CAMBRIDGE
International Education

Cambridge International AS & A Level

ECONOMICS **9708/41**

Paper 4 A Level Data Response and Essay **May/June 2026**

MARK SCHEME

Maximum Mark: 60

Published

This mark scheme contains the instructions and marking guidance that our examiners used to mark candidate responses for this component.

Before they start marking, examiners complete a standardisation process. They review a range of candidate responses and discuss the mark scheme in detail to agree which answers can and cannot be accepted. Examiners award marks where it is clear that candidate responses have met the requirements of the mark scheme. These requirements may vary between different components or different versions of the same component, depending on the exact requirements of the question and the candidate responses seen during the standardisation process.

Sometimes, our mark schemes may allow marks to be awarded to responses which contain elements that are factually incorrect or for content not covered by the syllabus. We do this in response to the demands of a specific question to support candidates and make sure that our assessments are fair. However, these allowances should not be used as a guide for teaching and learning.

We cannot discuss the mark scheme with schools, and we recommend that schools read the mark scheme together with the assessment material and the Principal Examiner Report for Teachers.

General marking principles

All examiners must apply these marking principles when marking candidate responses.

1	Examiners must award marks for each response in line with: • the specific **content** defined in the mark scheme • the specific **skills** defined in the mark scheme or in the level descriptions • the **standard of response** required as exemplified by the standardisation scripts.
2	Examiners must award **whole marks** (not half marks, or other fractions).
3	Examiners must award marks **positively**. This means that: • marks are not deducted for errors or omissions • marks are awarded for correct/valid answers as defined in the mark scheme and also for **other valid answers** which go beyond the scope of the syllabus and mark scheme referring to your team leader as appropriate • the quality of spelling, punctuation and grammar are judged **only** when the mark scheme indicates that these features are **specifically assessed** in the question. However, the meaning of all responses must be unambiguous.
4	Examiners must **consistently** apply the requirements of the mark scheme and any rules for what to do when candidates have not followed instructions correctly.
5	Examiners must use the **full range of marks** defined in the mark scheme, unless limited by the quality of the candidate responses seen.
6	Examiners must award marks according to the mark scheme and **must not** award marks with grade thresholds or grade descriptions in mind.

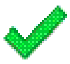
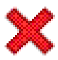
Annotations guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotations

Annotation	Meaning
	Correct point
	Incorrect point
	Unclear response
^	Key information missing from response
K	Indicates knowledge and understanding of the concepts and issues relating to the question.
AN	Indicates where the answer has demonstrated analysis.
APP	Indicates appropriate reference to the information provided
E	Expansion of point already made in response
EVAL	Indicates where the answer has demonstrated evaluation
EE	Indicates where the answer has demonstrated particularly strong/justified evaluation
L1	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 1 in the Mark Scheme, Table A
L2	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 2 in the Mark Scheme, Table A
L3	For use on **questions 2**, **3**, **4** and **5**. Indicates where the response has reached Level 3 in the Mark Scheme, Table A
BOD	Used when the benefit of the doubt is given in order to reward a response.
NAQ	Used when the answer or parts of the answer do not answer the question asked.

Annotation	Meaning
SEEN	Indicates that the page or content has been seen by examiner, but no credit given.
TV	Used when parts of the answer are considered to be too vague to be given credit.

Section A

Question	Answer	Marks
Follow the point-based marking guidance at the top of this mark scheme.		
1(a)	**Explain <u>two</u> pieces of evidence from the extract that show Japan was in an expansion phase of the business (trade) cycle in 2024.** • Unemployment is falling (1) Wages are growing and consumer spending is rising (1) rising aggregate demand (1) rising output/GDP (1) • Rising interest rates (1) Inflation is high / above target (1) **Note**: each identified piece of evidence requires a brief explanation (1+1)	**4**
1(b)	**Explain how Japan's commercial banks could have helped the BOJ achieve its target inflation rate of 2%.** • Function of commercial banks in general: providing deposit accounts (demand deposit account, savings account), lending money (overdrafts, loans), and/or holding or providing cash, securities, loans, deposits, equity (1) • commercial banks as sources of credit (1) could help decrease the money supply in the economy (1) less lending leading to less investments and consumption (1) • higher interest rates could lead to more savings (1) discourage borrowing (1) decreasing consumption (1) decreasing aggregate demand (1) encourage more hot money inflows (1) increasing the value of the domestic currency (1) decreasing imported inflation (1) In summary, commercial banks could help achieve the 2% target by making **borrowing more expensive, encouraging saving, and restricting the growth of credit** all of which reduce spending and inflationary pressures. **Note**: each identified point requires a brief explanation (1+1)	**4**
1(c)	**Consider the extent to which a depreciation of the yen has been beneficial for Japan's balance of trade in goods and services.** Evidence from the article about its benefits: • It encourages export sales despite relatively low global economic growth (1) due to lower prices of exports (1) • Lower global incomes could be offset by lower prices of Japanese products (1) • The number of foreign visitors to Japan has also increased due to the weak yen (1). Now cheaper for foreign tourists to visit and spend in Japan (1) • In contrast, the article says: • the yen needed to be strengthened to restore investor confidence and reduce imported inflation (1). Explanation on how investor confidence could improve Japan's balance of trade (1) • Credit reference to the price elasticity of demand (PED) for Imports and Exports (1) **NOTE**: Maximum 4 marks if no contrast	**6**

Question	Answer	Marks
1(d)	**Assess how diminished chances of a US interest rate cut pushed the yen to a 34-year low in April 2024.** Economic theory states that: • Interest rates hikes usually lead to an increase in the value of a currency (1). • If US interest rates decrease, then the value of the USD will decrease (1). • An increase in the interest rate in Japan should lead to an increase in the value of the yen (1) as it should encourage more hot money inflows (1) as investors look for higher returns (1) • In contrast: • US interest rates are not expected to decrease now, therefore, the value of the USD remains high (1). • Japan still has a very low interest rate compared to other major economies (1). 0.1 in Japan compared to 5.25 in the US (1). • Therefore, capital flows are still moving to the US (and other countries) (1). • Supply of Japanese yen increasing (1) and demand for Japanese yet declining (1) therefore the value of the Japanese yen decreases (1) Guidance: Max 4 for general description of how interest rates affect exchange rates, without clear application to the US and Japan.	**6**

Section B

Question	Answer	Marks
EITHER		
2	**With the help of a diagram(s), assess the view that larger firms always have lower average costs than smaller firms.** Use **Table A: AO1** Knowledge and understanding and **AO2 Analysis** and **Table B: AO3** Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative Content** **AO1 Knowledge and understanding and AO2 Analysis** **Relevant diagram(s)** Students may draw a long-run average cost (LRAC) curve showing economies and diseconomies of scale. Long-run average costs and firm size Illustrates economies and diseconomies of scale. Diagram should show: • Falling LRAC due to economies of scale. • Minimum efficient scale (MES). • Rising LRAC beyond the optimum due to diseconomies of scale. **Maximum Level 2 if no diagram** **Knowledge and Understanding** • Definition of **average cost**. • Understanding of **economies of scale** and **diseconomies of scale**. • Understanding of **minimum efficient scale (MES)**. • Recognition that firm size may affect costs. **Analysis** Candidates may explain: • Larger firms can benefit from: • Purchasing economies. • Technical economies. • Financial economies. • Marketing economies. • Managerial economies. • Risk-bearing economies. • These economies lower average costs as output rises. • Larger firms may spread fixed costs over a greater level of output, reducing average costs.	**20**

Question	Answer	Marks
2	• However, as firms continue to grow: • Communication problems may arise. • Coordination becomes more difficult. • Bureaucracy may increase. • Worker motivation may fall. • These diseconomies of scale can raise average costs. • Some industries have a relatively low MES, meaning small firms can operate efficiently despite being smaller. Modern technology may reduce the advantages of large-scale production, allowing smaller firms to remain competitive. **Indicative Analytical Chains** **Chain 1** Large firm → technical economies → higher productivity → lower unit costs → lower average costs. **Chain 2** Firm expands excessively → management layers increase → communication failures → inefficiency → higher average costs. **Minimum of three developed points for Level 3** **AO3 Evaluation (6 marks)** Award up to **6 marks** for evaluation. Possible evaluative points: The statement uses the word **'always'**. This is unlikely to be correct because diseconomies of scale may emerge once a firm becomes too large. The importance of firm size depends on the industry: • Industries such as car manufacturing may have substantial economies of scale. • Sectors such as consultancy, software development or specialist services may allow smaller firms to compete effectively. • The extent of cost advantages depends on technology. • Digital technologies and outsourcing can reduce the need for large-scale operations. Some firms deliberately remain small to maintain flexibility, innovation or customer service, which may offset higher costs. A distinction can be made between: • Larger firms having the **potential** for lower average costs. • Larger firms actually achieving lower average costs in practice. **E6 (Highest-level Judgement)** A justified conclusion such as: Larger firms often achieve lower average costs because of economies of scale, particularly up to the minimum efficient scale. However, it is incorrect to argue that they always have lower average costs since diseconomies of scale, industry characteristics and technological developments may enable smaller firms to be equally or more cost-efficient. Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	14
	AO3 Evaluation	6

Question	Answer	Marks
OR		
3	**Third-degree price discrimination benefits the firm but not its customers.** **With the help of a diagram, assess the consequences of third-degree price discrimination to both the firm and its customers.** Use **Table A: AO1** Knowledge and understanding and **AO2 Analysis** and **Table B: AO3** Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • Third degree price discrimination will lead to some consumers losing their consumer surplus since they are paying higher prices that they would without price discrimination. • Consumers who are charged the higher prices may feel unfairly treated, leading to dissatisfaction and potential backlash against the firm. • Firms segment the market based on observable characteristics such as age, location, or income level, and charge different prices to each segment, leading to higher revenues than just a single uniform price. • Third-degree price discrimination will enable firms to get higher supernormal profits. • Higher profits by firms enable more reinvestments of profits which could lead to capturing further market share and entrance into new markets. • Analysis of the price discrimination diagram. **AO3 Evaluation** • To price discriminate, firms need to accurately identify each consumer's willingness to pay, which may require costly information gathering and segmentation strategies, and the cost may outweigh the benefits. • Higher levels of innovation by firms making more profits could provide consumers with more choices and better-quality products • Some consumers will be charged lower prices and therefore get higher satisfaction – increasing accessibility of the product. Accept all valid responses.	**20**
	AO1 Knowledge and understanding and AO2 Analysis	14
	AO3 Evaluation	6

Section C

Question	Answer	Marks
EITHER		
4	**Due to the multiplier process, governments conducting an expansionary fiscal policy do not need to increase spending by the full amount of the negative output gap to bring the output of the economy to its full employment level.** **Evaluate this statement.** Use **Table A: AO1 Knowledge** and understanding and **AO2 Analysis** and **Table B: AO3** Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • Negative output gap as the condition where actual output is less than potential output. • The concept of full employment where all available resources in the economy are fully and efficiently used, where there is no cyclical unemployment. • Aggregate demand is a determinant of the output of an economy. • Expansionary fiscal policy is when the government decreases taxes and increases government spending, incurring a budget deficit. • Government spending is an injection into the circular flow of income and is a component of aggregate demand. • Multiplier = 1 / (1-MPC) = 1 / MPW = 1 / (MPS + MTR + MPM) = Change in National Income / Change in Injection • Multiplier process leads to multiple rounds of spending due to an injection • The increase in income leads to induced consumption and investment spending by households and businesses. • As households have more disposable income, they increase their consumption of goods and services. • Similarly, businesses may invest in new capital equipment or expand production capacity to meet the growing demand.	**20**

Question	Answer	Marks
4	• The initial injection of spending sets off a chain reaction of additional rounds of spending, as the increase in income from one round leads to further increases in consumption and investment, creating a multiplier effect on aggregate demand. • An injection of government spending leading to a more than proportionate increase in national income. • Examples of what the government can spend on and the additional rounds of spending that it creates. • AD/AS diagram showing more than one shift in AD (or 1 shift with written explanation that the amount of increase is more than the amount the government spent) **AO3 Evaluation** • The uncertainty of the existence of the multiplier may lead to government spending being insufficient. • Uncertainty could also lead to overshooting, leading to higher inflation. • Government spending is a small part of the aggregate demand of the economy and therefore may have an insignificant impact on the national output levels, even with the multiplier. • Expansionary fiscal policy could lead to the crowding out effect. • National debt issues could emerge such as high debt servicing ratio, lower investor confidence, debt crises. • MPM in the economy might be very large / MPC in the economy might be very small, leading to small multiplier. Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	14
	AO3 Evaluation	6

Question	Answer	Marks
OR		
5	**Assess the view that high levels of external debt are an unsustainable burden to low-income countries.** Use **Table A: AO1 Knowledge** and understanding and **AO2 Analysis** and **Table B: AO3** Evaluation to mark candidate responses to this question. AO1 and AO2 out of 8 marks. AO3 out of 4 marks. **Indicative content** Responses may include: **AO1 Knowledge and understanding and AO2 Analysis** • External debt in this case is the total amount of money that a country owes to foreign creditors or lenders. • It could represent the liabilities of a country to non-residents, including foreign governments, international financial institutions, commercial banks, and individual investors. • External debt can take various forms, including government bonds issued to foreign investors, loans extended by international organizations, such as the International Monetary Fund (IMF) or the World Bank, and commercial borrowing from foreign banks or investors. • External debt is typically incurred to finance government spending, infrastructure projects, trade deficits, or to support economic development initiatives. • High levels of external debt make an economy more vulnerable to economic shocks, such as changes in interest rates, exchange rate fluctuations, or a sudden slowdown in global economic growth. • Repaying external debt requires a significant portion of a country's income to be allocated towards debt service payments, including interest and principal repayments, diverting resources away from essential public services such as healthcare, education, and infrastructure development. • Excessive external debt levels increase the risk of default, especially if a country's ability to generate sufficient foreign exchange earnings or attract capital inflows becomes compromised.	**20**

Question	Answer	Marks
5	• High levels of external debt may crowd out domestic investment by absorbing a large share of available funds for investment, hindering long-term economic growth and development by reducing the resources available for more productive private investment in infrastructure, technology, and human capital. • Heavy reliance on external borrowing can undermine a country's sovereignty by subjecting it to the conditions and terms imposed by external creditors, such as international financial institutions or foreign governments. • Current external debt could lead to future austerity measures, structural reforms, or policy concessions that prioritize debt repayment over domestic development priorities. • External debt denominated in foreign currencies exposes an economy to currency depreciation risk. • Accumulating high levels of external debt can impose a burden on future generations, as they may inherit the responsibility of repaying the debt incurred by previous administrations. This can perpetuate a cycle of debt dependency and limit the ability of future generations to pursue their own economic and social priorities **AO3 Evaluation** • External debt can provide countries with access to funds that can be used to finance development projects, such as infrastructure improvements, education initiatives, healthcare systems, and other essential public services, contributing to long-term economic growth and improve living standards for the population. • External borrowing can help smooth consumption and investment patterns by providing countries with access to capital during periods of economic downturns or when domestic savings are insufficient to meet investment needs. • External debt-financed projects often involve collaboration with foreign firms or institutions, leading to technology transfer, knowledge exchange, and skill development which enhances the productivity and competitiveness of domestic industries, stimulating economic growth and innovation.	

Question	Answer	Marks
5	• External debt can be used to finance trade deficits or address balance of payments imbalances by providing countries with the necessary foreign exchange to pay for imports and service external obligations. • External borrowing can be directed towards investments in human capital, such as education and healthcare, which can have long-lasting positive effects on productivity, labour market outcomes, and overall socio-economic development. • External creditors may impose conditions or policy reforms as part of lending agreements, which can serve as a catalyst for implementing necessary economic reforms, improving governance, and enhancing fiscal discipline. Accept all valid responses.	
	AO1 Knowledge and understanding and AO2 Analysis	14
	AO3 Evaluation	6