

**MARK SCHEME for the May/June 2010 question paper
for the guidance of teachers**

9772 ECONOMICS

9772/02

Paper 2 (Essays), maximum raw mark 75

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

Section A

- 1 'If the price of a good or service rises, the demand for that product will always fall'. To what extent does economic analysis support this statement? [25]

Candidates should show a good understanding of the theory behind the downward sloping demand curve and the use of the word 'always' in the question should lead them on to some discussion of possible exceptions.

Answers may include:

Knowledge and **understanding** of the theory behind the downward sloping demand curve and reasons why this might not be the case.

Examples

- Indifference curve analysis
- Marginal Utility analysis
- Giffen goods
- Veblen/Ostentatious goods

Note that candidates would not be expected to use both indifference curve and marginal utility analysis. Candidates who merely state an inverse relationship between price and demand are unlikely to achieve more than level 1, unless they show real depth of understanding in the rest of their answer.

Application of the theory to real life examples including at the higher levels examples of where this basic relationship does not seem to hold.

Analysis of why the relationship between price and demand is as it is

Examples

- Considering income and substitution effects
- Looking at marginal utility/price relationships
- Consideration of goods as a 'store of value'
- Consideration of the whole issue of 'rational behaviour'

Evaluation of the issues involved

Examples

- Considering whether theory relates to reality
- Showing awareness of there being different reasons why a demand curve may appear to be upward sloping
- Considering that more demand at a higher price does not automatically mean that the demand curve is upward sloping, but that rather, one of the conditions of demand may have changed

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	There is a clear, precise and accurate explanation of one of the two main theories to explain the rationale behind the downward sloping demand curve. Exceptions are discussed and explained and, at the top of this level, the issue of either rational behaviour and/or changes in the conditions of demand is likely to be considered.
Level 3 (9 – 12 marks) Mid mark 11	An attempt is made to explain the downward sloping demand curve using one of the two recognised theories but it is likely that there will be slight inaccuracies and/or omissions in the theory. Exceptions are recognised but there is little accurate analysis of these items.
Level 2 (5 – 8 marks) Mid mark 7	One of the two theories will be considered but it is likely that either too much will be just stated rather than explained or there will be very little consideration of 'exceptions to the rule'. Alternatively, the answer gives good explanation of 'exceptions', but fails to explain the downward-sloping demand curve.
Level 1 (1 – 4 marks) Mid mark 3	There will be no theoretical explanation and the answer will rely on statements of fact too much. Any mention of exceptions will be just that – a mere statement without any attempt to analyse or explain the reasoning behind the exception.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	A good discussion might consider some of the following points: <ul style="list-style-type: none"> • Is the theory realistic in explaining consumer everyday behaviour – indeed is rational behaviour a feature of everyday life? • Is an apparent perverse demand curve indeed that or might it in fact be nothing of the sort but be a collection of points from different downward sloping demand curves? • What other conditions might be important – for example whether the 'good' is essential/a luxury? Possible consideration of the link with elasticity of demand. There will be a conclusion drawn at the end to explain the candidates overall view – even if this is that there is no clear-cut answer.
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in reasonable detail or a couple of points touched on, but only in a relatively superficially way.
Level 1 (1 – 2 marks) Mid mark 2	Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops at the comment, and the point is not developed. For example: 'We need to appreciate that standard theory doesn't explain Giffen goods'.

Page 4	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

2 'Perfect competition results in a more efficient outcome than is the case with monopoly'. Evaluate this statement. [25]

Candidates should show a good knowledge and understanding both of the models of perfect competition and monopoly and also of the various different aspects of economic efficiency. There should be a clear comparison of the two models within the answer.

Answers may include:

Knowledge and **understanding** of the relevant economic efficiencies and how these relate to the two models in question. It will be expected that candidates would consider:

- Productive efficiency
- Allocative efficiency
- Dynamic efficiency

Although discussion of other forms of efficiency can be awarded credit, this should only be the case if they are considered in a way that involves comparison.

Application of the two models to real life situations and an appreciation that theoretical models rarely occur in the real world.

Analysis of why the two models produce different results and an appreciation of the role of the profit maximising assumption in the analysis.

Examples

- Explain why $MC = AR$ gives allocative efficiency
- Explain why the minimisation of AC is said to give productive efficiency – note whilst this is the standard explanation at schools, universities usually say that any production that occurs on the average cost curve is productively efficient. Whilst the former will be the expected answer, the latter should most certainly not be penalised
- Consider the difference between short and long run outcomes, with particular emphasis on dynamic efficiency – probably highlighting the different views that exist concerning the two market structures and hence the likelihood of dynamic efficiency being pursued/achieved.

Evaluation of the issues involved

Examples

- Are theoretical models relevant to real world experience?
- Are the definitions used for the various efficiencies always accurate?
- What happens when we relax the profit maximising assumption?
- Does it matter if we ignore the time span involved?

Page 5	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	A good answer is likely to show an accurate diagrammatic explanation of the standard reason used to support the statement. At the top of this level there is likely to be consideration of exceptions to the rule, such as in terms of non-profit maximising monopolists or through analysis of different cost curves.
Level 3 (9 – 12 marks) Mid mark 11	Candidates may focus on just one form of efficiency with a clear and accurate explanation of the different outcomes in the two models or they may touch on several issues but without full explanation as to why we would get differences. Diagrams may either be missing or incomplete.
Level 2 (5 – 8 marks) Mid mark 7	Whilst there is some mention of at least one type of economic efficiency, there is no real attempt to discuss how the two models produce different outcomes with regard to efficiency. Any diagrams included are likely to be inaccurate or not explained.
Level 1 (1 – 4 marks) Mid mark 3	There is likely to be a lot of confusion over the concept of efficiency and there will be little, if any, accurate application to either perfect competition or monopoly.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	<p>A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> • Do the models of perfect competition and monopoly actually exist? • Even if they do, are the outcomes that they achieve as theory suggests? • Is one form of efficiency more important than another? • Should we be more concerned with 'second best' solutions? • How important is the issue of time-scale in all this? <p>There will be a conclusion drawn at the end to explain the candidates overall view – even if this is that there is no clear-cut answer.</p>
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficially way.
Level 1 (1 – 2 marks) Mid mark 2	Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops at the comment, and the point is not developed. For example: 'Perfect competition might be better in most cases but there will be exceptions'.

Page 6	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

- 3 **'Given the lack of perfect knowledge, government intervention in markets for goods and services is doomed to fail and therefore markets should be left alone'. Evaluate whether economic analysis supports this argument. [25]**

Candidates should show a good understanding of the different reasons why governments intervene in particular markets and should appreciate that government failure is a potential occurrence. The relevance of perfect information should be explained, however, the use of the phrase 'is doomed to fail' should be used by the candidate to appreciate that the answer is in not quite so 'clear cut' as is suggested.

Answers may include:

Knowledge and understanding of some of the reasons behind government intervention such as:

- Merit/Demerit goods
- Public goods
- Ability to pay issues
- Abuse of monopoly power
- Cost-Benefit analysis
and the relevance of perfect knowledge in particular situations

Application of the above to a particular market or markets of the candidate's choice

Analysis of why the lack of perfect knowledge may or may not have a significant role to play

Examples

- The inability to know what the external costs and/or benefits in any particular market might be
- The problem of 'missing markets'

Evaluation of the issues involved

Examples

- Just because intervention isn't perfect, does this mean that it should not occur?
- Even if there is perfect knowledge, could there not be arguments to suggest that government intervention should not occur
- Consideration of normative economics; namely why there might be differing views as to the wisdom of certain government intervention

Page 7	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	There is a clear discussion as to the reason behind government intervention in at least two instances and the candidate makes specific and relevant mention of the importance played by the existence or otherwise of perfect knowledge. At the top of this level the analysis of the candidate will be accurate and robust and will clearly have identified the failures that occur when certain goods and services are left to the market to allocate.
Level 3 (9 – 12 marks) Mid mark 11	The reason for government intervention in at least one case will be covered and there will be some attempt to address the issue that lack of perfect knowledge brings to a government. However, the answer will fail to adequately consider the overall benefits that might come from the intervention.
Level 2 (5 – 8 marks) Mid mark 7	An answer is likely to either just address the reason behind a government intervening or to look at the outcome of the intervention with no comparison or thought of what market provision has been replaced. There may well be some confusion between terms such as merit and public goods.
Level 1 (1 – 4 marks) Mid mark 3	A very limited knowledge of why governments intervene is shown and there is no appreciation of why a lack of perfect knowledge has any significance whatsoever.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	<p>A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> • Is government intervention always based on economic rationale? • Does government failure mean a less than perfect outcome or one that is worse than the market solution? • Can perfect knowledge ever exist? • Might the search for greater information cause a greater 'cost' in both financial terms and in the level of bureaucracy required? <p>There will be a conclusion drawn at the end to explain the candidates overall view – even if this is that there is no clear-cut answer.</p>
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficially way.
Level 1 (1 – 2 marks) Mid mark 2	<p>Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops at the comment, and the point is not developed. For example:</p> <p>'We need to remember that the government has intervened because there are problems with the market system.'</p>

Page 8	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

Section B

- 4 'Economic growth is necessary to ensure an improvement in the standard of living and hence should be a government's primary economic objective'. To what extent do you agree with this view? [25]

Candidates should show a good understanding of what is meant by the terms 'economic growth' and 'standard of living' and should be able critically examine the link between the two and also to focus upon the use of the phrase 'primary objective'.

Answers may include:

Knowledge and **understanding** of economic growth and of the fact that there are different definitions in terms of 'short-run and long-run', 'potential and actual'. Candidates should consider how standard of living is measured and there is plenty of opportunity for discussion of this in relation to general well-being/'quality of life'. Knowledge of the different objectives that a government might have is likely to be shown.

Application of the possible links between growth and well-being will be expected and specific examples that the candidate has covered during the course will be expected to be shown within answers.

Analysis of how economic growth can affect standard of living in terms of how an increase in GDP can lead to an increase in GDP per head will be expected at the superficial level, with a much more detailed look at other variables such as the distribution of income etc. expected from better answers

Examples

- Greater output can lead to greater consumption
- Looking at both the composition of the output and the distribution on income within an economy
- Analysis of whether any link means that other objectives are less important

Evaluation of the issues involved

Examples

- Is growth sufficient?
- Even if this is the case, does this mean that it must be the primary objective? What about protection of the environment?
- Similarly, is the economic growth sustainable
- Don't other objectives make it much easier to have growth – such as stable inflation? Might it not be that concentrating on other objectives will provide us with economic growth?

Page 9	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	There is a clear discussion of the potential link between the two concepts and a good appreciation of the terms used. The answer also stays focused on that part of the question which is to do with 'primary objective'. At the top of this level the analysis of the candidate will be accurate and robust and will clearly have identified that there is far more that needs to be considered than just the fact that economic growth will bring about an increase in the standard of living. Concepts such as the HDI or the 'Happiness Index' may well be discussed.
Level 3 (9 – 12 marks) Mid mark 11	The answer will address the main link between the two concepts of economic growth and standard of living and the analysis is likely to be fairly robust. However the answer will either not consider whether the common measure of standard of living has problems or will fail to address the implications of the explained link as far as a primary government objective is concerned.
Level 2 (5 – 8 marks) Mid mark 7	Very little will be explained as far as terms used are concerned and it is likely that the answer will simply assume that economic growth must lead to an increase in the standard of living. There is very unlikely to be any consideration of government objectives.
Level 1 (1 – 4 marks) Mid mark 3	A very limited knowledge of the whole concept of economic growth and standard of living will be shown and there will be no attempt made to try to consider any line of causality.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	<p>A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> • The problem of sustainable growth and the environment • The distribution of income within an economy and its implications • The whole issue of whether a government should focus on 'an end' or on 'a means to an end' • Consideration of the composition of the extra output • Consideration of the phrase 'and hence' in the title <p>There will be a conclusion drawn at the end to explain the candidates overall view – even if this is that there is no clear-cut answer.</p>
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficially way.
Level 1 (1 – 2 marks) Mid mark 2	<p>Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops at the comment, and the point is not developed. For example:</p> <p>'It must be remembered that just because an economy grows, this does not make it a good thing'.</p>

Page 10	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

- 5 'Recent UK experience has shown that monetary policy can be implemented more quickly but that fiscal policy is more effective in dealing with underlying economic problems.' Evaluate this statement. [25]

Candidates should show a good understanding of what is involved with both monetary and fiscal policy. There should be sound knowledge of how these two have been used in recent years within the UK economy. Explanations should be given as to why the two types of policy might have different time periods for implementation and there should be some discussion as to what is meant by 'underlying economic problems'. It is certainly not expected that the candidate will automatically agree with the statement.

Answers may include:

Knowledge and **understanding** of what both policies involve and how they are likely to affect an economy, both in the short run and the long run.

Examples

- Interest rate policy and all its implications
- Taxation and spending policies and the links to incentives to work
- Spending and implications for the infrastructure of the economy

Application of the policies in respect to the current UK experience

For example candidates may well wish to consider what is driving the government to make the decisions that they do – and indeed candidates should be aware that much of the decisions to do with monetary policy have been taken away from the government and handed to the Monetary Policy Committee (MPC) of the Bank of England.

Analysis of how both policies affect the economy – in particular with the monetary transmission mechanism and with how fiscal policy can more directly affect the supply-side within the economy.

Examples

- How interest rate decisions affect decisions of both consumers and firms and affect the exchange rate, and all the implications of this
- Implication of spending on education and other public services on the performance of the economy

Evaluation of the issues involved

Examples

- A discussion as to the potency of any government policy within a global economy
- A realisation that short-term effects may be superficial whilst underlying changes may take longer to take hold
- Consideration of crowding-out and implications for the effectiveness of government policies
- A consideration of whether the UK has handed over control of monetary policy to the Bank of England and whether countries within the Eurozone have any control of either monetary policy or indeed fiscal policy

Page 11	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	There is a clear, precise and accurate understanding of what is involved in both monetary and fiscal policies and the answer focuses upon how both of these can affect the economy. At the top level there is likely to be a discussion as to what is meant by the phrase 'underlying economic problems' and whether the effects caused by the various policies can indeed change the 'underlying' nature of anything. There will also be detailed analysis of what has been happening within the UK economy over the past few years. At low-level 4, there will be little appreciation of the existence of the word 'underlying' – though mid-level 4 can be accessed if such appreciation is by inference only.
Level 3 (9 – 12 marks) Mid mark 11	There is a clear understanding of the distinction between the two policies but the answer is likely to be more theoretical than based on recent UK experience.
Level 2 (5 – 8 marks) Mid mark 7	The answer will concentrate upon either monetary or fiscal policy or there will be evidence that the candidate doesn't really understand the difference between the two. Whilst it may be stated that policies can affect the economy, little, if any, attempt to analyse such an affect will be made.
Level 1 (1 – 4 marks) Mid mark 3	There is real confusion with what constitutes monetary and fiscal policy and the answer will fail to address the issue of how they can affect the wider economy.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	A good answer is likely to discuss issues such as: <ul style="list-style-type: none"> • Whether any government has the ability to make underlying changes to its economy in isolation of external influences • Short-run versus long-run changes and the degree to which their effects can have influence • Whether the two policies are mutually exclusive or whether the only way to have real influence is to have both policies working in conjunction • The effect that inflation targets have had on the potency of any monetary policy within the UK There will be a conclusion drawn at the end to explain the candidates overall view – even if this is that there is no clear-cut answer.
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficially way.
Level 1 (1 – 2 marks) Mid mark 2	Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops at the comment, and the point is not developed. For example: 'We need to consider whether it needs to be an either/or policy'

Page 12	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

- 6 'The main influence on the pattern of UK trade with other countries continues to be differences in comparative advantage'. Discuss. [25]

Candidates will be expected to show both a sound understanding of the economic rationale behind the theory of comparative advantage and also to display knowledge of at least some UK trading patterns in today's world to illustrate whether the statement is true. Better answers are also likely to consider trading blocs and it is anticipated that the EU will be used as an example to further demonstrate UK trade. It is anticipated that some centres will have taught the more general concept of 'competitive advantage' and where this is used in a relevant way in answer to the question, appropriate credit should be given.

Answers may include:

Knowledge and **understanding** of the theory of comparative advantage and the implications for specialisation and trading between countries

Application of the theory to UK trade in goods and services to illustrate the benefits

Analysis of whether actual trade is based specifically on the principle of comparative advantage and how tariffs and other forms of trade barriers can distort the 'free market' situation and hence influence trade

Candidates may well use trade-creation/trade diversion diagrams to explain how free-trade areas can influence trading patterns.

Evaluation of the issues involved

Examples

- Consideration of some of the assumptions made in the theory of comparative advantage and how, if these are unrealistic, the actual potential benefits may not be that great
- How political considerations can be just as important in trade decisions
- Whether 'competitive advantage' is more appropriate in today's world
- Consideration of whether the main influence has ever really been comparative advantage, let alone continuing to be so
- How globalisation and the emergence of China in recent years has changed the pattern of trade almost beyond any recognition for several countries, including the UK

Page 13	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2010	9772	02

Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	There is a clear, precise and accurate understanding of the potential benefits that can be derived from the exploitation of comparative advantage. At the top of this level it is possible that a numerical example will be used to demonstrate these benefits. There will also be some detailed knowledge shown of the trading pattern of the UK and any other influences, such as membership of a free-trade area etc. will be considered.
Level 3 (9 – 12 marks) Mid mark 11	There will be a reasonable understanding of the theory behind comparative advantage but the answer will lack clear evidence that the concept is fully understood. The answer will certainly consider other potential influences and there will be some precise knowledge shown.
Level 2 (5 – 8 marks) Mid mark 7	The answer is likely to be superficial and there will be practically no explanation as to how benefits can be derived from the exploitation of comparative advantages. Whilst other potential influences may be touched upon, there will be a distinct lack of any 'concrete facts' for the UK.
Level 1 (1 – 4 marks) Mid mark 3	There will be little of any relevance. The answer may well focus on trade between particular countries but will merely state facts and make no attempt to explain any rationale for the trade that is undertaken.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	<p>A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> • Are the theoretical benefits ever that achievable or are the assumptions upon which it is based too unrealistic to be of any use? • In today's world, aren't political considerations of greater importance than free-trade theoretical considerations • Can we talk about just one main influence? Is the UK different from other countries? • The question uses the word 'continues'. This assumes that comparative advantage was the main influence in the past. Can this not also be challenged? <p>There will be a conclusion drawn at the end to explain the candidates overall view – even if this is that there is no clear-cut answer.</p>
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.
Level 1 (1 – 2 marks) Mid mark 2	Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops at the comment, and the point is not developed. For example: 'At various times, the UK has had other main influences'.