

**MARK SCHEME for the May/June 2012 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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Section A

Multiple Choice
Answer Key

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

Section B

- 1 (a) For an answer that explains that the mpc reflects the proportion (or similar phrase) of any extra income received that will be spent [1] For an appropriate example, e.g. if mpc = 0.8 and income increase by £100, then an extra £80 will be spent [1]
- (b) $k = 5$ [1]. From $1 / (1 - 0.8)$ although working not required. No marks awarded if error made but note that incorrect answer is not penalised again in part (c)
- (c) Final change = $k \times$ initial change. For calculating that initial change = £16bn [1] For candidate's answer to (b) \times candidate's initial change [1]. This should be $5 \times \text{£}16\text{bn} = \text{£}80\text{bn}$. Full marks to be awarded if correct answer is provided regardless of any working shown.
- 2 (a) For statement that $MC = \text{Price}$ [1]
- (b) For an answer that clearly explains that MC represents the 'cost to society' of producing the marginal unit, whereas Price reflects society's valuation of this unit [2] Similarly if the answer explains that if we do not have equality in these two variables then either it is costing society more to produce than the additional benefit gained or vice versa [max 2 marks].

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- (c) For explanation that negative externalities will mean that $MC = Price$ will cause an inefficient allocation of resources since what we actually want is $MSC = MSB$ and that $MC = Price$ only gives us this when there are no externalities since for 'decision makers' $MC = MPC$ and Price reflects MPB – or similar (e.g. if deadweight loss is demonstrated on the diagram then this should be rewarded) [2 marks]
Award a mark if answer states that there will be an 'over-provision' but doesn't explain why.
- 3 (a) Goods Y and Z are complementary goods [1] because the relevant cross price elasticities of demand are negative (or similar explanation) [1]
- (b) Given own price elasticity of demand is -0.8, this means that it is (price) inelastic demand (1) hence if the price of the good were to fall, there will be a fall in total revenue (TR) received (1). The final mark should be awarded either for an explanation that the percentage increase in quantity demanded is less than the percentage fall in price (or similar) or for use of a diagram showing both average revenue (AR) and TR and a clear indication that a movement down the AR curve at the relevant point leads to a fall in TR. If diagram clearly shows lower TR then this should be rewarded [1]
- 4 (a) Since average rate of tax (ART) for income of £10000 is 10% and for income of £50000 it is 18% (or similar such explanation) [1] hence the system is progressive [1] (Key word is 'explain' not 'state')
- (b) For mention of the fact that there will be less incentive to work / less net reward from working [1] For further explanation that the 'substitution effect' will have made work less attractive and leisure more attractive, or that the 'opportunity cost' of leisure has fallen or similar – up to [2]

Section C

- 5 (a) Using the information in the first paragraph of Extract 2, calculate the number of workers who were receiving less than the relevant NMW rate prior to its introduction, according to the Office for National Statistics [2]

	Knowledge & Application
2 marks	Accurate calculation of $23m \times 8.3\% = 1,909,000$ (accept 1.9m) Give full marks if 1,909,000 is given even if no working is shown.
1 mark	An attempt is made to find 8.3% of 23m but an error is made and answer is incorrect – or 1.9m is just stated with no working.
0 mark	No use of the relevant figures is made.

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(b) Using Table A

- (i) Calculate the total percentage change in the Development Rate of the NMW between its start in April 1999 and October 2010. [1]**

		Application
1 mark		Correct application of 64%

- (ii) Using this figure and other evidence from the table, confirm that there has been 'a significant rise in real terms' for the NMW as stated in Extract 2. [2]**

	Knowledge	Application
1 mark	Clear understanding demonstrated of the need to show that the percentage increase in the NMW has been greater than the percentage increase in the CPI over the relevant period.	Correct calculation of change in CPI being roughly 24.7%.

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(c) 'Similarly it is important that the benefit system should be considered when setting NMW rates, so as to avoid creating poverty traps of the sort that were common before the NMW.' (Extract 2 lines 12–14)

(i) Explain what is meant by this sentence. [2]

(ii) Using both the extract and your own knowledge explain how this issue has been addressed in recent years. [3]

	Knowledge – for part (i)	Application – for part (ii)	Analysis – for part (ii)
2 marks	Good demonstration of knowledge in the explanation of what is meant by the poverty trap and why the level of the MNW is of relevance.	Both mention from extract (lines 14 to 18) and demonstration of some knowledge of recent developments over and above what is mentioned in the article.	
1 mark	A superficial display of knowledge.	Either just correct 'regurgitation' from article OR demonstration of some knowledge of recent developments but not both.	E.g. analysis of whether changes in legislation have had an effect on the issue of the poverty trap in the last year or so.
0 mark	No knowledge displayed in answer – simply statement of provided facts.	No relevant application of knowledge.	No relevant analysis.

Candidates should be using the article as a stimulus for example but will have to show knowledge of recent developments in the UK to gain full marks. For example, at the time of writing, Iain Duncan-Smith, Secretary of State for Work and Pensions has just been putting forward his proposals that it will not be possible to be better off on benefits than in work. Clearly candidates will have to have kept up with how this has developed.

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- (d) Using the evidence provided in Extract 2 lines 19 - 31 and economic analysis, evaluate the statement that it is right for the NMW to be based upon age and experience. [10]

	Analysis	Evaluation
6 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments. At this top level there will need to be discussion of the idea of 'right for whom'.
5 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given.
4 marks	Good use of relevant statistics from the table to substantiate any arguments made, along with clear analysis of the arguments put forward in extract 2. At this top level the candidate will also draw on points from their own knowledge over and above those provided.	Some clear evidence of evaluation, but limited discussion of the relative strengths of the arguments given.
3 marks	A reasonable attempt to consider the implications of the different levels for the NMW.	Some evidence of evaluation or limited awareness of the relative strengths of the arguments given but not both.
2 marks	Either superficial analysis of several points or greater in-depth analysis of just a single issue. Unlikely to see any statistical justifications used or the use of the candidate's own knowledge.	Some evidence of an attempt at evaluation but rather superficial.
1 mark	An attempt is made to analysis the effects, but there are major inaccuracies and / or omissions.	Very limited evaluation.
0 mark	No relevant analysis.	No evaluation.

Extract 2 mentions both the need for greater supervision and training for young workers and a direct attempt to try to reduce youth unemployment. Candidates may see this as a form of 'positive discrimination' working in the favour of young workers or as greater exploitation of this group – particularly prior to 2004 / 2010. Better candidates should use the figures from table A to support their arguments. It is important that the question stays focussed on the idea of 'right' and better candidates will make a distinction between right as in 'correct' and right as in 'fair'. There may well be discussion of how the marginal revenue product of young workers may be lower than that of older workers. At the top end there will be definite discussion of how more than one group is affected by the policy – i.e. the answer will need to be about more than is it right for young workers. Similarly to achieve full marks there needs to be some discussion of both age **and** experience. For example, the answer may comment upon the fact that apprentices in Oct 2010 got £2.50 per hour in the first year of their apprenticeship, regardless of age.

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(e) Evaluate whether the increased use of internships is beneficial for employers, for potential interns and for the UK economy overall. [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.
2 marks	Partial explanation given: a limited or unstructured answer.	Some evidence of evaluation.
1 mark	Partial explanation given; a very limited answer.	Limited evaluation.
0 mark	No relevant explanation.	No evaluation.

This question requires candidates to use the data provided in all of the extracts but in particular in extract 1. As implied by the question, for a candidate to score highly it will be necessary for the issue to be looked at not only from the point of view of the person undertaking the internship, but also from the employer's perspective and from the perspective of the UK economy overall. The candidate is likely to focus on the financial implications for the potential intern – and it is possible that there may be some discussion linking in the recent rise in tuition fees and the issue of 'pricing students out of the market'. However, credit should only be given here if its inclusion is justified as being of relevance to the question – e.g. 'One could argue that if the majority of interns are graduates, recent changes ... have also had an effect on who can become an intern.

Better answers will consider a range of issues, including but by no means exclusively:

- Firms being able to try out potential workers, without commitment.
- Firms clearly being able to use the system as a way of reducing their labour costs
- Prohibitive 'costs' to interns leading to the best candidates never being able to be considered by firms
- A huge barrier to entry into certain industries for people of limited means
- Would even a NMW for interns be enough to allow them to live in a city e.g. London?
- A way for students to impress prior to interview
- Possible exploitation of 'desperate young people' by unscrupulous agencies.

This question is the most open ended on the paper and should provide better candidates with a real opportunity to shine.