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INTERNATIONAL EXAMINATIONS

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GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the November 2003 question papers

9708 ECONOMICS

9708/01	Paper 1 Multiple Choice (Core), maximum raw mark 30
9708/02	Paper 2 Data Response and Essay (Core), maximum raw mark 40
9708/03	Paper 3 Multiple Choice (Supplement), maximum raw mark 30
9708/04	Paper 4 Data Response and Essay (Extended), maximum raw mark 70

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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*.

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

CIE is publishing the mark schemes for the November 2003 question papers for most IGCSE and GCE Advanced Level syllabuses.

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CAMBRIDGE
INTERNATIONAL EXAMINATIONS

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

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CAMBRIDGE
INTERNATIONAL EXAMINATIONS

November 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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(a)(i) What, according to Figure 1, happened to the price of coffee between the start of 1997 and the end of 2000? [2]

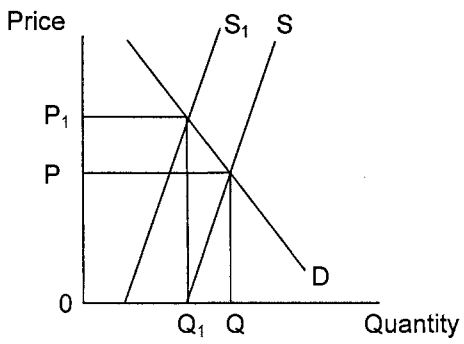
It fell(1), by 50% (1), exception to general fall 1997 (1). Any 2 points

(ii) How does the data in Figure 2 help to explain the behaviour of the price of coffee between 1997 and 2000? [3]

Represents supply and demand (1), 1997 S < D price rise (1), other years S > D price fall (1), generally downward – excess supply (1) Any 3 points

(b) (i) With the help of a diagram, explain how the coffee retention scheme was intended to affect the market for coffee. [4]

Reduction in supply (1), push price up (1), diagram alone (3 max)



(ii) Suggest two problems of operating a successful retention scheme. [2]

e.g. countries may not join (1), members may cheat (1), cost of operation (1) or other acceptable problems. Any 2 points.

(iii) Identify one alternative measure to reduce the surplus and explain how it might operate. [3]

Supply reduction e.g. alternative production, crop destruction or demand increase e.g. alternative uses, advertising - identification (1), explanation (1), link to D & S (1)

(c) Discuss how far the 'Fairtrade' scheme may solve the problems of coffee growers. [6]

Benefits - higher income, steadier income, attitude changes, working system
Problems - minority involved, unwillingness of consumer to pay higher price, scale of problem growing, against market trend, irrelevant to some problems.
4/2 split, both sides needed for full marks

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2 (a) Explain what is meant by labour productivity and show how changes in labour productivity may affect an economy's production possibility curve. [8]

Labour productivity is output per worker (per time period) and is calculated by total output/number of workers. The ppc shows the maximum output of one good possible with the available resources, given the output of other goods. The effect on the ppc will depend upon the assumptions made. It may result in a move to the curve from within, a shift outwards or inwards of the curve or a pivoting of the curve. The assumptions need to be clarified.

Knowledge of the terms	up to 3 marks
Understanding of the effect	up to 3 marks
Explanation of the effect	up to 2 marks

(b) Discuss whether increased division of labour among workers and nations brings only benefits. [12]

Division of labour increases output on both levels and may result in greater production, more efficiency and higher living standards. Meaning and examples of specialisation at both levels can be expected. Its basis is improved use of resources and the application of comparative advantage. The benefit is not necessarily without drawbacks. On an individual level the nature of employment may change and workers may become more dependent. On a national level the benefits of trade may not be realised and their distribution may be uneven. The position of developing economies illustrates some of the difficulties. Both situations should be considered.

Understanding of the concept	up to 3 marks
Application to the two contexts	up to 3 marks
Analysis of the benefits	up to 3 marks
Discussion of the drawbacks	up to 3 marks

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3 (a) Explain the effect of the removal of an indirect tax on the market for a product. **[8]**

An indirect tax e.g. VAT removal will cause the supply curve to shift to the right. The nature of move depends upon whether it is specific or proportional. The tax removal acts in the same way as a fall in costs and results in a lower price and greater quantity traded. The extent of the change depends on the elasticity of demand. This can be shown by a diagram.

Knowledge of indirect tax	up to 3 marks
Explanation of the broad market effect	up to 3 marks
Explanation of the detailed effect	up to 2 marks

(b) Discuss whether an indirect tax is a satisfactory way to tackle a negative externality, such as air pollution. **[12]**

A *negative externality arises when social cost exceeds private cost and disadvantages third parties. It results in a level of output greater than the social optimum. The externality might be internalised by the imposition of a tax. This would reduce output to the desired level. This uses a market approach with tax as a cost and should achieve a better allocation of resources. It will raise revenue for the government but it may be difficult to set the correct rate of tax and inflation and disincentive effects may result. The outcome can be shown by a diagram. A contrast with alternatives such as bans or tradeable permits may be considered.*

Understanding of the negative externalities	up to 3 marks
Explanation of the operation of the tax	up to 3 marks
Analysis of the effectiveness of the tax	up to 3 marks
Discussion of the drawbacks of the tax	up to 3 marks

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4 (a) Explain what may cause a country's terms of trade to change. **[8]**

This is the ratio of an index of a country's export prices to an index of its import prices. Changes in the two price levels influence the overall outcome. The changes will reflect inflation rates, exchange rates changing demand and supply factors, producer actions tariffs and production costs.

Knowledge of the terms of trade	up to 3 marks
Knowledge of the influences	up to 3 marks
Explanation of the influences	up to 2 marks

(b) Discuss whether a worsening in a country's terms of trade will cause a worsening in its balance of trade. **[12]**

A worsening movement occurs when the price of exports falls relative to that of imports and the index value falls. There are a number of combinations of price changes which can cause this. It is unfavourable in that a given value of exports will now buy fewer imports but not necessarily harmful in balance of trade terms. The price elasticity of demand for imports and exports will determine the effect on revenue and expenditure so needs to be considered. A fall in price of exports given elastic demand will raise revenue and improve the balance of trade while a price rise will do the opposite.

Understanding of a worsening move	up to 3 marks
Explanation of worsening term	up to 3 marks
Analysis of link to balance of trade	up to 3 marks
Discussion of trade outcomes	up to 3 marks

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

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INTERNATIONAL EXAMINATIONS

November 2003

GCE ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK: 70

SYLLABUS/COMPONENT: 9708/04

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

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9708/4 Mark Scheme November 2003

Section A

(a) Decrease in demand shown on diagram 1 mark, increase in supply shown on diagram 1 mark. (2)

(b) External demand. Explanation of fall in external demand for exports and services rather than an increase in domestic costs. (2)

(c) Government spending would increase incomes and generate employment and cause a rise in national income through the multiplier. Explanation of multiplier process. Maximum 3 marks if no reference to the multiplier process.

(d) It does not completely support the statement. Points to support the statement are found in the notes at the foot of the table comparing 2000-2001 with 1999-2000. There it is said that the receipts have grown at a much slower rate. A first glance at the table would indicate a reasonable situation as the receipts have increased. Income tax increased, and, therefore, income must have risen. Property tax receipts rose 66%. But this rise in property tax had been caused by a change in the regulations on property and it is, therefore, an artificial change. There has been an increase in lottery receipts – possibly caused by higher incomes, or possibly by a hope that a lottery win might compensate for a loss of jobs. (5)

(e) The demand for labour decreased. The proposed measures would reduce the costs of the firm but increase the supply of skilled labour. Whether the programme would work depends upon whether there is an increase in demand for the newly qualified labour. Economic analysis determines wage rates in a given market with a given qualified labour supply. An increase in supply without an increase in demand would not be helpful for labour.

Candidates should comment on the age and educational level of the targeted workers. (6)

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9708/4 Mark Scheme November 2003

Mark Scheme: General Comments: 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.

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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 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. Discussion of the role of the government in the allocation of resources, reasons for government intervention and effect of subsidy on price/output. Consideration of use of subsidy to diversify, cover fixed costs, re-stock, and how this might affect the efficient allocation of resources. Comment on differing approaches to two industries in terms of income support, equity, distribution of government funds, general social welfare. (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

3 a) Explanation of the causes of unemployment, cyclical, seasonal, structural, frictional. Classification depends upon what assumptions are made about the changes mentioned – short term, temporary, a result of structural change in the industry, a result of cyclical change caused by external factors. (10)

L4) For a reasoned and clear explanation with good application 8 – 10
L3) For a fair but undeveloped explanation 6 -7
L2) For a limited but acceptable attempt to consider the different causes but with little reference to the particular changes mentioned in the question. 4 -5
L1) For an answer which has some basic correct facts but includes irrelevancies and errors 1 – 3

b) There is an increased supply of workers, a reduced demand. Economic analysis would suggest that wages should be reduced. Could explain this using mrp or demand and supply analysis. (15)

L4) For a sound discussion with good explanation of links and a clear understanding of the principles involved 12 – 15 (9-12 for D/S only)
L3) For a competent comment with limited discussion or application to the case mentioned. 9 – 11 (7-8 for D/S only)
L2) For a correct but undeveloped discussion with very little comment of the application. 6 – 8 (5-6 for D/S only)
L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 – 5 (1-4 for D/S only)

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9708/4 Mark Scheme November 2003

4 a) Explanation of reasons for diversification - effect on employment, market share, brand name, protection against vulnerability when concentrating on small range of products, effect on profits. (10)

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

b) Candidates should discuss the effect of large businesses that operate in imperfect market structures (both monopolistic competition and oligopoly acceptable). They need to state from whose point of view the possible benefit is being assessed. The effect on prices, output and profits should be mentioned. It is often asserted that the companies have higher prices, lower output and higher profits and that the consumer is disadvantaged - although the company may be advantaged. The company could argue that it is able to alter its product mix, and provide a better service overall by producing a range of products. Candidates could discuss the balance of fixed and variable costs, the possible existence of economies of scale, the product mix, the proportion of profits earned by each part of the company, whether the company deliberately set out to cross-subsidise uneconomic operations which it cannot afford when trade declines. The consumer could argue that large companies reduce competition and reduce choice. (15)

L4) For a reasoned and clearly structured answer 12 - 15
L3) For a fair but undeveloped answer 9 - 11
L2) For a limited but acceptable attempt that considers just one side of the argument 6 - 8
L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 5

5 a) Discussion of the indicators of development. Discussion of types of employment likely to be found, mix of productive sectors, population structures, levels of housing, health, education, income distribution. (10)

L4) For a sound explanation with good illustrations and a clear understanding of the principles involved and a reasoned attempt to draw a clear distinction between the two economies. 8-10
L3) For a competent explanation with limited comment on the differences. 6 - 7
L2) For a correct explanation but weak attempt to deal with a comparison. 4 - 5
L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 3

b) Discussion of whether housing, health, education, employment, production choices, resource allocation are necessarily solve on a change of status or whether these issues are transferred into other problem areas. (15)

L4) For a reasoned and clearly structured answer 12 - 15
L3) For a fair but undeveloped answer 9 - 11
L2) For a limited but acceptable attempt that suggests the statement is true 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 two types of policy with a description of the range of policies that can be used. (12)

L4) For a reasoned and clear explanation with accurate attempt at drawing a distinction 9 - 12
L3) For a fair but undeveloped explanation 7 - 8
L2) For a limited but acceptable attempt to consider the differences but with little direct comparison. 5 - 6
L1) For an answer which has some basic correct facts but includes irrelevancies and errors of theory 1 - 4

b) Comment on the use of monetary policy to control the rate of inflation through contractionary measures. (13)

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

7. Comment on methods of collection, difficulties of comparison because of different cultures, climate, needs, exchange rates, inflation, population change, distribution of income, social factors, provision of infrastructure. Consideration of whether basic income statistics are used or whether other measures such as HDI are used.

L4) For a thorough explanation of the terms, a clear analysis of the link between different issues, a discussion and clear evaluation of problems of comparison with a balance answer and a reasoned conclusion 18 – 25

L3) For a competent explanation which embraces different problems in a less developed way but does not fully develop a discussion. 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*