Cambridge Assessment International Education

Cambridge International AS & A Level

ECONOMICS **9708/43**

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.

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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Question	Answer	Marks
1(a)	**The article mentions economic growth. What is meant by economic growth?** An increase in the amount of goods and services (or real GDP) produced over a period of time.	**3**
1(b)	**Explain how economic growth is linked to a country's level of development.** Economic growth leads to increased output, employment, income, resource use, improved standard of living	**4**
1(c)	**Explain why economic migrants are mainly from the developing economies.** Rapid rise in labour force – developing economies population skewed towards younger work force. Job creation in developing economies cannot keep pace with growth in work force. (compare estimated growth with that of China 1978–2011). Situation in developing countries not helped by low investment by developed economies hence economic migration to developed countries	**4**
1(d)	**Discuss, using the information, whether links between developed economies and developing economies are necessarily 'mutually beneficial'.** For: Capital investment out of savings from the developed world used for infrastructure and manufacturing creating jobs in the developing world. This reduces the need for economic migration. Developed world receives dividends and profits increasing GDP. Overall effect is an increase in economic growth (multiplier) in both sets of economies. Against: – Free trade (loss of comparative advantage) and migration are under attack because developed economies, like the USA, have protectionist policies as well as policies to halt inflows of migrant labour. – Capital investment flows only about 2% of GDP of emerging economies which was the level in the 1980s. Flows reached maximum of 8% of GDP in 2005 but fell rapidly after world financial crisis in 2007–8. – This low level limits economic growth and job creation. Forecast is that developing economies situation in this respect will worsen by 2030. – Effect will be that economic migrants will place ever greater pressure on world economy in seeking jobs. Hence migration (legal and illegal) trends will increase. – Income inequalities between developed and developing economies will widen.	**9**

Question	Answer	Marks
2(a)	**Explain what is meant by 'Pareto optimality' and whether it is correct to say that an optimal allocation of resources would result if a good's price equalled its marginal cost.** *Optimal allocation involves Pareto allocative efficiency (cannot make someone better off without somebody being worse off) P = mc gives allocative efficiency but it should be MSC.* **L4 (9–12 marks)** for explaining Pareto criteria and a clear explanation of p=mc, consideration of externalities – both positive and negative. **L3 (7–8 marks)** for explaining Pareto criteria and for a less developed explanation, with either positive or negative externalities. **L2 (5–6 marks)** for an idea of Pareto criteria but a poor explanation of p = mc with no externalities **L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	
2(b)	**Discuss why an optimal allocation of resources might fail to occur in practice and consider what could be done about this failure.** *Discussion of reasons for market failure, public goods, market control in some market structures, externalities, and imperfect information. Government intervention by taxation, subsidies, regulation, persuasion, ownership.* **L4 (9–13 marks)** for an analysis and developed evaluation of 4 issues. (any combination of reasons for failure and types of intervention) or an analysis of more than four issues with briefer comment and evaluation. **L3 (7–8 marks)** For an analysis and comment of 3 issues or an analysis of more than three issues with briefer comment and evaluation. **L2 (5–6 marks)** for an analysis and evaluation of two issues or an analysis of more than two issues with very brief comment and evaluation. **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
3(a)	**Examine the analysis behind the downward sloping demand curve for a normal good.** *Explanation of consumer equilibrium, its link to price changes and the construction of the demand curve. Either marginal utility or indifference curves may be used. Both determine the maximum satisfaction for a consumer. One relates the equilibrium directly to a point on the demand curve, the other does not.* **L4 (9–12 marks)** for a sound explanation of the analysis and a clear comment on how a demand curve is formed as price changes affect equilibrium. A clear understanding of the principles involved. **L3 (7–8 marks)** for an accurate reference to the question but with a more limited development probably without a good explanation of the construction of a demand curve. The answer will probably just refer to one point on the demand curve and not deal with price changes. **L2 (5–6 marks)** for a briefer explanation of the analysis and equilibrium position but with no clear link to the demand curve. **L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
3(b)	**Use indifference curve analysis to discuss why a manufacturer might be interested in a consumer's reaction to an equal rise in price for a normal good and a Giffen good.** *Discussion of effect on demand of a rise in price for normal, inferior, Giffen goods and for goods with different elasticities. The manufacturer would be interested in the effect on revenue of any change in price and the effect would depend on the type of good.* **L4 (9–13 marks)** *for a clear analysis of price, income, substitution and an evaluation of different goods and link to revenue. Diagrams should be accurate.* **L3 (7–8 marks)** *for a less precise analysis with minor errors in the diagrams and with a less competent link to revenue.* **L2 (5–6 marks)** *for an answer that confuses income and substitution or does not comment on the revenue aspect.* **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)	**With the aid of a diagram, consider what is likely to happen to the level of profit earned by a firm if barriers to entry are introduced in a perfect market.** *Barriers to entry imply imperfect markets. AR becomes downward sloping and profits are likely to be higher than in perfect competition if profit maximising is still the aim. However, the firm may now have other aims and these may mean profits are not maximised and may not be higher than under perfect competition.* **L4 (9–12 marks)** for a clear analysis, accurate diagram. Up to 10 if no alternative aims are considered. **L3 (7–8 marks)** for a less developed analysis, no alternative aims and some minor imprecision in the diagram. **L2 (5–6 marks)** for a brief account and an inaccurate diagram. **L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**12**
4(b)	**Discuss why an industry might experience falling long-run average costs and comment on whether consumers might benefit from such a situation.** *Discussion of cause of LRAC falling through economies of scale. Maximum profit output is likely to rise, price may well fall. It presumes that the market has sufficient demand for the product to maintain the output.* **L4 (9–13 marks)** for a clear discussion of economies of scale and an evaluation about consumer benefit. If economies result in price reductions then consumers could benefit but price reductions would depend on the attitude of firm to profit earnings. **L3 (7–8 marks)** for a briefer discussion about economies of scale and imprecision about whether consumers gain. **L2 (5–6 marks)** for some inaccuracies in the account of economies, or very brief comment on only a couple of economies, and no discussion of consumer benefit. **L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory	**13**

Question	Answer	Marks
5	**Marginal revenue productivity theory analyses why wage rates differ in imperfect markets.** **Explain this analysis using a diagram and consider if a trade union negotiated a higher wage than determined by the market, whether the outcome would necessarily be the same as that in perfect competition.** *Analysis of wage determination using MRP. Diagram is necessary. Wage rates differ depending on position of MRP and costs. Wage will be lower than under perfect competition. TUs may increase wages, the result on employment could be the same as under perfect competition but profits would still be higher. It is likely that employment would not be the same as under perfect competition – it could be higher (but wages would be lower than under perfect competition). Or employment could be lower (but wages would be higher than under perfect competition).* **L4 (18–25 marks)** for clear analysis and comment on why there are differentials. Clear evaluation on different outcomes depending on where the union negotiates the wage level. Accurate diagrams. **L3 (14–17 marks)** for a weaker analysis and poor comment on wage differentials. Less developed attempt to consider alternative outcomes depending on where the wage is negotiated. Probably only one outcome will be presented. Minor errors in the diagrams. **L2 (10–13 marks)** for a poor analysis and no comment on wage differentials. The comparison with perfect competition will also be very weak. Very poor and imprecise diagrams. **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**

Question	Answer	Marks
6(a)	**Explain the causes of demand deficient (cyclical) unemployment and consider which is the most important.** *A definition of demand deficient unemployment and an explanation of the causes of demand deficient unemployment. Supporting diagrams should be provided. Each cause should be discussed in relation to its overall importance. For example, if this type of unemployment is caused by a fall in the level of exports, this will have potentially negative effects on the exchange rate which will have additional impact on other key macroeconomic performance indicators. The same approach could be applied to any of the other factors which might influence the level of aggregate demand.* **L4 (9–12 marks)** for a sound explanation of at least two causes of demand deficient unemployment and attempt to discuss the relative importance of these factors in relation to their overall impact on unemployment. A clear attempt should be made to draw a conclusion based on the preceding argument. **L3 (7–8 marks)** for a detailed explanation of one cause of demand deficient unemployment and an attempt to discuss its relative importance with a reasoned conclusion or a detailed analysis of the main causes of demand deficient unemployment but which does not address the second part of the question. **L2 (5–6 marks)** for a descriptive approach that does not analyse the causes of demand deficient unemployment and which does not address the second part of the question. No conclusion will be provided. **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)	**Critically evaluate the use of Keynesian demand management policies to solve the problem of unemployment.** *The theory of Keynesian demand management policy will be explained. This will emphasize the role of the government and its use of budget deficits to stimulate aggregate demand. Diagrams should be provided to support this theory. Evaluation of the effectiveness of this theory might refer to problems such as: crowding out; risk of causing inflation; balance of payments problems or problems associated with the subsequent growth of the national debt.* **L4 (9–13 marks)** for a response that clearly analyses the potential impact of demand management policies on the level of unemployment. At least two potential problems associated with this approach should be identified and their significance explained in detail. An attempt will be made to draw together the key points in the preceding discussion to form a conclusion. **L3 (7–8 marks)** for an answer that focuses upon analysing how and why demand management policies might work but does not attempt to evaluate the effectiveness of this policy. An alternative approach might analyse how demand management policies work plus makes some attempt to evaluate the effectiveness of this policy. At least one problem should be identified and discussed. **L2 (5–6 marks)** for a brief explanation of the meaning of Keynesian demand management policies but which does not develop any key points and does not attempt to discuss the effectiveness of these policies. No conclusion will be provided. **L1 (1–4 marks)** for an answer that has some basic correct facts but includes irrelevancies and errors of theory.	**13**

Question	Answer	Marks
7	**'The rate of interest is one of the most important macroeconomic variables because changes in the rate of interest have a significant impact on each of the key macroeconomic aims.'** **To what extent do you agree with this statement?** *A brief introduction should explain the meaning of the rate of interest. The links between changes in interest rates and changes in employment, economic growth, inflation and the balance of payments should then be considered. For example, discussion might relate to the impact of a fall in interest rates on the exchange rate and how this change might subsequently affect imports and exports and ultimately the balance of payments. Either increases or decrease in interest rates can be discussed but it is important to establish the links between changes in interest rates and some key macroeconomic indicators. An attempt should also be made to consider the importance of these changes compared to the effect of changes in other variables, for example government expenditure/taxation.* **L4 (18–25 marks)** for a detailed discussion of the impact of changes in interest rates on at least three macroeconomic goals. The extent of the impact should be considered in each case. Some attempt should then be made to decide, based upon the previous analysis, how important these changes might be. A conclusion will consider the potential impact of changes in other variables on the macro economy and to compare the relative importance of these changes in relation to the impact of interest rate changes. **L3 (14–17 marks)** for an answer that focuses upon analysing the impact of interest rate changes on at least two key macroeconomic indicators. Also some attempt to discuss the effectiveness of these changes should be made. An attempt to decide whether the rate of interest is one of the main macroeconomic variables will be made but the comparison with changes in alternative variables will not be fully developed. **L2 (10–13 marks)** for a more limited but acceptable attempt to establish the importance of changes in interest rates on the macro economy but does not provide any detailed analysis of the links between these changes and their final impact on the economy. No attempt to discuss the relative importance of interest rate changes will be made. **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**