



Mock Exam 2

ECONOMICS

9708

Paper 4 Data Response and Essays

MARK SCHEME

Maximum Mark: 60

Published

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Section A

Answer 1

- (a) The data refers to a 'government.....budget deficit'. Explain what this means. [2]**

Candidates must recognise that the article refers to a government budget deficit, not an individual's budget, understand what a budget is, understand what a deficit is.
1 mark for only two of the three points.

- (b) Use Fig. 1 to consider whether there is a link between the size of the budget deficit and economic growth. [4]**

There is a budget deficit together with economic growth, but they do not occur to the same extent, 1 mark, but this is limited information, 1 mark, if note causal link is two way, 1 mark, selected examples, 2 marks

- (c) Explain how the falling value of some countries' currencies 'stimulated demand for their tradable goods resulting in manufacturing growth.' [4]**

An explanation of falling value 1 mark, reference to international trade 1 mark, explanation of how currency changes affect prices of goods and hence demand 2 marks

- (d) Use the evidence given to discuss the similarities and differences in the two opinions and consider which you think is more appropriate to overcome a recession. [10]**

Similarities – both recognise the importance of demand
 – both recognise the need for growth
 – both recognise borrowing is important
 – both recognise the need for investment and profitability
Differences – conflict over the speed at which the deficit should be reduced
 – first opinion does not say why reduced spending will increase growth
 – conflict over the effect of reduced public spending

The charts do not give consistent support to either side.

Up to 5 for one side; reserve 2 for evaluative conclusion.

Section B

Answer 2

There should be an attempt to explain the meaning of economic efficiency and of market failure. Economic efficiency should be explained in terms of productive and allocative efficiency, market failure can be explained by reference to possible excessive profits, the need for very large investments, the existence of externalities, merit goods and of the need for public goods. There should then be an attempt to discuss whether governments can overcome these market failures in order to increase efficiency. [25]

- L4 For a thorough discussion of both efficiency and market failure and a competent discussion of the role of the government in promoting efficiency overcoming market failure. A reasoned conclusion should be presented. (18–25)
- L3 For a competent explanation with either a more limited comment on both efficiency and market failure (perhaps concentrating on productive efficiency) or a full explanation of one but little comment on the other. The role of the government will be discussed in a more limited way but a conclusion should still be presented. (14–17)
- L2 For an undeveloped explanation of efficiency/market failure with very little discussion of the role of the government. Mention of the government will be descriptive rather than in the form of a discussion related to efficiency/market failure. It is likely there will be no conclusion. (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)

Answer 3

Candidates should explain the economic theory of wage determination (marginal revenue product) and compare the situation in perfect and imperfect competition. The theory indicates that wages are lower in an imperfect labour market especially if there is monopsony. The extent of the reduction varies depending on whether the labour market is considered with a perfect or imperfect product market. However, the comparative reduction in wage rates may be corrected, at least in part, by the strength of unions or by government legislation. [25]

- L4 *For a thorough explanation of the analysis of wage determination with a clear comparison of the two markets and a comment on trade unions and/or government policy.* [18–25]
(14–17 for demand and supply only with institutional factors and/or government policy)
- L3 *For a competent explanation of the two markets but with a limited discussion and application.* [14–17]
(10–13 for demand and supply)
- L2 *For a correct but undeveloped explanation with only brief application* [10–13]
(6–9 for demand and supply)
- L1 *For an answer which contains inaccuracies and only a few correct points* [1–9]
(1–5 for demand and supply only)

Section C

Answer 4

Answer	Marks
<p>‘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.’</p> <p>To what extent do you agree with this statement?</p> <p><i>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.</i></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>25</p>

Answer 5

Answer	Marks
<p>Discuss whether countries at different stages of development should use different methods of measuring living standards.</p> <p><i>Conventional measures of economic well-being e.g. real GDP per head. The advantages and disadvantages of this measure when applied to different economies. The use of alternative measures when applied to different economies e.g. Multidimensional Poverty Index (MPI), (Human Development Index) HDI and MEW.</i></p> <p>L4 (18–25 marks): For a discussion of the advantages and disadvantages of two methods of measuring living standards in developed and developing economies. A conclusion will be drawn. (Max. 21 if no conclusion).</p> <p>L3 (14–17 marks): For a discussion of the advantages and disadvantages of one method of measuring living standards with some reference to developed or developing economies.</p> <p>L2 (10–13 marks): For an accurate though undeveloped explanation of one method and some limitations.</p> <p>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 contains irrelevancies and errors of theory.</p>	<p>25</p>