



# Cambridge International AS & A Level

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**ECONOMICS**

**9708/04**

Paper 4 A Level Data Response and Essays

**For examination from 2023**

MARK SCHEME

Maximum Mark: 60

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**Specimen**

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This document has **16** pages.

**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.

**Guidance on using levels-based mark schemes**

Marking of work should be positive, rewarding achievement where possible, but clearly differentiating across the whole range of marks, where appropriate.

The marker should look at the work and then make a judgement about which level statement is the best fit. In practice, work does not always match one level statement precisely so a judgement may need to be made between two or more level statements.

Once a best-fit level statement has been identified, use the following guidance to decide on a specific mark:

- If the candidate's work **convincingly** meets the level statement, award the highest mark.
- If the candidate's work **adequately** meets the level statement, award the most appropriate mark in the middle of the range (where middle marks are available).
- If the candidate's work **just** meets the level statement, award the lowest mark.

**Social Sciences and Humanities Subject Specific Marking Principles  
(for point-based marking)****1 Components using point-based marking:**

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

- a** DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
- b** DO credit alternative answers/examples which are not written in the mark scheme if they are correct
- c** DO credit answers where candidates give more than one correct answer in one prompt/ numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons ...)
- d** DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly)
- e** DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities, e.g. a scattergun approach to a question asking for *n* items
- f** DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted)
- g** DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

**2 Presentation of mark scheme:**

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

**3 Annotation:**

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

**Assessment objectives****AO1 Knowledge and understanding**

- Show knowledge of syllabus content, recalling facts, formulae and definitions.
- Demonstrate understanding of syllabus content, giving appropriate explanations and examples.
- Apply knowledge and understanding to economic information using written, numerical and diagrammatic forms.

**AO2 Analysis**

- Examine economic issues and relationships, using relevant economic concepts, theories and information.
- Select, interpret and organise economic information in written, numerical and diagrammatic form.
- Use economic information to recognise patterns, relationships, causes and effects.
- Explain the impacts and consequences of changes in economic variables.

**AO3 Evaluation**

- Recognise assumptions and limitations of economic information and models.
- Assess economic information and the strengths and weaknesses of arguments.
- Recognise that some economic decisions involve consideration of factors such as priorities and value judgements.
- Communicate reasoned judgements, conclusions and decisions, based on the arguments.

**Table A: AO1 Knowledge and understanding and AO2 Analysis**

Use this table to give marks for each candidate response for AO1 Knowledge and understanding and AO2 Analysis for **Questions 2, 3, 4 and 5**.

<b>Level</b>	<b>Description</b>	<b>Marks</b>
<b>3</b>	<ul style="list-style-type: none"> <li>A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate.</li> <li>The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations.</li> <li>Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained.</li> <li>Responses are well-organised, well-focused and presented in a logical and coherent manner.</li> </ul>	11–14
<b>2</b>	<ul style="list-style-type: none"> <li>Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies.</li> <li>The response addresses the general theme of the question and the relevant economic issues, with limited development.</li> <li>Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained.</li> <li>Responses are generally logical and coherent but are sometimes lacking in focus or organisation.</li> </ul>	6–10
<b>1</b>	<ul style="list-style-type: none"> <li>A small number of relevant knowledge points are included and the response is limited by significant errors or omissions.</li> <li>The response has little relevance to the question.</li> <li>Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely.</li> <li>Responses show limited organisation of economic ideas.</li> </ul>	1–5
<b>0</b>	No creditable response.	0

**Table B: AO3 Evaluation**

Use this table to give marks for each candidate response for AO3 Evaluation for **Questions 2, 3, 4 and 5**.

<b>Level</b>	<b>Description</b>	<b>Marks</b>
<b>2</b>	<ul style="list-style-type: none"><li>Provides a justified conclusion or judgement that addresses the specific requirements of the question.</li><li>Makes developed, reasoned and well-supported evaluative comment(s).</li></ul>	4–6
<b>1</b>	<ul style="list-style-type: none"><li>Provides a vague or general conclusion or judgement in relation to the question.</li><li>Makes simple evaluative comment(s) with no development and little supporting evidence.</li></ul>	1–3
<b>0</b>	No creditable response.	0

**Section A**

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)	<p><b>What evidence is there in the article to suggest that loyalty cards make markets imperfectly competitive?</b></p> <ul style="list-style-type: none"> <li>• Create barriers to competition by reducing switches in demand. <b>(1)</b></li> <li>• Costs of scheme funded by higher prices. <b>(1)</b></li> <li>• Not affordable by smaller firms – high initial costs, \$60m for one supermarket. <b>(1)</b></li> <li>• Causes confusion of information leading to imperfect knowledge. <b>(1)</b></li> </ul>	<b>4</b>
1(b)	<p><b>Explain why a profit-maximising retailer might be interested in the link between consumers' loyalty and price elasticity of demand.</b></p> <ul style="list-style-type: none"> <li>• Loyalty will mean consumers do not change suppliers, this might create a lower price elasticity of demand. <b>(1)</b></li> <li>• Define price elasticity. <b>(1)</b></li> <li>• Explain the link between elasticity and revenue <b>(1)</b>; explain the link between changes in revenue and profits, depending on cost changes. <b>(1)</b></li> </ul>	<b>4</b>
1(c)	<p><b>Consider whether there is conflicting evidence in the article about the effectiveness of loyalty cards which offer price discounts.</b></p> <p>Evidence from the article for the effectiveness of using loyalty cards:</p> <ul style="list-style-type: none"> <li>• loyalty cards enable retailers to find out about consumer wants and target promotions <b>(1)</b></li> <li>• retailers recognise the importance of price and can offer discounts through loyalty cards. <b>(1)</b></li> </ul> <p>In contrast to that the article says:</p> <ul style="list-style-type: none"> <li>• price is not the most significant factor in determining choice <b>(1)</b></li> <li>• there is no loyalty if buying is based on habit or has low emotional involvement. <b>(1)</b></li> </ul> <p>Conclusion: there does seem to be some conflicting evidence. <b>(1)</b></p>	<b>5</b>

Question	Answer	Marks
1(d)	<p><b>Assess how the idea of rationality is used in the indifference curve theory of consumer behaviour.</b></p> <p>Up to 7 marks for comment on rationality in the use of indifference curves:</p> <ul style="list-style-type: none"> <li>• consumers are assumed to make rational choices based on perfect information <b>(1)</b></li> <li>• consumers are assumed not to make choices under uncertainty <b>(1)</b></li> <li>• consumer knows combinations between which there is indifference <b>(1)</b></li> <li>• this is a rational calculation which remains constant over the curve <b>(1)</b></li> <li>• consumer knows satisfaction levels <b>(1)</b></li> <li>• consumer knows which combination is preferred to another <b>(1)</b></li> <li>• consumer rationally compares satisfaction to price <b>(1)</b></li> <li>• consumer buys to achieve maximum satisfaction <b>(1)</b></li> <li>• consumer can compare two goods rationally <b>(1)</b></li> </ul> <p style="text-align: right;"><b>(max 7)</b></p> <p><b>Guidance:</b> Max 4 for general description without link to rationality.</p>	<b>7</b>



**Section B**

Question	Answer	Marks
<b>EITHER</b>		
2	<p><b>With the help of a diagram, assess the view that government intervention can be used successfully to correct market failure caused by positive externalities.</b></p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 14 marks. AO3 out of 6 marks.</p> <p><b>Indicative content</b></p> <p>Responses may include:</p> <p><b>AO1 Knowledge and understanding and AO2 Analysis</b></p> <ul style="list-style-type: none"> <li>• Market failure regarding this question would relate to allocative inefficiency. Market failure can be explained by defining allocative efficiency and linking this to the requirement to allocate resources to maximise consumer satisfaction. This can be supported by a diagram illustrating a level of output where <math>AR = MC</math> which is consistent with an outcome that achieves allocative efficiency.</li> <li>• Positive externalities occur when the consumption/production of a good produces a benefit to society which is greater than that received by an individual consumer/producer. This is sometimes described as a positive 'spill-over' effect.</li> <li>• Government intervention takes place to address the failure of market forces to allocate resources efficiently. In this case positive externalities would lead to under-production/consumption of a good or service.</li> <li>• Forms of government intervention might include: the use of subsidies; the use of positive advertising; the direct provision of goods and services.</li> <li>• A clearly labelled, accurate diagram can be used to show the impact of a positive externality on the level of output and the welfare loss will be identified.</li> <li>• The diagram could show the market equilibrium point which does not take into account the existence of a positive externality and may compare this with the allocatively efficient level of output when the positive externality is taken into account.</li> <li>• Different types of government intervention can be used to correct the under-production of output to enable consumer satisfaction to be maximised.</li> <li>• One type of intervention might involve the use of subsidies provided by a government. A subsidy will lower the cost of production which will increase supply. An increase in supply will lower price, increase the equilibrium output and achieve allocative efficiency.</li> <li>• A government might use advertising to increase demand. An increase in demand will lead to a higher consumption, output will rise and allocative efficiency might then be achieved.</li> <li>• Alternatively, a government might directly provide the good or service which can increase production and supply and eventually attain an allocatively efficient outcome.</li> </ul>	20

Question	Answer	Marks
2	<p><b>AO3 Evaluation</b></p> <ul style="list-style-type: none"> <li>• A government might introduce a subsidy to encourage producers to increase output to enable allocative efficiency, however it is difficult to measure the precise value of the subsidy. Subsidies are costly in that the funds might have been used by governments for other purposes. This means governments will have to make a value judgement when deciding whether to provide a subsidy.</li> <li>• Also, the impact on price and output in some circumstances takes a long time to become effective.</li> <li>• Advertising is often costly and it is not always certain that it will have a sufficiently persuasive effect to ensure the correct level of output/ consumption is reached.</li> <li>• Direct provision is also costly and sometimes less efficient than that provided through market forces.</li> <li>• It is possible to show that government intervention can reduce the level of inefficiency caused by the existence of positive externalities but it is not clear whether the net effect of government intervention will always be positive. Some types of intervention will be more effective than others depending on the nature of the good/service under consideration.</li> </ul> <p>Accept all valid responses.</p>	
	AO1 Knowledge and understanding and AO2 Analysis	14
	AO3 Evaluation	6

Question	Answer	Marks
<b>OR</b>		
3	<p><b>With the help of a diagram, assess whether imperfect labour markets will always lead to lower wages and higher unemployment.</b></p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 14 marks. AO3 out of 6 marks.</p> <p><b>Indicative content</b></p> <p>Responses may include:</p> <p><b>AO1 Knowledge and understanding and AO2 Analysis</b></p> <ul style="list-style-type: none"> <li>• A perfect labour market would assume homogenous labour, perfect mobility, identical jobs, many buyers and sellers of labour and perfect information. This would mean that each firm's supply of labour would be perfectly elastic and a wage taker.</li> <li>• In perfect labour markets the wage that has to be taken by each firm will be determined by the interaction of supply and demand in the industry.</li> <li>• Imperfect labour markets might occur due to the intervention of trade unions or government. A monopsony, single buyer of labour would also lead to market failure.</li> <li>• Market failure associated with imperfect markets will often result in lower wages and/or higher levels of unemployment.</li> <li>• Intervention by trade unions by controlling the supply of labour might lead to higher wages but this is likely to cause higher levels of unemployment. A diagram that illustrates supply of and demand for labour showing a decrease in supply will illustrate this potential outcome.</li> <li>• A government might impose a minimum wage above the market equilibrium wage which would also result in higher wages but would be accompanied by higher levels of unemployment. This analysis would be supported by an accurate, clearly labelled diagram plus an explanation.</li> <li>• A monopsony firm would employ labour where the marginal cost of labour was equal to the marginal revenue product of labour. This would potentially lead to both lower wages and higher levels of unemployment. An accurately labelled diagram plus an explanation would support this conclusion.</li> </ul> <p><b>AO3 Evaluation</b></p> <ul style="list-style-type: none"> <li>• In some circumstance it is possible for trade unions to increase labour productivity through increased training. This would increase the demand for labour by increasing the marginal productivity of labour which would enable both higher wages and higher levels of employment to be attained. This can be illustrated by a supporting diagram and further explanation.</li> </ul>	20

Question	Answer	Marks
3	<ul style="list-style-type: none"> <li>The negative impact of imposing a minimum wage on the level of employment will depend upon the relative elasticities of the demand for and supply of labour. If the demand and supply are relatively inelastic then it would be possible to introduce a relatively high minimum wage which will not have a significant impact on the level of employment.</li> <li>It is possible for trade unions to intervene in monopsonistic markets and undertake bilateral wage negotiations. Depending on the respective bargaining strengths of the union and monopsony, it might be possible for collective bargaining to raise both wages and employment. A supporting diagram plus an explanation would illustrate this potential outcome.</li> <li>In some circumstances a government might need to intervene to maintain the provision of vital public services as a priority, if trade unions attempt to increase wages through the withdrawal of labour.</li> <li>In conclusion it is possible to show that imperfect labour markets do not always lead to lower wages and a higher level of unemployment. Trade unions, through the power of collective bargaining, can counteract the negative effects of monopsony labour markets. Also trade unions can train labour to increase labour productivity to enable an increase in wages at the same time that employment levels are rising.</li> </ul> <p>Accept all valid responses.</p>	
	AO1 Knowledge and understanding and AO2 Analysis	14
	AO3 Evaluation	6

**Section C**

Question	Answer	Marks
<b>EITHER</b>		
4	<p><b>‘Devaluation of a country’s currency will reduce a persistent balance of payments deficit on its current account in goods and services in the short run but this will inevitably lead to high levels of inflation in the long run.’</b></p> <p><b>Evaluate this statement.</b></p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 14 marks. AO3 out of 6 marks.</p> <p><b>Indicative content</b></p> <p>Responses may include:</p> <p><b>AO1 Knowledge and understanding and AO2 Analysis</b></p> <ul style="list-style-type: none"> <li>• A devaluation relates to a decision by a government to fix the exchange rate of its domestic currency at a new lower level.</li> <li>• A persistent balance of payments deficit on a country’s current account in goods and services will create problems because it has to be financed. If it is not financed by positive currency flows on the financial account due to direct investment or portfolio investment, it will have to be financed by reducing its reserves of foreign currency. This particular problem will only apply to a country that has adopted a fixed exchange rate.</li> <li>• In this situation the difference between the short run and the long run will be determined by the time taken to reduce the deficit and will also be measured by the final impact on the general price level that is the rate of inflation.</li> <li>• A devaluation of the domestic currency will immediately make all exported goods cheaper and all imported goods more expensive. On this basis it is assumed more exports will be sold and fewer goods will be imported. This would then help to reduce a balance of payments deficit.</li> <li>• To some extent, the ability of domestic suppliers to reduce a country’s current account balance deficit in the short run will depend on how domestic suppliers respond to the opportunity to sell more exports at a lower price. We can measure this response by calculating the price elasticity of supply of domestic producers.</li> <li>• A devaluation might not solve a balance of payments deficit on a country’s current account in goods and services in the short run because domestic supply of goods might be inelastic. This means domestic producers cannot increase output sufficiently to meet the additional demand for exports.</li> <li>• Further analysis of a devaluation on the general price level could be provided. For example, analysis might consider the proportion of imports accounted for by raw materials and how this might affect the cost of goods and services provided in an economy and how an increase in costs might lead to cost push inflation. Links to other costs such as subsequent wage demands might also be examined.</li> </ul>	20

Question	Answer	Marks
4	<b>AO3 Evaluation</b> <ul style="list-style-type: none"> <li>In the long run it is necessary to consider both the price elasticity of demand for imports and the price elasticity of demand for exports. The Marshall-Lerner condition states that the sum of the two elasticities must be greater than one to achieve a successful outcome.</li> <li>While the long-run impact on the current account is dependent upon respective export/import price elasticities of demand, it is also important to recognise that if raw materials such as oil constitute a significant proportion of the value of imports then the price elasticity of demand for imports is likely to be low.</li> <li>The long-run impact on inflation will be influenced by the current state of the economy when the devaluation takes place. For example, if there is a significant amount of spare capacity, the effect on Aggregate Demand of a lower price of exports might be limited.</li> <li>It could also be noted that a government which chooses to use a policy of devaluation is perhaps prioritising the need to correct a balance of payments disequilibrium at the possible expense of other key macroeconomic goals such as controlling inflation.</li> <li>Based on the evidence/analysis provided, it is not clear whether a devaluation of the currency will solve a persistent current account deficit in either the short run or the long run. Similarly, the impact on the general price level will depend on a number of variables which are difficult to predict or measure accurately.</li> </ul> <p>Accept all valid responses.</p>	
	AO1 Knowledge and understanding and AO2 Analysis	14
	AO3 Evaluation	6

Question	Answer	Marks
<b>OR</b>		
5	<p><b>Assess the contribution of Foreign Direct Investment (FDI) to the improvement of the standard of living in low-income countries.</b></p> <p>Use Table A: AO1 Knowledge and understanding and AO2 Analysis and Table B: AO3 Evaluation to mark candidate responses to this question.</p> <p>AO1 and AO2 out of 14 marks. AO3 out of 6 marks.</p> <p><b>Indicative content</b></p> <p>Responses may include:</p> <p><b>AO1 Knowledge and understanding and AO2 Analysis</b></p> <p>Key terms ‘Foreign Direct Investment’ (FDI) and ‘low-income countries’ may be identified and explained before considering the main issues that might influence the discussion.</p> <ul style="list-style-type: none"> <li>• FDI is long-term investment usually by multinational companies (MNCs) in countries abroad.</li> <li>• This type of investment would normally be in fixed capital such as machinery and building factories.</li> <li>• Key characteristics of low-income countries would include: low levels of productivity; high dependency ratios; low GDP per capita; significant dependence on producing and exporting primary goods.</li> <li>• Low living standards are generally associated with: high poverty levels; inequality; poor housing, education and health; and rapid population growth.</li> <li>• An improvement in living standards is very closely linked with an improvement in economic performance. An improvement in economic performance is measured by increases in GDP per capita and changes in productivity which enable changes in GDP to be achieved.</li> <li>• FDI mainly takes place in the secondary (manufacturing) sector of a low-income economy and focuses on the provision of new technology, building new factories and training the work force. As a result of this type of investment it is likely that productivity, output, employment and income levels will rise.</li> <li>• More real wealth will be created and higher levels of tax revenue are likely to be received by a low-income country’s government. This will enable more expenditure on health, housing and education as well as increased access to more consumer goods. These improvements are generally associated with a rise in the standard of living.</li> <li>• However, an overreliance on FDI by a low-income economy might mean neglecting more important domestic macroeconomic policies, which might have a negative impact on the economy in the long run.</li> </ul>	20

Question	Answer	Marks
5	<p><b>AO3 Evaluation</b></p> <ul style="list-style-type: none"> <li>• The links between an increase in FDI and GDP and an increase in living standards are not clear. Sometimes, labour is exploited by MNCs in low-income countries. The majority of MNC profit might be repatriated rather than re-invested in the low-income country.</li> <li>• Higher skilled work might be provided separately by the MNC therefore training of the indigenous population does not take place. In some cases it has been argued that MNCs extract key resources and then leave.</li> <li>• It is not certain that a government will use the increase in tax revenue to invested in key sectors such as health, education and the country's infrastructure.</li> <li>• A government in a low-income economy has to decide whether to allow FDI into their economy which might produce short-term benefits but result in long-term consequences of resource depletion in the long run.</li> <li>• It is very difficult to measure changes in living standards. Increases in GDP might not be divided equally among the population. FDIs might introduce external costs of production which are likely to have a negative effect on overall living standards.</li> <li>• In conclusion, it is clear that there is a potential role for FDIs to improve living standards but this will depend on many factors which have been referred to above, some of which might have an overall negative impact. Also, it is very important to ensure that an appropriate measure of the standard of living is used, one which does not focus entirely on an increase in access to material goods and services.</li> </ul> <p>Accept all valid responses.</p>	
4	AO1 Knowledge and understanding and AO2 Analysis	14
	AO3 Evaluation	6