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CAMBRIDGE
INTERNATIONAL EXAMINATIONS

June 2003

GCE ADVANCED SUBSIDIARY LEVEL AND ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9708/01

ECONOMICS
Paper 1 (Multiple Choice (Core))

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Question Number	*Key*	*Question Number*	*Key*
1	**A**	16	**D**
2	**C**	17	**B**
3	**B**	18	**B**
4	**A**	19	**B**
5	**D**	20	**D**
6	**C**	21	**B**
7	**C**	22	**C**
8	**B**	23	**A**
9	**C**	24	**B**
10	**C**	25	**B**
11	**B**	26	**C**
12	**B**	27	**C**
13	**C**	28	**A**
14	**A**	29	**D**
15	**B**	30	**C**

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CAMBRIDGE
INTERNATIONAL EXAMINATIONS

June 2003

GCE ADVANCED SUBSIDIARY LEVEL AND ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK: 40

SYLLABUS/COMPONENT: 9708/02

ECONOMICS
Paper 2 (Data Response and Essay (Core))

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1 (a) (i) What change was forecast for the current balance between 2000 and 2001?

Decrease/worsen (1), by RM 9.1b/$US2.4b/29% (1), lower surplus (2), - two aspects **[2]**

(ii) How did the visible items, shown in Table 2, contribute to this change?

All imports rose (1), less growth of exports (1), supporting data (1), fall in 2 exports (1), two aspects **[2]**

(b) How might economic theory explain the composition of visible exports?

Comparative advantage (1), reference to factor endowment linked to products (1), Industrialisation (1), reference to composition of exports (1) **[2]**

(c) Should the Malaysian government be concerned about the figures for visible imports?

Yes – rising faster than exports, dependency issue, nature of goods
No – covered by exports, reflect comparative advantage, further output

[4]

Awareness of two sides for (4), 1 side (3) max

(d) Identify two other pieces of data needed to calculate the overall balance of payments.

Capital account (1), financial account (1), errors and omissions/balancing item (1), individual components, e.g. investment flows (1), transfers (1) **[2]**

(e) What happened to the ringgit/dollar exchange rate between 2000 and 2001?

Remained unchanged (1) at RM 3.8 per $ (approx) (1)
Allow Ringgit fell/$ rose (1), RM 3.80 to RM 3.81 per $ (1) **[2]**

(f) Discuss whether an appreciation in the exchange rate of the ringgit would help the Malaysian government to control inflation and improve the balance of payments.

Effect on prices (1)
Inflation – cheaper imports, reduced export demand helpful.
Cost push, demand pull relevant.
Balance of payments – import rise (cheaper), export fall (dearer) unhelpful.
Elasticities relevant.
Link exchange rate, prices, varied outcome to be explained. 4/2 split acceptable. **[6]**

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2 (a) Explain the functions of price in a market economy.

Market economy involves minimal government intervention. Price is central to the allocation of resources when demand and supply operates. Rising prices signal to producers to supply more, indicate where factors should be employed and ration out goods between consumers. Agents react automatically in a maximising manner. When the market works perfectly this should produce an optimum outcome.

For recognising place of price in market economy — up to 3 marks

For identifying the functions of price — up to 4 marks

For explaining the function of price in a market economy — up to 3 marks **[10]**

(b) Discuss whether the introduction of maximum prices by a government would solve the problem of scarcity.

Scarcity results from scarce resources and unlimited wants. An effective maximum price would be set below the market equilibrium. Unless the government took additional measures it would result in excess demand and a smaller quantity sold at a lower price. While some would benefit from lower prices others would now go without the good. Overall the action would not reduce the level of scarcity.

For understanding scarcity and a maximum price — up to 3 marks

For analysing the effects of a maximum price — up to 4 marks

For discussing the link to scarcity — up to 3 marks **[10]**

3 (a) Explain what influences the price elasticity of supply of a product.

PES measures the responsiveness of supply to a change in price. Factors which influence it include the existence of spare capacity, availability of stocks, the time period involved and the mobility of factors.

For understanding price elasticity of supply — up to 3 marks

For identifying some influences — up to 3 marks

For explaining the influences — up to 2 marks **[8]**

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(b) **Discuss whether farmers will benefit from producing goods which have low price elasticities of demand and supply.**

Supply is likely to be inelastic because of time lags and perishability while demand reflects necessity/substitutes and physical limits. Shifts in supply and demand cause major fluctuations in prices and affect income and planning. Increases in supply which lower price lead to falls in revenue. Against this inelastic demand maintains revenue when prices rise as supply falls. The latter only benefits farmers who manage to continue producing. Increases in efficiency can cause large falls in price and income. Uncertainty and risk avoidance often result. The impact of taxes and subsidies varies with elasticity.

For understanding inelasticity — up to 3 marks

For applying inelasticity to the farming context — up to 3 marks

For analysing the effects of inelasticity — up to 3 marks

For discussing the outcome for farmers — up to 3 marks **[12]**

4 (a) **Explain the difficulties of measuring inflation accurately.**

Inflation is a sustained rise in the general price level and is measured by an index of consumer (retail) prices. The accuracy of the index can vary with the effectiveness of the data collection, the construction and coverage of the index and the extent to which it is updated. Changes in quality cause problems as well.

For understanding inflation and its measurement — up to 3 marks

For identifying some difficulties — up to 3 marks

For explaining the basis of the difficulties — up to 2 marks **[8]**

(b) **Discuss whether inflation is necessarily harmful.**

Changes in the general price level give rise to problems in terms of uncertainty and planning, menu and shoe leather costs, redistributional and international effects. The rate of inflation (particularly compared to rivals), its trend and whether it is anticipated affect the severity of the problems it causes. A low rate of inflation may be desirable as an incentive to producers and a stimulus to the economy. It is often advocated in preference to deflation.

For identifying some of the disadvantages — up to 3 marks

For explaining some of the disadvantages — up to 3 marks

For analysing the different possible conditions — up to 3 marks

For discussing the benefits of inflation — up to 3 marks **[12]**

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June 2003

GCE ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK: 30

SYLLABUS/COMPONENT: 9708/03

ECONOMICS
Paper 3 (Multiple Choice (Supplement))

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Question Number	*Key*	*Question Number*	*Key*
1	**A**	16	**C**
2	**D**	17	**B**
3	**D**	18	**D**
4	**D**	19	**C**
5	**A**	20	**A**
6	**C**	21	**A**
7	**B**	22	**C**
8	**C**	23	**C**
9	**C**	24	**B**
10	**B**	25	**A**
11	**A**	26	**D**
12	**A**	27	**B**
13	**A**	28	**B**
14	**D**	29	**C**
15	**C**	30	**A**

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June 2003

GCE ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK: 70

SYLLABUS/COMPONENT: 9708/04

ECONOMICS
Paper 4 (Data Response and Essay (Supplement))

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Section A

(a) (i) Definition of economy of scale – reduced average costs as output increases resulting from increased size of plant or business.

[2]

(ii) Any two – e.g. managerial, technical, risk-bearing, marketing, labour, use of capital/assets or external economies.

[2]

(iii) Two from need to compete with foreign banks, inability of small banks to compete on quality of service or returns to shareholders.

[2]

(b) The merged bank will have a monopolistic position, which may result in the exploitation of the customers, particularly those on lower incomes. An explanation of how monopolistic companies might exploit customers should be given.

[3]

(c) (i) Number of banks, size of banks,

[2]

(ii) Comment on price fixing, price rigidity, brand loyalty, product differentiation.

[4]

(d) Need first to identify the evidence, which consists of statements on the number of banks in other countries and the size of those countries. Size is sometimes stated in terms of population and GDP, sometimes in terms of geographical area. There is also a statement about the number of customers of other banks (2 marks).

For a discussion of the validity of using the number of banks with reference to population, geographical area. GDP and/or population may be thought a stronger measure of comparison than geographical area but this may be questioned. Countries with low GDP and high population may still need banking services, nothing is said about the distribution of the population. A comparison by geographical area is not useful. The issue is the number of banking companies, not the number of local branches. The latter is never mentioned. A comment on the validity of using the number of customers as a measure should be given.

The advantages are that there will be economies of scale, a better ability to compete with foreign competition. Some inference about lower costs might be made. Nothing is stated about the performance of the other larger banks to which reference is made and there is no substantiation of the idea of economies of scale. The underlying presumption is also that the banking system is a strong part of the economy, but this is not elaborated on in the article. Candidates should make an overall judgement.

[5]

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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.

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 should be evidence of an ability to identify facts, some ability at graphs, fair ability to apply known laws to new situations.

Expect 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. But 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 organize 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.

14-17 (Linked to level 3 in individual question notes)

14-15 Expect 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 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 clearly be a reasonable structure to the whole answer. Do not expect too many extra Illustrative points which are not explicitly referred to

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in the question, do not expect too much critical comment, and do not expect any recognition of, or 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.

18-25 (Linked to level 4 in individual question notes)

18-20 Expect a thorough knowledge of the facts and theory with an excellent ability to describe and explain this in a precise, logical, reasoned manner. Expect an ability to query some of the assumptions in the question and clear evidence 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 examples apposite to the material discussed should be introduced as further evidence of the 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 maximum marks for sub-sections:

	1	**2**	**3**	**4**
Total Mark 10	3	5	7	10
Total Mark 12	4	6	8	12
Total Mark 13	4+	6+	8+	13
Total Mark 15	5	8	11	15

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2 **(a)** Explanation of the areas of market failure – imperfect competition, externalities, public goods, incomplete valuations with merit goods.

[12]

L4 For a reasoned and clear explanation with accurate development of theory together (9-12)
L3 For a fair but undeveloped explanation (7-8)
L2 For a limited but acceptable attempt to consider the theory but with a greater concentration on the descriptive elements (5-6)
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-4)

(b) Discussion of whether museums fall into any of the above categories. Museums provide interest in cultural heritage, require large amounts of capital to establish, often are unprofitable, increase tourism, create employment in areas other than the museum, provide education. Some of these fall into the categories of market failure.

L4 For a reasoned and clear evaluative comment (9-13)
L3 For a fair but undeveloped comment (7-8)
L2 For a limited but acceptable attempt to consider the possible effects (5-6)
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-4)

3 Candidates need to state the assumptions on which they base their arguments. They may state that an agricultural labourer might be relatively unskilled, that there would, therefore, be a large supply of workers – traditional industry, many unqualified workers in the country. A hotel manager might be assumed to be trained and qualified. Less potential staff available to fill that post.

Changes in the demand for agricultural products are not stated clearly but it could be assumed that the diversification has led to a decline in the output of agriculture – possibly through less exports. Changes in the demand for hotel managers could be assumed to have increased.

Candidates could use either MRP or demand and supply analysis to show, in the case of agricultural workers, a fall in demand for labour but a large supply and in the case of hotel managers, a rise in demand and an inelastic supply.

They could consider whether the theory takes account of imperfect competition, and whether it satisfactorily explains wage determination. They should debate whether the theory can accommodate institutional factors such as the role of government legislation and possible effect of demands for increased income by organised groups such as unions.

L4 For a thorough explanation of the analysis of wage determination with a clear link to the explanation of low wages with discussion of institutional factors and government policy and a clear conclusion to the answer (18-25; 14-17 for demand and supply only without MRP)
L3 For a competent explanation but with limited discussion and unstructured conclusion (14-17; 10 -13 for demand and supply without MRP)
L2 For a correct but undeveloped explanation but with no conclusion or attempt to deal with the argument in the question (10-13; 6-9 for demand and supply without MRP)
L1 For an answer which contains inaccuracies and only a few correct points (1-9; 1-5 for demand and supply only without MRP)

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4 **(a)** Explanation of the link between profits, revenues and costs. Comment on possibilities of increasing revenue or reducing costs. Role of fixed and variable costs.

[13]

L4 For a sound explanation with clear understanding of the principles involved (9-13)
L3 For an accurate reference to the question but with a more limited explanation(7-8)
L2 For an explanation which contains minor errors or an undeveloped comment, not necessarily logically presented (5-6)
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-4)

(b) Discussion of the alternative objectives, influence in the market, behavioural theories, managerial theories, balancing of aims of different parts of the company, pricing according to other firms in the market rather than according to profit maximisation.

[12]

L4 For a reasoned and clear discussion, logically presented (9-12)
L3 For a fair but undeveloped discussion but with accurate reference to the question (7-8)
L2 For a limited discussion with little comment on alternative aims (5-6)
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-4)

5 **(a)** Explanation of the use of GDP, industrial/agricultural structures, population structures, infrastructure provision, comparative distribution of income, trading position, role of exports/imports, social indicators such as health, housing, education.

[10]

L4 For a sound explanation with good illustrations and a clear understanding of the principles involved and a reasoned comparison presented (8-10)
L3 For a competent comment with limited development of a reasoned comparison (6-7)
L2 For a correct explanation but undeveloped comment with limited attempt to make explicit comparisons (4-5)
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-3)

(b) Discussion of health programmes, education programmes, income redistribution achieved through government spending, borrowing, taxation, multinational development, aid.

[15]

L4 For a reasoned discussion and clearly structured answer (12-15)
L3 For a fair discussion but undeveloped answer (9-11)
L2 For a limited but acceptable attempt to consider a range of policies (6-8)
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-5)

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6 **(a)** Explanation of the effect of a change in investment, via the multiplier process, on national income and hence on output or on prices or both.

[13]

L4 For a reasoned and clear discussion, logically presented (9-13)
L3 For a fair but undeveloped discussion but with accurate reference to the question (7-8)
L2 For a limited discussion with little comment on alternative aims (5-6)
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-4)

(b) Discussion of fiscal and monetary incentives together with particular subsidies or regulative controls.

[12]

L4 For a sound discussion with clear understanding of the principles involved (9-12)
L3 For an accurate reference to the question but with a more limited explanation (7-8)
L2 For an explanation which contains minor errors or an undeveloped comment, not necessarily logically presented (5-6)
L1 For an answer which has some basic correct facts but includes irrelevancies and errors of theory (1-4)

7 Discussion of the two policy aims. Candidates should give a reasoned account of how the aim chosen would affect and link to the alternative aim.

[25]

L4 For a thorough explanation of the terms, a clear analysis of the link between different issues, a discussion of the possible outcome of government policy with a balance of alternative views and a reasoned conclusion (18-25)
L3 For a competent explanation which does not fully analyse the effects of government policy, does not fully develop a discussion on possible links but makes some attempt at evaluation (14-17)
L2 For an accurate though undeveloped explanation 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, or where the answer contains irrelevancies and errors of theory (1-9)

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