Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/42**

Paper 4 Data Response and Essays **October/November 2020**

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.

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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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Question	Answer	Marks
1(a)(i)	**Identify <u>two</u> economic policies the Uruguayan government has introduced that should increase economic growth.** **2 x 1 mark** encouraging new technologies/industries low tax rates economic zones tagging of cattle public spending on science and technology **2 from** Fiscal Policy/Monetary Policy/Supply-side Policy for **1 max** **No credit** for national minimum wage	**2**
1(a)(ii)	**Explain how these policies should increase Uruguay's economic growth.** **2 x 1–2 marks** New technologies can boost productivity (1) + (1) for development of technology relating to economic growth. Low tax regimes lead to more investment/greater entrepreneurial effort (1) + (1) increasing output. Economic zones lead to inward investment (1) + (1) increasing the country's capital stock. New industries (1) + (1) exporting to a wide international market. Cattle tagging allows tracking (1) + (1) and increases beef exports. **Note: Max 1** Development of general fiscal and/or monetary and/or supply side policy.	**4**
1(b)	**The information states that in Uruguay there is a national minimum wage.** **Using a diagram, discuss the likely effects of the introduction of a national minimum wage on labour markets.** 1 mark for correctly labelled diagram + 1 mark for identification of shortfall of demand over supply. **Max 2 for diagram** Discussion**:** 2 × (identification of point 1 + 1 for development) • Predicted effect of higher wages, but lower level of employment • Positive effect of minimum wage on productivity • Reward other relevant answers	**6**

Question	Answer	Marks
1(c)	**Using Figs. 1.1 to 1.4, comment on the macroeconomic performance of Uruguay.** 1 mark for 1 comment on each diagram (**max 4 marks)** Credit answers that comment on either the overall trend in data **and/or** significant changes within the period. For example: GDP had risen by 17/18% / By more than Argentina or Brazil Unemployment has varied over the years but the trend is upwards/ significantly in 2017 Annual inflation has generally fallen/peaked in 2016 Balance of trade has moved from deficit to surplus. 4 additional marks for linking the data in the diagrams together **or** explanations for changes in the data. At least 2 examples. Max 3 per example. For example: Trend in inflation decreased and the trend unemployment rose in line with Phillips curve Increase in unemployment could be due to the minimum wage legislation**.** Rise in GDP could be due to increased beef exports	**8**
2(a)	**Explain the relationship between the pollution created by industrial production and economic efficiency.** *Pollution as a negative externality. Identification and application of private and social marginal costs. Allocative efficiency defined. Relationship between externality and allocative.* **L4 (9–12 marks)**. For an explanation which defines allocative efficiency, and examines the links between pollution, externalities and private and social costs. **L3 (7–8 marks)** For an explanation which defines allocative efficiency and analyses externalities and private and social costs and but does not establish a clear link with negative externalities. **L2 (5–6 marks)** For a description which attempts to link pollution and private and social costs **or** explanation of allocative efficiency and reference to pollution or P&S costs **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**

Question	Answer	Marks
2(b)	**Using diagrams, discuss whether the policies employed by governments to reduce allocative inefficiency are always effective.** *Taxation, subsidies, monopoly legislation, quantity restrictions, maximum minimum pricing, bans.* **L4 (9–13 marks)** For an answer which discusses 2 policies in detail or less developed discussion of 3 policies about the government's role and ability to reduce the inefficiency. Accurate diagrams. Max 11 if no conclusion **L3 (7–8 marks)** For an answer which analyses 1 policy in detail or 2 less developed policies which mention the government's role. Diagrams may have elements of inaccuracy. **L2 (5–6 marks)** For an answer which makes a limited attempt to explain 1 policy. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**
3(a)	**Explain the roles of marginal costs and average costs in determining the profits of a firm.** *Definitions of average and marginal costs, explanation of marginal cost = marginal revenue to establish profit maximising output. Relationship of average revenue and average costs in determining level of profit/loss. Reference to the long run and short run.* *NB: MC=MR can be shown on a diagram.* **L4 (9–12 marks)** For an explanation of the profit maximising rule MC=MR with an explanation that it is the difference in AR and AC which determines the level of profits/losses made. Reference to the long run and short run. **L3 (7–8 marks)** For an explanation of the profit maximising rule MC=MR with limited reference to the role of AC or AR. **L2 (5–6 marks)** For a limited description which defines MC and AC with limited reference to profits. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**

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Question	Answer	Marks
3(b)	**Discuss whether mergers between firms always operate against the consumers' interest.** *Disadvantages of mergers: existence of super normal profits due to monopoly power, higher prices, less choice, adverse effect of price discrimination on consumers.* *Advantages of mergers Economies of scale, cost reduction, R&D and innovation leading to improved product quality, establishment of natural monopolies avoiding duplication, beneficial effect of price discrimination on consumers.* **L4 (9–13 marks)** A balanced and developed discussion of benefits and disadvantages to the consumer of mergers. Max 11 if no conclusion **L3 (7–8 marks)**. For an analysis which is largely one-sided but with some limited recognition of another viewpoint. **L2 (5–6 marks)** For an answer which is one-sided description of either the benefits of mergers or the disadvantages of mergers. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**
4	**The wages of the Chief Executive Officers (CEO) of the six largest banks in the United States (US) were reported to be between 250 and 360 times the average pay of the staff in those banks. The six CEOs were all male.** **Discuss the extent to which economic theory can account for these variations in wages.** *Supply of and demand for labour, marginal revenue product theory (MRP), elasticity of supply and demand. Discrimination. Differing objectives of the firm.* **L4 (18–25 marks)** For an accurate answer based on a discussion of differences in supply and demand and elasticities of labour including MRP. Reference to discrimination. The answer is be clearly linked to the **context of the question.** A conclusion is drawn. (max 21 if no conclusion) **L3 (14–17 marks)** For an accurate answer based on an analysis of differences in supply and demand and some reference to elasticities of labour. (max L3 if no MRP) **L2 (10–13 marks)** For an answer bases on a description of differences in supply and demand of labour. **L1 (1–9 marks)** 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.	**25**

Question	Answer	Marks
5(a)	**Analyse the causes of unemployment and explain which cause could be most significant for your country.** *Structural, frictional, seasonal, cyclical/demand deficient unemployment. Equilibrium/disequilibrium unemployment.* **L4 (9–12 marks)** For a good analysis of 2 causes of unemployment and reference to a specific country. **L3 (7–8 marks)** For a good analysis of 1 cause of unemployment and an explanation of other cause(s) of unemployment. **L2 (5–6 marks)** For a good description of 2 causes of unemployment **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
5(b)	**Discuss whether supply-side policies are the most appropriate for reducing unemployment** *Explanation of supply-side policies from training, education, lower taxation limits on TU activity, subsidies, information and their impact on different types of unemployment. Consideration of fiscal policy and monetary policy on unemployment where supply side policies could be inappropriate.* **L4 (9–13 marks)** For an answer which discusses how supply-side policies are appropriate to some causes of unemployment. But that fiscal policy or monetary policy may be more appropriate for other forms of unemployment. Max 11 if no conclusion **L3 (7–8 marks)** For an answer which analyses the impact of supply-side policies on some causes of unemployment. **L2 (5–6 marks)** For an answer which describes supply-side policies. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

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Question	Answer	Marks
6	**"Investment by multinational corporations (MNCs) in a developing country always promotes sustainable economic growth in that country."** **Discuss.** *Investment and the multiplier effect on the demand for labour and production of goods and services. Sustainability and resource/production based MNC, impact of new techniques/technology on output/demand for labour. Impact of MNC on growth, balance of payments current/capital accounts, inflation, rural/urban balance and exchange rates. Production possibility frontier.* **L4 (18–25 marks)** For a developed discussion of the advantages and disadvantages of MNC investment to promote **sustainable** economic **growth** in a developing country. A conclusion is drawn. (max 21 no conclusion) **L3 (14–17 marks)** For a one-sided analysis of the impact of a MNC in a developing country or a less developed two-sided analysis. **Growth or sustainability** should be commented upon. **L2 (10–13 marks)** For a limited description of the impact of MNC investment in a developing country. **L1 (1–9 marks)** 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.	**25**

Question	Answer	Marks
7(a)	**Explain why gross domestic product (GDP) is widely used as a measure of economic growth and the standard of living.** *Definition of GDP, use of GDP to measure total value of output of goods and services in a period of time. Growth rate measures changes in GDP over time. Total quantity of goods and services produced is often used to give an indication of standard of living.* **L4 (9–12 marks)** For a definition of GDP. An explanation of economic growth and its link to changes in GDP over time and/or between countries. An examination of the link to the standard of living. **L3 (7–8 marks)** For a definition of GDP and an explanation of economic growth and its link to changes in GDP over time and/or between countries **or** a definition of GDP and an examination of the link to the standard of living. **L2 (5–6 marks)** For a description of GDP, economic growth and standard of living. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**12**
7(b)	**Discuss why alternatives to GDP are increasingly used to measure the standard of living.** *Discussion of limitations of GDP as a measure - inflation, population, PPP, non-marketed goods, crime, negative externalities, the nature of the goods and services produced. Consideration of an alternative measures such as Human Development Index (HDI), Measure of Economic Welfare (MEW), Human Poverty Index (HPI), Multidimensional Poverty Index (MPI).* **L4 (9–13 marks)** For a developed discussion of the limitations of GDP and how the alternative measures to GDP deal with these limitations. Maximum 11 marks if no conclusion. **L3 (7–8 marks)** For a analysis on the limitations of GDP and a reference to an alternative(s) measure to GDP or analysis of an alternative measure of SoL and a limited critique of GDP **L2 (5–6 marks)** For an answer which describes the limitations of GDP or describes the alternatives to GDP. **L1 (1–4 marks)** For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.	**13**

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