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 2019**

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.

Cambridge International is publishing the mark schemes for the October/November 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

© UCLES 2019

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.

© UCLES 2019

ASSESSMENT OBJECTIVES

The skills listed below are what we expect candidates to be able to do. The marks in the mark scheme reward candidates who demonstrate these skills, so they are helpful to keep in mind if you have any doubts as to whether or not something is worthy of credit.

AO1 Knowledge and understanding	Demonstrate knowledge and understanding.
AO2 Application	Interpret and apply knowledge and understanding to information presented in written, numerical or graphical form.
AO3 Analysis	Analyse economic issues and arguments, using relevant economic concepts, theories and information, and communicate conclusions in a clear, reasoned manner.
AO4 Evaluation	Critically evaluate economic information, arguments, proposals and policies, taking into consideration relevant information and economic principles and distinguishing facts from hypothetical statements and value judgements.

LEVELS OF RESPONSE MARKING APPROACH

The essay questions in Section B are marked using Levels of Response. They carry a maximum mark of 25 each. Most of them are split into two parts, where part (a) is worth 12 marks and part (b) is worth 13 marks. However, some essays are set as a single question worth 25 marks.

Try not to 'bunch' marks, but use the whole mark range. Do not reserve (e.g.) high Level 4 marks ‘just in case’ something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, then it must be rewarded appropriately. 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 skills described in the assessment objectives and not purely on the ability to itemise further facts from the content of the syllabus. All of the essays test the four assessment objectives above.

LEVELS OF RESPONSE MARKING PROCESS

There are two steps that need to be taken in awarding the mark for the essay questions:

Step 1: Determine the level – start at the highest level and work down until you reach the level that best describes the answer. Use a ‘best-fit’ approach: which level does it most closely resemble overall, considering all of the assessment objectives on balance?

Step 2: Determine the mark within the level by considering the following:

- Consistently meets the criteria; clear evidence of the qualities of the level = at the top of the level
- Meets the level’s criteria but with some slight inconsistency or some parts of the criteria not addressed = at the middle or above the middle of the level (depending on number of marks available)
- Just enough achievement for this level on balance = either below the middle or at the middle of the level (depending on number of marks available)
- Answer is on the borderline of this level and the one below, i.e. it there is only limited evidence it meets the criteria for this level = at the bottom of level

© UCLES 2019

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

© UCLES 2019

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)	**What is economic growth and does it necessarily remove poverty and inequality?** • Definition of growth; in output, over time (**up to 2 marks**) • Comment on poverty and inequality – may increase wealth but not evenly shared (**up to 2 marks**)	**4**
1(b)	**In the circumstances described in the article why might a country decide that lowering its exchange rate would help its economy?** • Fiscal policy is constrained/high government debt – government cannot spend more • Interest rates very low • Need alternative way to boost aggregate demand • Exchange rate change might increase exports • Would boost employment and output	**5**
1(c)	**What evidence is there in the article that monetary policy had failed to improve the economies after the crisis?** The monetary policy referred to was low interest rates (**1 mark**) But despite low rates there was • Loss of employment • Low growth/output • Low demand • Misunderstanding of how economy works and shaken confidence • Higher government debt (**up to 4 marks**)	**5**
1(d)	**Explain what is meant by a 'prisoner's dilemma' and analyse why the term was applied in the article to a market economy.** Explanation of the dilemma: • Need to rely on others for co-operation but cannot determine what others might do • Might do better if ignore the co-operative solution but might do far worse also • Outcome depends on what others do and this is uncertain. A market economy is said to be uncertain (**up to 3 marks**) Application: • A market economy is said to be uncertain • Changing interest rates might benefit one country but would not do so if others did not do the same • For example: investment might seem more profitable in another country with low interest rates if home country rates increased (**up to 3 marks**)	**6**

Question	Answer	Marks
2	**'Competition is an essential element of an efficient market economy. If there is a monopoly then there is no competition. Monopolies exist in all economies and, therefore, all economies must be inefficient.'** **Discuss this opinion.** *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. Comment on whether this necessarily occurs in a market economy where monopoly exists. There is a difference between the theoretical and practical definition of monopoly.* *Comment on whether all monopolies are necessarily inefficient or whether they might achieve some productive efficiency. There may be monopolies in some industries but not others, some monopolies might promote research, so the effect is not uniform throughout the economy.* *Conclusion about whether the idea of a market efficient economy is untenable.* **L4 (18–25 marks):** For a thorough explanation dealing with productive and allocative efficiency and a comment on whether a market economy is necessarily inefficient because it has a monopoly element. Conclusion about the inefficiency of a market economy. **L3 (14–17 marks):** For a competent but only partially developed explanation of the terms with accurate but limited comment on whether market economies necessarily result in inefficiency because of monopoly. A more limited discussion linking market failure with monopoly. **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 the relevance of monopoly and the likelihood of market failure and a weaker comment on the implications if a monopoly exists. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

© UCLES 2019

Question	Answer	Marks
3(a)	**Explain what is meant by a consumer's equilibrium and how it is related to the demand for a product.** *Equilibrium is a relationship 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 relationship between utility and price. Link between price and demand.* **L4 (9–12 marks):** For a clear explanation and a sound comment on the relationship between the price and the satisfaction obtained, referring to more than one good. Clear comment on the assumptions. Link to demand. **L3 (7–8 marks):** For a less developed answer but one that still refers to the equilibrium but probably concentrates on only one good. Weaker consideration of the assumptions or omission of link to demand. **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**
3(b)	**Indifference curve analysis refers to income and substitution effects. Explain what these effects are and discuss whether they might be the major influence for a manufacturer intending to change the price of a product.** *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)** For 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 and 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**

© UCLES 2019

Question	Answer	Marks
4(a)	**What relation is there, if any, between the law of diminishing returns and internal and external economies of scale?** *Diminishing returns: short run. Economies of scale: long run. Diminishing returns can occur on each of the curves representing different scales of output.* **L4 (9–12 marks):** For a clear explanation of the theory and recognition of the link between the terms. **L3 (7–8 marks):** For a less developed explanation of both terms with some confusion of the link. **L2 (5–6 marks):** For a less developed explanation of only one of the terms and no accurate comment on the link between them. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	**'It is a general rule that firms maximise profits. They do so where the average revenue from the sale of a product is equal to its marginal cost of production.'** **Do you agree with this statement?** *The assertion only occurs in perfect competition where AR = MR. Then profit maximisation is, by default, where MC = MR = AR. Firms may not maximise profits and have alternative aims; it is not a general rule.* **L4 (9–13 marks):** For a clear grasp of the theory and an accurate discussion of alternative objectives of a firm. **L3 (7–8 marks):** For an answer that concentrates on one or other of the aspects of the question: either profit maximising analysis or alternative objectives. Or an answer that covers both aspects of the question but in a less developed manner. **L2 (5–6 marks):** For an answer which has weak analysis, undeveloped alternative objectives and poor structure. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

© UCLES 2019

Question	Answer	Marks
5(a)	**Explain why economists use a Lorenz curve and a Gini co-efficient and comment on likely government policy implications if a country's Gini co-efficient increased from 0.34 to 0.68.** *Lorenz curve shows the distribution of income in a country; Gini co-efficient is a measure of the inequality of distribution. The co-efficient ranges between 0 and 1; higher the figure the more unequal the distribution. Increase in inequality might lead to the conclusion that the government needs to take corrective policy action by means of taxes, transfer payments, tax relief.* **L4 (9–13 marks):** For a clear explanation of the theory and developed comment on possible government policy measures. **L3 (7–8 marks):** For a briefer explanation of the theory, a weaker understanding of the link between Lorenz and Gini co-efficient and undeveloped comment on government policy. **L2 (5–6 marks):** For a much less developed answer with no elaborative comment on government policy. **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**
5(b)	**With the help of a diagram analyse what is likely to happen to a worker's transfer earnings and economic rent if a perfectly competitive labour market is replaced by a monopsony.** *Explanation of transfer earnings and economic rent; monopsony is likely to result in a fall in numbers employed, a fall in the wage rate and a fall in both transfer earnings and economic rent.* **L4 (9–13 marks):** For a reasoned and clear explanation with accurate development of theoretical analysis. Use of an appropriate diagram. **L3 (7–8 marks):** For a correct understanding of the terms but a weaker explanation of the theory with some moderate inaccuracy in the diagram. **L2 (5–6 marks):** For a limited understanding of the terms, some confusion on the application to a monopsony and more major errors in the diagram. **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**

© UCLES 2019

Question	Answer	Marks
6	**'The Human Development Index (HDI) is a more useful indicator of changes in living standards than changes in Gross Domestic Product (GDP) but it still does not provide an entirely accurate assessment of whether living standards have improved over a given time period.' Critically evaluate this statement.** *An explanation of why changes in Gross Domestic Product are used to assess changes in living standards should be combined with an assessment of why this might not produce an accurate assessment. References should be made to GDP per capita and real GDP. The key elements of HDI should be identified and discussed in relation to GDP. Other key factors which are not covered by both these indicators should be considered – for example income distribution, negative externalities, leisure time etc. should be discussed. Other indicators such as the Multi-dimensional poverty index, happiness index, gender development index might be referred to.* **L4 (18–25 marks):** For an answer that develops an argument which suggests that both measures cannot be relied upon to provide an accurate measure and which provides evidence of weaknesses in both cases. Some reference to other measures which might encompass additional relevant factors should be made and a conclusion should be provided. **L3 (14–17 marks):** For an answer which provides some critical analysis of the weaknesses associated with each of the measures under consideration and which attempts to compare which alternative might provide a more accurate measure. **L2 (10–13 marks):** For an answer that explains GDP and HDI and attempts to consider why they are different but does not consider why one might be more accurate than the other. **L1 (1–9 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**25**

© UCLES 2019

Question	Answer	Marks
7(a)	**Discuss the effects of an expansionary monetary policy on the demand for money.** *Expansionary monetary policy relates to the use of changes (increases) in the money supply and changes (decreases) in interest rates. These changes would be expected to have a positive effect on aggregate demand which might increase output and employment. Each of the three motives for the demand for money would be affected by changes in income and changes in interest rates. A discussion of the impact on each is required.* **L4 (9–12 marks):** For an answer that discusses the impact of the changes in income and interest rate changes on the transactions, precautionary and speculative motives for the demand for money. An attempt should be made to assess the relative importance of the impact on each of the motives. This should be combined with a conclusion. **L3 (7–8 marks):** For an answer that uses analysis to show how an increase in the money supply will normally lead to a fall in interest rates and how these changes can be linked to changes in income. Clear links between these changes and changes in the demand for money will be established. **L2 (5–6 marks):** For an answer that provides a brief outline of what is meant by an expansionary monetary policy and some indication of factors which affect the demand for money. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**

© UCLES 2019

Question	Answer	Marks
7(b)	**How far do you agree with the view that an expansionary fiscal policy will reduce the level of unemployment in the short run but it will cause inflation to accelerate and unemployment to rise in the long run?** *In the short run, expansionary fiscal policy will increase aggregate demand by increasing government spending and/or reducing the level of taxation. With zero price expectations in the short run, this will decrease unemployment whilst also creating non-accelerating inflation. Monetarists suggest that in the long run, once price expectations are built into wage bargaining, wages will rise and unemployment will then also rise. This process will continue as long as governments attempt to create jobs using deficit financing.* **L4 (9–13 marks):** For an answer that clearly analyses the effects of an increase in aggregate demand on employment and inflation in the short run but then focuses upon the key role of price expectations in wage bargaining and discusses the type of unemployment (natural rate) which does not lend itself to successful fiscal policy. **L3 (7–8 marks):** For a less developed analysis of the effects of an increase in aggregate demand on employment and inflation in the short run and with some link to changes in expectations in the long run. **L2 (5–6 marks):** For an answer that provides a description of the relationship between fiscal policy and employment and inflation. **L1 (1–4 marks):** For an answer that has some basic correct facts but includes irrelevancies.	**13**

© UCLES 2019