

**MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers**

9772 ECONOMICS

9772/01

Paper 1 (Multiple Choice, Short Answers and Data Response),
maximum raw mark 80

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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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

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Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2011	9772	01

Section A

Multiple Choice
Answer Key

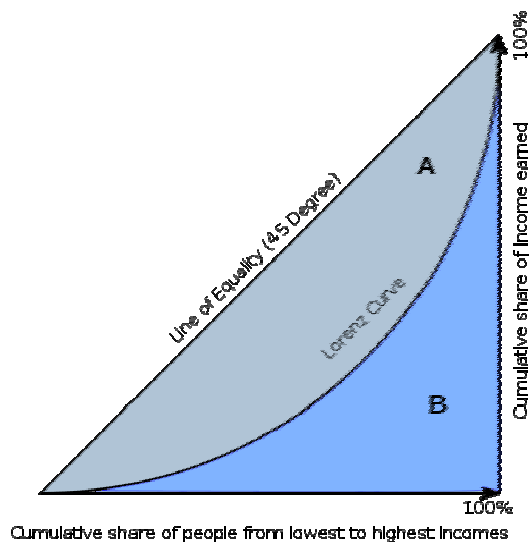
<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	16	C
2	A	17	A
3	B	18	B
4	C	19	C
5	B	20	D
6	B	21	B
7	D	22	D
8	B	23	C
9	B	24	D
10	C	25	B
11	D	26	B
12	B	27	C
13	D	28	B
14	A	29	A
15	A	30	D

Section B

- 1 (a) For an answer that explains that for the same inputs the country can produce more output [1] and that $200 > 150$ and $100 > 50$ (or similar explanation) [1]
- (b) Should have Country X producing Good B and Country Y producing Good A [1]. An extra mark can be gained by explaining why this is the case in terms of different opportunity cost ratios. [1] Output should be 300 units of A [1] and 200 units of B [1]
Maximum of 3 marks for part (b).
- 2 For an accurate identification of the two that would and/or the two that would not be included [2]. [1] mark if one is correctly identified – a second mark should be given if the correct reason why this one is / is not included is given. For an answer that explains that G in this context only covers spending on Goods and Services [1] with up to [1] further mark for clarification. Pensions and JSA allowances are known as 'Transfer Payments' [1] Ultimately the recipients are likely to spend the money they receive and so this will cause an increase in C (rather than G) [1].
Maximum of 4 marks if answer only looks at either the two that are included or the two that are excluded. Maximum of 3 marks if errors made in identification.

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2011	9772	01

- 3 (a) For a correct statement that the £ has risen/appreciated/become relatively stronger against the US \$ [1] and by 2% (or any valid data reference) [1].
- (b) An explanation that an expected change in the rate of interest can affect currency flows into a country as investors look for the highest rate of return [1]. Use of the phrase 'hot money'/ speculation or similar should be awarded an additional [1]. For a realisation that if other rates of interest have also gone up, then any particular currency does not become more attractive so presumably no expected change in US interest rates – or similar [up to 2 marks]. For any answer that mentions that expected changes in base rates can also lead to changes in exchange rates due to, for example, markets believing that this will ensure controlled inflation within the economy a minimum of an additional [2 marks] should be awarded. Maximum mark for part (b) is 3 marks. No mark for stating that it is due to the increase in rate of interest (which is inferred to have already occurred)
- 4 (a) Correct use of diagram and statement that Gini coefficient is $A/(A+B)$ (or $2*A$) [2].



Still give mark if diagram clearly displays 'sentiment' even if labelling is not 100% accurate.

- (b) Gini coefficients demonstrate the distribution of income (and/or wealth) within an economy [1] Standard of living is at least partially determined by how much 'money' any individual has and distribution of income (and/or wealth) will help determine this [1] Some clear understanding that two countries could, for example, have the same GDP per head but with very different distributions of income (and/or wealth) and hence Gini coefficients and therefore the standard of living could well vary dramatically between the different citizens [maximum 2]. For an example that demonstrates this, e.g. oil rich states with very high Gini coefficients, a further [1] can be awarded. Maximum for part (b) is 3 marks.

If just using Gini coefficient for comparison, just stating that there is a correlation between Gini coefficient and standard of living [1] – for further explanation then an extra [1] can be awarded.

Page 4	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2011	9772	01

Section C

- 5 (a) With reference to the article, explain why a price war between supermarkets over alcoholic products might have a damaging effect on pub sales of alcohol. [2]**

	Knowledge
2 marks	Clear mentioning of fact that article demonstrates that pubs have suffered due to increasing competition from supermarkets and explanation that if drinks are lowered in price by supermarkets as part of a 'price war' then demand for substitute goods – i.e. drinks in pubs – will fall
1 mark	A recognition that supermarkets provide competition but either a) explanation left there or b) no reference to article, as specifically required
0 mark	No relevant understanding shown

- (b) Using the information provided in the article, explain why an increase in average life expectancy is shown as a financial disadvantage of the ban on smoking in Table 1. [3]**

	Knowledge	Application
2 marks	Clear understanding demonstrated of the point made that although there may be short run reductions in health costs due to the fact that smokers may require less treatment, such people will require even more spent on them as they now live into old age	
1 mark	Some understanding but will probably be superficial – e.g. 'people will live longer' and cost more, without mention of 'net effect'	Specific mention of cost of both more pension payments and 'the relatively expensive diseases of old age' needed to get the mark
0 mark	No knowledge shown	No attempt to provide an example

Page 5	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2011	9772	01

- (c) Using one example from the extract and one further example from your own study of economics, explain what is meant by the term 'the law of unintended consequences'.
[5]

	Knowledge	Application	Analysis
2 marks		Good, accurately use of one of the examples from the extract and one other	Good explanation of why both examples demonstrate the concept
1 mark	Demonstration of knowledge of definition of law of unintended consequences	Either just use of example – or examples – from the extract or another example and no reference to the article	Partial explanation but too much is likely to be left just stated
0 mark	No other example given	No attempt to apply the concept in any applicable way	No relevant analysis as to how examples reflect the concept

Candidates are asked to consider just one example from the article and no further credit should be given if more than one is considered. Examples from the article include people living longer (or more specifically any of the associated 'costs' discussed), potential increase in childhood asthma, the effect on 'family life' of more male presence in homes, the implication for dry-cleaning firms, indeed the effect on pub closures itself from the ban on smoking.

Page 6	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2011	9772	01

- (d) With the use of a diagram, evaluate whether governments should intervene to curb smoking solely because of the effects of passive smoking. [10]

	Analysis	Evaluation
6 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given with extra points over and above those mentioned in the article brought into the discussion
5 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given – but without any consideration of issues not specifically mentioned in the article
4 marks	Good use of a relevant diagram to analyse the relevant issues within a clear structure	Some clear evidence of evaluation and that 'there are two sides to the story' idea but limited discussion of the relative strengths of the arguments given
3 marks	Reasonable use of a diagram, although likely just to focus on divergence between marginal private cost and marginal social cost	Some evidence of evaluation or limited awareness of the relative strengths of the arguments given but not both; no final summary
2 marks	Some attempt to use a diagram but no real explanation of what the diagram is showing	Some evidence of an attempt at evaluation but rather superficial and certainly no conclusion
1 mark	An attempt is made to use an appropriate diagram, but there are major inaccuracies and/or omissions	Very limited evaluation
0 mark	No relevant use of a diagram	No evaluation

The article discusses the idea of trying to reduce the impact of passive smoking and also, when it talks about the ban on lorry drivers smoking in their vehicles in Scotland, it discusses the idea of 'imperfect information' and how this can lead to sub-optimal market outcomes. Candidates will be expected to use the standard marginal private/social costs and benefits diagram but reward should be given for any other relevant diagram. At the top level, candidates will recognise that the marginal private cost curve reflects the perceptions of the individuals and, due to imperfect knowledge, does not reflect actual private costs. There is no correct answer – indeed a candidate may wish to conclude that nowadays people do know the effects on their bodies of smoking and hence any negative effects are self-inflicted and not the responsibility of a government, but it is important that, at the top end, there is sufficient discussion of relative merits and there is a clear conclusion stated.

Page 7	Mark Scheme: Teachers' version	Syllabus	Paper
	Pre-U – May/June 2011	9772	01

- (e) 'Pubs are an integral part of community life and governments should ensure their survival.' Using economic justifications, to what extent do you agree with this view? [10]

	Analysis	Evaluation
6 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given
5 marks		Clear evidence of evaluation and very good awareness of the relative strengths of the arguments given
4 marks	Good explanation of a suitable range of relevant issues within a clear structure	Clear evidence of evaluation and good awareness of the relative strengths of the arguments given
3 marks	Reasonable explanation of a limited range of relevant issues: some structure to the answer	Some evidence of evaluation and/or limited awareness of the relative strengths of the arguments given; no final summary
2 marks	Partial explanation given: a limited or unstructured answer	Some evidence of evaluation but no clear conclusion
1 mark	Partial explanation given; a very limited answer	Limited evaluation
0 mark	No relevant explanation	No evaluation

This question allows candidates to use the data provided in the extract regarding pub closures to then extend the analysis of the various factors that affect the survival chances of pubs. The question allows candidates to consider those areas where it could be argued that it might be appropriate for governments to intervene where, for example, it could be felt that the factor is somehow 'unfair' for pubs – in terms of suffering due to anti-smoking legislation – or where it could be argued that there are some 'positive externalities' deriving from the existence of a 'Local' within a community. On the other hand there are those factors that it could be argued are just fair competition and it is the pubs themselves that need to move with the times and adapt.

Well constructed, logical arguments that are based on economic concepts should be well rewarded. Anecdotal comments whose inclusions are not justified either explicitly or implicitly by economic ideas should not receive credit.