

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

9772 ECONOMICS

9772/03

Paper 3 (Investigation), maximum raw mark 40

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1 Transport and the Environment

High Speed 1 (previously known as the Channel Tunnel Rail Link) is the only high-speed railway line in the UK. Evaluate the economic and environmental case for giving priority in transport policy to the building of more high-speed lines. [40]

Candidates should demonstrate that they understand the nature of high speed railways and the rationale behind their construction. They should demonstrate a good understanding of transport problems in the UK and the environmental cost of certain transport modes, notably air travel and use of the private car. They should understand the concept of modal shift, be able to apply it in this context and analyse the impact of investment in this mode of transport. They should use appropriate analytical tools and data to support their arguments. International comparisons are likely to be useful when considering the effectiveness high speed rail and in making criticisms of current UK provision. They should reach a clear and well-supported conclusion on the case for giving priority to building high speed lines in transport policy. Candidates are likely to focus primarily on passenger transport. Those who recognise that freight transport is also part of the problem, and solution, should be rewarded. Analysis may be assisted by the use of diagrams.

Answers may include:

Knowledge and understanding of the environmental costs of transport usage and the economic value of transport infrastructure.

Examples:

- Negative externalities, including:
 - Atmospheric pollution
 - Visual and noise pollution
 - Blight
- The macroeconomic value of transport infrastructure, including:
 - Firm's costs
 - Efficiency
 - Competitiveness
- The impact of congestion on economic and environmental costs;
- The relative impact of transport modes, including recognition of the most and least damaging modes per passenger km.

Application of environmental and economic costs in a UK transport context.

Examples:

- Current pattern of transport usage and existing problems, including;
 - Growing overall demand for transport
 - Rapid growth rate in demand for air travel
 - Increasing congestion problems on major trunk routes (all modes)
- Existing and proposed alternative and/or complementary solutions to these problems, including;
 - Road pricing
 - Road vehicle emissions reduction
 - Alternative energy sources
 - Integrated transport

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Analysis of the costs and benefits of high speed rail and alternative solutions.

Examples:

- Positive externalities, including;
 - Reduced emissions
 - Reduced congestion
 - Reduced noise pollution (compared to air travel)
 - Localised economic benefits
- Negative externalities, including;
 - Increased local visual and noise pollution
 - Blight
- Macroeconomic benefits, including;
 - Increased efficiency of national and regional transport networks
 - Reduced business costs
 - Increased international competitiveness
 - Potential for attracting FDI
- Macroeconomic costs, including;
 - Debt
 - Opportunity cost
 - Public sector inefficiency
- Analysis of alternative and/or complementary solutions, including factors such as;
 - Cost
 - Emissions reduction
 - Efficiency improvement

Candidates are likely to support their analysis by referring to cost-benefit analysis and attempting to determine the net social benefit of high-speed rail. Good candidates are likely to support their analysis with appropriate diagrams as well as relevant and recent data on, for example, emissions by mode. They may also refer to shadow pricing and explain how it can be used in the cost benefit analysis (CBA) process.

Candidates may also use macroeconomic analysis and consider the impact on the production possibility curve (PPC) and/or long run aggregate supply (LRAS) of significant new infrastructure projects. Concepts of efficiency and international competitiveness could be usefully introduced. They may also consider the cost of such a project and its impact on the Government Spending component of aggregate demand (AD).

Evaluation of the economic and environmental case for more high-speed rail lines in the UK.

Basic evaluation may suggest that high-speed rail lines should be built if they create a net social benefit. Candidates may also argue that, as rail travel generally creates lower emissions than other modes, the threat of global warming requires the construction of such lines.

Stronger candidates are likely to seek to determine whether such lines are likely to create a net social benefit by attempting to identify which costs and benefits are likely to be greater, although it is not necessary for money values to be estimated.

Further evaluation of the economic case could involve consideration of efficiency arguments and the extent to which such infrastructure is necessary for maintaining competitiveness. Funding of the project may also be considered and issues of government debt and public-sector inefficiency could be contrasted with the failure of Railtrack and the unwillingness of the private sector to finance the Channel Tunnel Rail Link (CTRL). Candidates may consider the nature of the UK economy and developments in communication technology to suggest that rapid transport of materials, goods and people may be less important than it has been in the past. Alternatively, explicit comparisons may be made with European competitors such as France, Germany and Spain, where the policy on high-speed rail is very different. On a technical level candidates may

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also question the wisdom of significant expenditure on 'traditional' rail infrastructure when China and Japan are already investing in much faster electro-magnetic technology. There may also be evaluation of the economic effect on the regions and core/periphery arguments may be profitably considered.

Candidates may also explicitly deal with the extent to which this should be a priority and seek to rank such projects in comparison with alternatives. They may also argue that high-speed rail is only likely to be a partial solution, as over 90% of journeys are currently by road, therefore more fundamental reforms to this mode are likely to be more significant, both economically and environmentally.

Further evaluation of the environmental case could involve consideration of the impact of high speed rail infrastructure on sustainability. Critics may argue that rail still requires the use of fossil fuels and huge quantities of resources and energy will be required to build the lines, which may take decades to repay in environmental savings from modal shift. Candidates may also question the policy of transport provision to meet consumer and business needs. They may argue that government policy should be focussed on a reduction of demand rather than facilitating further consumption. Alternatively, candidates may question government intervention in transport markets at all, especially providing infrastructure, and could argue that resource allocation is best left to the market.

Theory and Analysis

Level 4 (18–22 marks) Mid mark 20	There is clear evidence of a thorough knowledge of the costs and benefits of high speed rail in comparison with alternative modes. A range of environmental and economic costs and benefits should be analysed in detail. At the top end there should be effective use of supporting theoretical concepts.
Level 3 (12–17 marks) Mid mark 15	Both macroeconomic and microeconomic issues are analysed, but there will be a lack of breadth or depth in some of the analysis and the answer is more likely to read as a prepared list of costs and benefits rather than a well-structured essay. Lacking critical awareness in some areas.
Level 2 (6–11 marks) Mid mark 9	Environmental costs of relevant modes and the benefits of modal-shift are clearly understood. Economic costs and benefits are clearly understood, although the analysis may be only microeconomic or macroeconomic. There may be some inaccuracies or oversimplifications and/or limited critical awareness.
Level 1 (1–5 marks) Mid mark 3	There may well be a misunderstanding of the nature and purpose of high-speed rail and/or other transport modes and their associated environmental costs.

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Evaluation

Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels.

Issues include:

- Should high-speed rail lines be built?
- Will an increased use of high-speed rail reduce transport emissions?
- Will they generate a net social benefit?
- Is high-speed rail as 'green' as it appears?
- How will such a project be funded and what are the implications for efficiency, speed of delivery, government debt and other spending priorities?
- To what extent should such projects be a spending priority?
- To what extent do the actions of other nations increase the pressure to build such lines?
- Should government seek to facilitate or discourage future transport demand?
- Should government intervene to promote certain types of infrastructure?

Level 3 (13–18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this Level, there will signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.
Level 2 (7–12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas unexplored and conclusions may lack any rigorous justification.
Level 1 (1–6 marks) Mid mark 4	Some of the issues that could be open to evaluation may be introduced into the discussion but there is no attempt to go further than to show an appreciation of the issue – for example, 'new lines should be built if they will reduce transport emissions'. There is no attempt to draw together the relevant issues in a conclusion.

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2 China and the Global Economy

Evaluate the extent to which the growth of the Chinese economy poses a threat to other developing countries. [40]

Candidates should demonstrate their understanding of economic growth in China and its effects on global trade. They should understand the benefits and drawbacks of this growth for developing economies in the region and globally. Candidates should consider changes in patterns of trade between China and the developed world and the consequences for trade between other developing economies and the developed world. They should also look at changes in patterns of trade between China and other developing economies. They should illustrate their answer with specific examples from China and other selected countries. They should use appropriate analytical tools and data to support their arguments. They should be able to come to a clear and supported conclusion on the extent to which developing countries are likely to be threatened by Chinese economic growth. Good candidates are likely to explicitly consider the factors which will determine the outcome for a given economy. Analysis may be assisted by the use of diagrams.

Answers may include:

Knowledge and understanding of economic growth in China and other developing economies. Examples:

- The nature of growth;
- Comparative growth rates.

Application of growth in China and ways in which this threatens other developing economies. Examples:

- Effects of growth on global trading patterns;
- Threats posed by changes in trading patterns;
- Opportunities presented by these changes.

Analysis of the threats relevant to other developing economies. Examples:

Threats to other developing economies, including:

- Cost competition in export markets;
- Industrial relocation;
- Import penetration,
- Damage to infant industries,
- Inflationary pressure on commodities,
- Neo-colonialism.

Candidates should be rewarded for supporting their analysis with diagrams. For the higher analytical marks candidates should be able to support their answer with relevant data on, for example, changing patterns of trade and commodity prices. Good candidates will be able to illustrate their points with specific contexts and supporting data.

Evaluation of the extent to which developing economies are likely to be harmed by the threats.

At the lower end, candidates are likely to conclude that China's growth is a threat to many developing countries as they will lose their export markets and be overtaken by China in both growth and development terms. There is not likely to be any explicit attempt to rank the magnitude of effects or to identify criteria which may help to determine whether a particular country will lose out.

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At higher levels candidates will recognise that the effects will vary between developing countries and that generalisation is unlikely to be helpful. They are likely to explicitly recognise that developing economies vary considerably in terms of, for example:

- Factor endowment;
- Economic structure;
- Trade policy;
- Political, strategic and historical allegiances.

This variability is likely to determine the extent to which an individual economy is threatened. Evaluation of the effects on specific countries is likely to strengthen the answer and should be rewarded.

Candidates may also consider opportunities for other developing economies which may be presented as a result of China's growth. They may, for example, suggest that other economies could emulate China's path to development and discuss whether it offers a more viable alternative to the traditional 'western' models. Candidates could consider the causes of economic growth in China, and differentiate between factors which are unique to China and those which are common to most developing countries. This differentiation will allow a discussion of the extent to which other economies can emulate the Chinese experience. They may illustrate their answers with case studies of increased economic cooperation between China and nations in South America and Southern Africa which have become disillusioned with the 'Washington consensus'. Alternatively, candidates could question whether China poses a threat to such nations as a new imperialist power, simply seeking to gain control over resources as the nineteenth century imperialists did.

The longer-term dynamic effects on the world economy could also be considered. Candidates may suggest that, as China becomes more globally significant and the balance of economic and political power shifts away from Europe, Japan and the USA, the effects on all economies, including developing ones, are likely to be profound but difficult to forecast. Candidates may consider shifts in consumption patterns, increased pressure on scarce resources, particularly energy, and the prospect of increased protectionism to defend existing patterns of economic inequality.

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Theory and Analysis

Level 4 (18–22 marks) Mid mark 20	The answer shows a thorough understanding of the threats posed by China's economic growth. There will be in-depth analysis which links these threats specifically to developing economies. At the top end of this Level, there is likely to be a clear distinction of the effects on different individual economies or groups of economies.
Level 3 (12–17 marks) Mid mark 15	A good understanding of some threats. However, there is a lack of breadth or depth in some of the analysis and the answer is more likely to read as a prepared list of issues rather than a well-structured essay. Lacking critical awareness in some areas.
Level 2 (6–11 marks) Mid mark 9	Some understanding of the effects on developing economies but possibly considering a narrow range of threats, and/or not focussed in a development context. Any analysis will be very superficial, for example, arguing that growth in China takes manufacturing jobs from other economies.
Level 1 (1–5 marks) Mid mark 3	There is little understanding of why Chinese growth could pose a threat to developing economies.

Evaluation

Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels.

Issues include:

- Are developing economies likely to be threatened by China's growth?
- Are some economies likely to be in a more or less favourable position than others?
- What are the factors that will determine the fortunes of an individual economy?
- Could other economies emulate China's development path?
- Is this a more viable model than the ones provided by 'western' economists?
- Is China becoming a new imperialist?
- What are the long-term implications of the shift in the global balance of economic power?

Level 3 (13–18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this Level, there will signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.
Level 2 (7–12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas left unexplored and conclusions may lack any rigorous justification.
Level 1 (1–6 marks) Mid mark 4	Some of the issues that could be open to evaluation may be introduced into the discussion but there is no attempt to go further than to show an appreciation of the issue – for example, 'developing economies are likely to suffer because China will out-compete them in global markets'. There is no attempt to draw together the relevant issues in a conclusion.

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3 Expansion of the EU

Evaluate the extent to which EU enlargement has improved the long-term competitiveness of the EU economies. [40]

Candidates should have an awareness of factors affecting international competitiveness of EU nations. They should be familiar with the rationale for enlargement in relation to competitiveness. Candidates should be familiar with the experience of enlargement to date and the impact of enlargement on current competitiveness. They should also be aware of current and future trends which may lead to changes in competitiveness over time. They should use appropriate analytical tools and data to support their arguments. They should reach a clear and well-supported conclusion on the extent to which EU economies are more or less competitive than they used to be and the extent to which this outcome has been affected by enlargement. Good candidates are likely to look at the issue from the perspective of different groups of EU member states and/or explicitly consider the timescale involved. Analysis may be assisted by the use of diagrams.

Answers may include:

Knowledge and understanding of EU enlargement and international competitiveness.

Examples:

- The rationale for enlargement;
- The process of enlargement to date;
- Factors affecting international competitiveness.

Application of international competitiveness in the context of enlargement.

Examples:

- Specific examples in an enlarged EU context of factors affecting the competitiveness of firms:
 - Factor costs;
 - Productivity;
 - Research & Innovation.
- Macroeconomic conditions affecting competitiveness:
 - Inflation;
 - Interest rates;
 - Exchange rates;
 - Factor market flexibility.
- Specific threats to EU competitiveness:
 - Low-cost manufacturing;
 - Increased sophistication of capital equipment;
 - Higher educational standards and skill levels;
 - Increased innovation;
 - Challenges to the service sector.

Analysis of the effects of enlargement on competitiveness.

Examples of benefits, including:

- Lower cost economies in Central and Eastern Europe;
- Economies of scale;
- Research benefits from increased market size;
- Increased availability of capital;
- Increased flexibility of labour market;
- Single market;
- Single currency.

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Examples of limitations and problems, including:

- Non-membership of Euro;
- Limitations of single market;
- Market concentration;
- Inflexibility of monetary policy.

Candidates should be rewarded for supporting their analysis with diagrams, including AS/AD analysis. For the higher analytical marks candidates should be able to support their answer with relevant comparative data on competitiveness for the EU and its major competitors.

Evaluation of the extent to which enlargement has increased long-term competitiveness.

Evaluation is likely to consider whether EU manufacturers are more globally competitive in terms of lower production costs. Conclusions are likely to treat the EU as a homogenous unit and to deal with static efficiency concerns only.

Stronger candidates are expected to look at this question explicitly from the perspective of different groups of member states, or even from individual states. A distinction may be made, for example, between the factors affecting manufacturing industry and those affecting the service sector. Examples may be given of economies within the EU which will be particularly affected. Candidates may also consider the ability of economies to respond to particular threats.

Candidates may argue that current evidence is inconclusive as the EU economies are currently in a period of flux and the long-term results of enlargement are not yet clear. Equally, they may argue that future developments in the EU and in global markets are difficult to predict.

However, at the top end explicit consideration is likely to be given to the dynamic aspect of economic efficiency and competitiveness implied by reference in the question to the 'long-term'. Candidates may consider the effects on the structure of individual EU economies and the EU economy as a whole. They may discuss the importance of innovation, flexibility and dynamic change in the context of competitiveness and attempt to come to a judgement regarding the extent to which enlargement has increased or reduced the ability of EU economies to respond to competitive pressures in the longer term. The issue is not whether EU economies can achieve a pre-determined change to a known threat, but whether they can respond over a sustained period to currently unknown and unexpected threats.

Candidates may also challenge the question and consider whether competitiveness is a valid measure of the performance of a national economy. They may argue that firms are competitive or uncompetitive, rather than economies and that the idea that some national economies can 'win' whilst others 'lose' is a flawed perspective on the system of global trade.

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Theory and Analysis

Level 4 (18–22 marks) Mid mark 20	The answer shows a thorough knowledge of the issue of competitiveness and the impact of enlargement. There is a wide range of benefits and limitations thoroughly analysed using relevant economic theory. At the top end of this level there should be some appreciation of the dynamic challenge of international competition in the long-term.
Level 3 (12–17 marks) Mid mark 15	The effects of enlargement on competitiveness are analysed in the context of the current threats posed by global competitors. However, the analysis lacks breadth or depth and is more likely to read as a prepared list of advantages or disadvantages, possibly restricted to a few key issues and may generalise about the effects across all member states. Lacking critical awareness in some areas.
Level 2 (6–11 marks) Mid mark 9	Some limited appreciation of the causal links between enlargement and competitiveness. Likely to be general points not linked to specific competitive threats. Limited critical awareness.
Level 1 (1–5 marks) Mid mark 3	There is a lack of understanding of international competitiveness and/or what is meant by EU enlargement.

Evaluation

Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels.

Issues include:

- Has enlargement increased the competitiveness of EU manufacturers?
- Are the effects different for other sectors?
- Do the effects vary between member states?
- Do the effects vary depending on the particular threat?
- Is the EU able to respond to the range of competitive threats that it currently faces?
- Is it possible to come to an informed conclusion regarding the long-term at this stage?
- Is the EU better equipped to deal with dynamic change in global markets?
- Is EU competitiveness a valid concept?

Level 3 (13–18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this Level, there will signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.
Level 2 (7–12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas left unexplored and conclusions may lack any rigorous justification.
Level 1 (1–6 marks) Mid mark 4	Some of the issues that could be open to evaluation may be introduced into the discussion but there is no attempt to go further than to show an appreciation of the issue – for example, 'competitiveness has been increased by enlargement due to the inclusion of lower-cost economies'. There is most unlikely to be any attempt to draw together the relevant issues in a discussion.

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4 The Pensions Crisis

Evaluate the extent to which UK citizens will need to make significant changes to their patterns of both consumption and work in response to the pensions crisis. [40]

Candidates should demonstrate an awareness of the nature and extent of the pensions crisis in the UK. They should be aware of the implications of the crisis for workers and taxpayers in the UK. Candidates should be able to identify potential consumption and work changes which may stem from both the crisis and the measures put in place to deal with it. They should be able to analyse the impact of the crisis on consumption and work patterns in the present and the potential impact in the future. They should also analyse the likely policy responses and examine their impact on consumption and works. They should reach a clear and well-supported judgement about the extent to which individuals in the UK will be able to continue with current consumption and work patterns or need to change at some point in the future. Good candidates are likely to provide international comparisons to support their analysis and conclusions. Analysis may be assisted by the use of diagrams.

Answers may include:

Knowledge and understanding of the pensions crisis and consumption and work factors.

Examples:

- The problem of under-provision;
- Consumption factors, including:
 - Consumption patterns
 - Savings patterns;
- Work factors, including:
 - Career choice
 - Working hours
 - Retirement.

Application of consumption and work pattern implications caused by the crisis.

Examples:

- Career choice;
- Working hours and retirement;
- Consumption and savings;
- Family size, age of reproduction and financial support of children;
- Migration incentives and disincentives.

Analysis of the influence of under-provision and the policy response on consumption and work.

Examples:

Under-provision

- Reduced consumption and increased saving;
- Longer working hours and working life;
- Increased family size;
- Reduced parental support of students;
- Incentives to migrate.

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Policy response:

- Compulsory pension enrolment;
- Tax incentives on savings;
- Higher state retirement age;
- Means-testing of pension benefits;
- Public-sector pension deficits;
- Government debt and higher taxes;
- Funding of Higher Education;
- Immigration policy.

Candidates who use diagrams to support their analysis should be rewarded. Both microeconomic and macroeconomic concepts are likely to be relevant and candidates who use both should be rewarded. For the higher analytical marks candidates should be able to support their answer with relevant data regarding, for example, the extent to which individuals will need to save more and/or work longer.

Evaluation of the extent to which pensions crisis will lead to significant change in consumption and work patterns.

Basic evaluation is likely to conclude that some change in consumption and work patterns is inevitable, given the nature and size of the problem. Candidates may recognise that this is likely to be gradual change and may speculate about what those changes are most likely to be, but without convincing justification.

At higher levels they should be able to justify their choice of likely changes more convincingly and/or identify conditions which make particular changes more or less likely. For example, some changes will depend upon government action, whereas others depend upon the actions of individuals. This could lead to discussion of the forces determining such decisions. Concepts of government failure and rational behaviour could be usefully employed here.

Stronger candidates may explicitly consider whether the changes to consumption and work patterns are likely to be 'significant'. This is likely to be at least a partially subjective judgement, but could include some data on likely increases in savings or working life in percentage terms to allow a more objective evaluation of significance. Judgements could also be made in the light of the broader trends of rising living standards and increasing life expectancy.

Candidates may also recognise that pensioners are not a homogenous group and go on to identify groups that may need to make significant changes and groups that may not. Differentiation between these groups could be based on a range of factors, including:

- Age
- Occupation
- Income
- Wealth

Candidates may even question whether there is a crisis at all. They may argue that increased productivity, continued economic growth and changing working patterns will mean that the perceived 'savings gap' may not materialise. This could lead to a conclusion that significant changes in the short to medium term are not necessary at all and that, as consumption and works change over time anyway, long-term changes are likely to be almost unnoticeable.

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Theory and Analysis

Level 4 (18–22 marks) Mid mark 20	The answer shows a thorough knowledge of the crisis and a good range of consumption and work implications are dealt with in depth. The effects of likely policy responses are also covered and analysed using appropriate concepts. At the top end there is likely to be recognition of variable implications for different groups and some criteria for identifying these groups.
Level 3 (12–17 marks) Mid mark 15	The answer shows a good understanding of crisis and its' consumption and work implications. However, the analysis lacks breadth or depth and is more likely to read as a prepared list of advantages or disadvantages rather than a well-structured essay. Lacking critical awareness in some areas and likely to assume that the implications are the same for all.
Level 2 (6–11 marks) Mid mark 9	Some causal links are made between under-provision and changes to consumption and work but there is little meaningful analysis of the implications. Limited critical awareness.
Level 1 (1–5 marks) Mid mark 3	There is a lack of understanding of the pensions crisis and/or any of the consumption and work issues created by under-provision.

Evaluation

Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels.

Issues include:

- Is change to consumption and work patterns inevitable?
- How rapid will it be?
- Which aspects of consumption and work patterns will change and why?
- Who will make these decisions, government or individuals?
- Are changes likely to be 'significant'?
- Which groups will be most affected?
- Is change actually necessary and will it be noticed over a long time-scale?

Level 3 (13–18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this Level, there will be signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.
Level 2 (7–12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas unexplored and conclusions may lack any rigorous justification.
Level 1 (1–6 marks) Mid mark 4	Some of the issues that could be open to evaluation may be introduced into the discussion but there is no attempt to go further than to show an appreciation of the issue – for example, 'change in consumption and work patterns is inevitable, given the severity and breadth of the problem of under-provision'. There is no attempt to draw together the relevant issues in a conclusion.