, link to the examples given. **L1 (1–9 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.	**25**

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Question	Answer	Marks
5(a)	*Responses should relate the natural rate unemployment to a situation where there is no excess or deficiency of demand for labour. It is also known as the equilibrium rate of unemployment and is caused primarily by frictions in the labour market. Types of unemployment which are likely to cause this rate to rise would include: structural; technological; frictional and seasonal.* **L4 (9–12 marks):** for an answer that clearly explains the links between different types of unemployment and frictions in the labour market and makes some attempt to decide which of these types of unemployment might have the most significant impact on the natural rate of unemployment. **L3 (7–8 marks):** for an answer that attempts to analyse the relationship between equilibrium/disequilibrium unemployment and types of unemployment which can be used to explain the distinction between equilibrium and disequilibrium situations. Some reference to frictions in the labour market should also be referred to. **L2 (5–6 marks):** for an answer that provides a superficial definition which is not developed and makes no attempt to incorporate inflationary expectations or does not refer to equilibrium unemployment. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
5(b)	*A clear distinction between the role of market forces which would rely heavily upon the price mechanism to ensure that all those who want to work at the current wage rate and are willing and able to take a job and direct government intervention to achieve the same outcome. Would expect answers to recognise, with examples, how government policies could incorporate market forces as well as direct intervention. The focus should be upon how both occupational and geographical mobility can be increased to reduce frictions in the labour market. A comparison of alternative approaches should be evident throughout.* **L4 (9–13 marks):** for an answer that focuses upon comparing alternative approaches and which makes an attempt to evaluate the relative success of each type of policy. Strengths and weaknesses should be identified and used to draw a conclusion as to which approach might be the most effective. **L3 (7–8 marks):** for an answer that attempts to analyse the links between alternative policy approaches and successful outcomes. A clear distinction between the role of market forces and the role of government intervention should be established. At least two policies in each case should be provided and compared. **L2 (5–6 marks):** for an answer that provides an outline of both approaches but with an unclear comparison and which only considers a very limited range of policy options. **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
6(a)	*Answers should address both parts of the statement. Central banks can control interest rates in different ways. Some announce changes to the bank rate while others operate in short term money markets to influence interest rates Answers should also recognise that central banks also have access to a range of policies which can be used to determine the money supply. Responses should also discuss how commercial banks can influence both interest rates and the money supply. Part of the assessment should include recognition that interest rates and the money supply are closely related.* **L4 (9–12 marks):** for an answer that evaluates the extent to which a central bank can control interest rates/money supply and the extent to which a commercial bank can control interest rates/money supply. A conclusion which makes an attempt to discuss how far the statement provides an accurate assessment of the ability of both organisations to control interest rates/money supply is required. **L3 (7–8 marks):** for an answer that attempts to analyse how a central bank can control interest rates and the money supply, as well as analysing how commercial banks can also influence both interest rates and the money supply. Some reference to the connection between interest rates and the money supply should be provided. **L2 (5–6 marks):** for an answer that provides a descriptive account of how central banks and commercial banks can influence both interest rates and the money supply. **L1 (1–4 marks):** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

Question	Answer	Marks
6(b)	*Answers should refer to the monetary transmissions mechanism to show how monetary policy might have some effect on real variables such as the level of output. Reasons why monetary policy might not work might include reference to the liquidity trap, elasticity of MEC curve and the effect of negative expectations on investment. Should discuss whether monetary policy is the only effective way to control inflation by considering alternatives such as fiscal policies and/or direct controls such as prices and incomes policies.* **L4 (9–13 marks):** for an answer that discusses the effectiveness of the transmissions mechanism by questioning the relationship between changes in the money supply, changes in the rate of interest and investment and subsequent changes in output. Some discussion relating to the effectiveness of alternative polices used to control inflation would also be required. There should be a conclusion. **L3 (7–8 marks):** for an analytical approach that uses diagrams to explain the monetary transmissions mechanism and makes the links between money supply changes, changes in interest rates, changes in investment and, through the multiplier, changes in the level of output. Responses will also analyse alternative approaches which governments can use to control inflation. **L2 (5–6 marks):** for an answers that provides a description of different types of monetary policy and how these might affect real output, plus an explanation of a possible alternative approach to controlling inflation which does not involve controlling the money supply. **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)	*Answers should explain discuss the links between the process of economic development and how this might impact upon income distribution. Worker migration from agriculture to industry and the movement from a rural to an urban environment should be explained in the context of economic development. These movements should then be linked to factors such as increases in income and access to education, to explain the first part of the hypothesis and then some attempt to explain how these benefits might be shared as productivity in general starts to rise.* **L4 (9–12 marks):** for an answer that addressed both parts of the hypothesis and questions whether the preceding analysis is sufficient to justify the contention that inequality will initially become greater but then factors related to development will eventually lead to a more equal distribution of income. Alternative explanations should be given and evaluative comment provided in relation to both developed and undeveloped economies. **L3 (7–8 marks):** for an answer that attempts to analyse the relationship between changes in the structure of the economy by examining why the movement from a rural environment to an urban environment will initially increase the level of inequality and explaining this by referring to changes in income, employment and access to education. **L2 (5–6 marks):** for an answer that demonstrates some knowledge and understanding of some key characteristics of an undeveloped economy and which recognises that there are often significant differences in income distribution related to changes in the structure of the economy. **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**

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Question	Answer	Marks
7(b)	*Candidates should ensure that responses focus on developed economies and primarily the role of fiscal policies. Answers should attempt to explain why such inequalities exist and consider the role of a range of fiscal policies which might be used to address the problem. This might include reference to progressive taxation, maximum price controls, minimum wage controls and transfer payments. In each case candidates should discuss the potential of each to redistribute income and consider any long term negative consequences.* **L4 (9–13 marks):** for an answer that recognises that all types of fiscal policy have costs and benefits and it is necessary therefore to consider the wider consequences for the economy of such polices. For example, candidate might refer to the potential negative impact of progressive taxation on investment and economic growth. A conclusion should emerge out of the preceding argument. **L3 (7–8 marks):** for answer that attempts to analyse the links between at least two changes in fiscal policy and in each case examine the impact on the current income distribution. An analysis of the potential costs of such policies and whether it is possible to rely solely on market forces might also be provided. **L2 (5–6 marks):** for an answer that is descriptive and which does not make it clear that it is assessing a problem facing a developed economy. Some reference will be made to the use of fiscal policy but the alternatives will be limited and there will be little attempt to analyse the links between changes in fiscal policy and their impact on income distribution. **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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