

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2006 question paper

9708 ECONOMICS

9708/04 Paper 4 (Data Response & Essays – Supplement),
maximum raw mark 70

This mark scheme is published as an aid to teachers and students, 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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2006 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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Section A

- 1 (a) Fierce competition in market, high oil prices, high production costs; weak demand. [3]
- (b) (i) Explanation of terms, linked to changes in output. [2]
- (ii) Extract says wants to keep labour for two years, to bank overtime hours, mentions demographic work model, reduce labour by 2011: these imply long term nature of employment of labour and therefore more of a fixed cost. However, the use of labour with flexible working hours and even over the long term does relate to output changes, making it variable. Overall conclusion uncertain. [4]
- (c) The statement presumably means a lower price. [1] This may be appropriate to meet competition, or, depending on elasticity, to encourage demand. [2] Would not seem appropriate to ensure higher costs are covered. [2] [5]
- (d) Discussion on relative costs between countries, comment on different standards of living and different costs of living, different costs for other inputs. These would make any comparison difficult to judge without more information. However, costs are higher in Germany by 80%. This high figure, if true, would remove some of the doubt even allowing for different conditions. More information on what is included to get to this 80% difference would be useful. [6]

Section B

- 2 (a) Explanation of productive and allocative efficiency.
- L4) *For a sound explanation of the analysis and a clear understanding of the principles involved.* [8 – 10]
- L3) *For a correct explanation of part of the analysis with limited elaboration. Candidates might explain either productive or allocative efficiency but not both or not show how they are linked.* [6 – 7]
- L2) *For an undeveloped answer which only briefly mentions one type of efficiency.* [4 – 5]
- L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.* [1 – 2]
- (b) Discussion on the idea of market failure, the deviation from allocative efficiency caused by imperfect markets, imperfect knowledge, existence of merit/public goods.
- L4) *For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved. Reasoned evaluative comments should be given with reference to both types of market structure.* [12 – 15]
- L3) *For a competent comment but with only limited evaluation or an accurate concentration on either imperfect or perfect competition.* [9 – 11]
- L2) *For a correct discussion of the analysis but with only very brief, or no, evaluation – or a brief description of one of the market structures.* [6 – 8]
- L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.* [1 – 5]

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- 3 (a)** Candidates should explain and discuss the Law of Diminishing Marginal Utility and discuss whether it can be applied to money. Money has a diminishing marginal utility as does any good according to some. There are, though, exceptional goods where marginal utility increases as the quantity used/owned increases; some would argue money is in this category. Perception of utility is for a given time period and so over time the second part of the statement could be true whichever of the two views is believed. However, higher incomes allow the purchase of more, or different, goods and each of those gives utility. Whether it is possible to add utilities of different goods is debatable. Extra consumption also sometimes gives utility when one's situation is compared to that of other people. However, the externality of consumption on consumption is not easily calculated and the comparison of one person with another in terms of utility is difficult. So, the final conclusion of the argument would not be certain.
- L4) *For a sound explanation of each part and a clear understanding of the principles involved.* [9 – 12]
- L3) *For a competent explanation of the Law of DMU but with limited elaboration of the analysis.* [7 – 8]
- L2) *For a limited explanation of the Law of DMU in general but without applying it to the case of money or the precise point of the question. Candidates may also not work through the whole argument.* [5 – 6]
- L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.* [1 – 4]
- (b)** Discussion of different tax policies, of transfer payments, of subsidies and support.
- L4) *For a reasoned and well argued discussion with accurate development of the alternative policies.* [9 – 13]
- L3) *For a clear but undeveloped discussion but one which still deals with more than one type of policy.* [7 – 8]
- L2) *For a limited attempt to consider the policies, possibly with a concentration on one policy – probably tax changes – only.* [5 – 6]
- L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial.* [1 – 4]
- 4 (a)** Distinction between monopolistic competition and oligopoly in terms of output, price, profit, numbers of firms, differentiation, entry barriers.
- L4) *For a sound explanation of each market and a clear understanding of the principles involved in terms of profits, pricing, product branding, entry barriers, competition, contestable markets.* [9 – 13]
- L3) *For a competent comment but with limited elaboration of the analysis.* [7 – 8]
- L2) *For a correct explanation of part of the analysis, concentrating on a limited explanation of one or two aspects e.g. profits or pricing.* [5 – 6]
- L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.* [1 – 4]

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- (b) Discussion of the effect on costs and on revenues. In the short run, fixed costs increase, revenue does not necessarily increase to match it. In the long run the revenue may increase as China is a large market for cigarettes, average total costs may fall as production rises and profits may rise in the long run. It is likely that the company would not invest unless it thought that profits would rise.
- L4) *For a reasoned and well argued discussion with accurate development of both costs and revenue.* [9 – 12]
- L3) *For a clear but undeveloped discussion but one which still deals with more than one aspect only.* [7 – 8]
- L2) *For a limited attempt to consider the theory.* [5 – 6]
- L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial.* [1 – 4]
- 5 (a) Explanation of the characteristics of developing nations using economic indicators reflecting output, employment and income, balance of payments. They should also mention HDI and other measures of standards of living which include social factors.
- L4) *For a reasoned and well argued discussion with accurate development of the characteristics.* [9 – 12]
- L3) *For a clear but undeveloped discussion but one which still deals with both economic and social indicators.* [7 – 8]
- L2) *For a limited attempt to consider the theory with a concentration on the economic indicators reflecting output etc only.* [5 – 6]
- L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis are substantial.* [1 – 4]
- (b) The statement mentions policies of subsidies and protection from the developed country which cause harm to the developing country. The question could be interpreted wider than this to include policies which enable freer transfer of expertise, investment, and aid. Changes in incomes and employment in the developed countries also affect the demand for goods and services some of which come from the developing countries.
- L4) *For a sound discussion and a clear understanding of the principles involved with a comment on both sides of the argument.* [9 – 12]
- L3) *For a competent comment on both sides of the argument but with limited elaboration of the analysis.* [7 – 8]
- L2) *For a correct explanation of part of the analysis, possibly concentrating on only one side.* [5 – 6]
- L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.* [1 – 4]

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- 6 (a)** Explanation of motives for demand for money.
- L4) *For a sound explanation of the analysis and a clear understanding.* [8 – 10]
L3) *For a competent comment but with limited elaboration of the analysis.* [6 – 7]
L2) *For a correct explanation of part of the analysis.* [4 – 5]
L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.* [1 – 3]
- (b)** Discussion of consequences of increase in spending in terms of the multiplier, and possible resulting excess demand with pressure on prices.
- L4) *For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved. Reasoned evaluative comments should be given.* [12 – 15]
L3) *For a competent comment but with only limited evaluation of the effects.* [9 – 11]
L2) *For a correct discussion of the analysis but with only very brief, or no, evaluation.* [6 – 8]
L1) *For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.* [1 – 5]
- 7 (a)** Candidates should debate what the main aims of government policy should be. They should question whether these aims which may be expressed in the traditional economic macro aims of governments – price stability, growth, balance of payments problems – necessarily imply that there is no connection with the more immediate wishes of consumers which may not be expressed in terms of such economic indicators.
- L4) *For a reasoned and clear discussion with accurate development of theory and good links to the statement together with a reasoned conclusion.* [18 – 25]
L3) *For a clear description together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive.* [14 – 17]
L2) *For a correct explanation but weak or ill-explained links to the statement. The explanation will be undeveloped with some attempt at analysis but only limited evaluation.* [10 – 13]
L1) *For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.* [1 – 9]

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General Comments for Section B

The essay questions carry a maximum mark of 25. Try not to 'bunch' marks, but use the whole mark range. 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 various objectives of the examination listed in the syllabus and not purely on the ability to itemise further facts from the content of the syllabus. Marks should be awarded for the ability to demonstrate that aim b) of the syllabus has been achieved as well as aim a) – which refers to content knowledge. It is the objective of the examination, as listed in the syllabus, to assess both these aims.

An overall guide for marks for individual questions is given below; these are from a total of 25. They may be applied proportionally of course to parts of questions where the total is less than 25:

Mark 1-9 (Linked to level one in individual question notes).

1 – 5 where the answer is mostly irrelevant and only contains a few valid points made incidentally in an irrelevant context. There will also be substantial omissions of analysis.

6 – 9 where the answer shows some knowledge but does not indicate that the meaning of the question has been properly grasped. Basic errors of theory, or an inadequate development of analysis may be evident.

Mark 10-13 (Linked to level two in individual question notes).

10 – 11 where there is evidence of an ability to identify facts or some ability at graphs and/or a fair ability to apply known laws to new situations.

There should be an accurate although undeveloped explanation of the facts relating to the question together with an explanation of the theory, and evidence of some ability to discriminate and form elementary judgements. Do not expect a clear logical presentation. There will not be much evidence of the ability to recognise unstated assumptions, nor to examine the implications of a hypothesis, nor of the ability to organise ideas into a new unity.

12 – 13 where the answer has a more thorough relevance to the question but where the theory is incompletely explained.

Mark 14-17 (Linked to level three in individual question notes).

14 – 15 where there is a good knowledge of the facts and theory of the question, clear evidence of the ability to use the facts and theory with accurate reference to the question that may have presented the candidate with a novel application. There should also be evidence, where appropriate, of the ability to examine the implications of the question and an attempt to distinguish between facts and value judgements.

Clear statements, supported by reasoned arguments, should be given and there should be some attempt at a conclusion to the question. There should be a reasoned structure to the whole answer. Do not expect too many extra illustrative points which are not explicitly referred to in the question, do not expect too much critical comment on unstated assumptions.

16 – 17 for an answer showing a well reasoned understanding of the question's requirements and of the relevant theory: the analysis should be sound though the illustration and development may not be very full.

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Mark 18-25 (Linked to level four in individual question notes).

18 – 20 where there is a thorough knowledge of the facts and theory with an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. There should be an ability to query some of the assumptions in the question and clear evidence of an ability to distinguish between fact and value judgements and to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. New illustrations and apposite examples should be introduced as further evidence of an ability to recognise the principles of the question and their application to relevant current situations.

21 – 25 for an answer which, given the time constraint, could not be improved significantly: it will have clear analysis, ample illustration and a good attempt at considered evaluation.

Be positive in your marking, awarding marks for what is there without being too much influenced by omissions. Marks should not be deleted for inaccuracies.

Corresponding marks for sub-sections.

	1	2	3	4
Total mark 10	1 – 3	4 – 5	6 – 7	8 – 10
Total mark 12	1 – 4	5 – 6	7 – 8	9 – 12
Total mark 13	1 – 4+	5 – 6+	7 – 8+	9 – 13
Total mark 15	1 – 5	6 – 8	9 – 11	12 – 15