

Cambridge Pre-U Specimen Papers
and Mark Schemes

Cambridge
Pre-U

Cambridge International Level 3
Pre-U Certificate in
ECONOMICS

For use from 2008 onwards



UNIVERSITY of CAMBRIDGE
International Examinations

Specimen Materials

Economics (9772)

Cambridge International Level 3
Pre-U Certificate in Economics (Principal)

For use from 2008 onwards

QAN 500/3670/1

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Syllabus Updates

This booklet of specimen materials is for use from 2008. It is intended for use with the version of the syllabus that will be examined in 2010, 2011 and 2012. The purpose of these materials is to provide Centres with a reasonable idea of the general shape and character of the planned question papers in advance of the first operational examination.

If there are any changes to the syllabus CIE will write to centres to inform them. The syllabus and these specimen materials will also be published annually on the CIE website (www.cie.org.uk/cambridgepreu). The version of the syllabus on the website should always be considered as the definitive version.

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ECONOMICS

9772/01

Paper 1 Multiple Choice, Short Answers and Data Response
SPECIMEN PAPER

2 hours 15 minutes

Additional Materials:	Section A	Multiple Choice Answer Sheet
		Soft clean eraser
		Soft pencil (type B or HB is recommended)
	Sections B and C	Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

Section A:

Write in soft pencil.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

There are **thirty** questions in this Section. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the Instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

Sections B and C:

Answer **all** questions.

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use paper clips, highlighters, glue or correction fluid.

At the end of the examination hand in your Answer Sheet for Section A separately and fasten your work for Sections B and C securely together.

You may use a calculator.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **15** printed pages and **1** blank page.



Section A

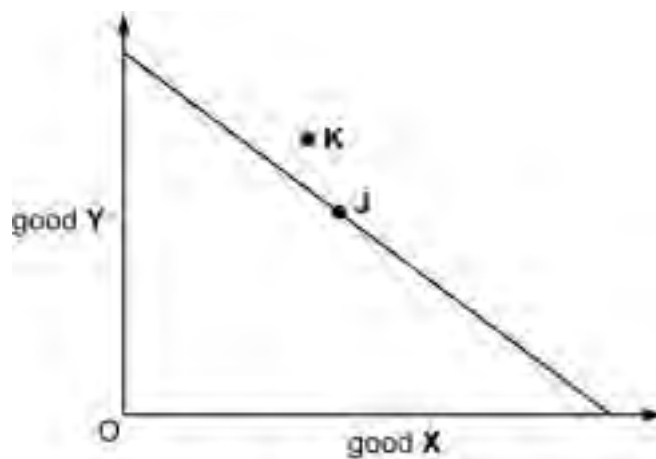
Answer **all** questions.

- 1 The existence of scarcity implies that
- A there are no free goods.
 - B an economy is less developed.
 - C the supplies of factors of production cannot be increased.
 - D households, firms and governments must make choices.
- 2 The workers in a factory currently earn £240 for a 40 hour week. The management offers them a choice between either a straight 10 per cent wage increase or an increase in the weekly wage to £260 along with a reduction in hours from 40 to 39 hours.

Disregarding the value of leisure time, what is the opportunity cost to each worker of opting for the 39 hour week?

- A £4.00 B £6.00 C £20.00 D £24.00

- 3 The diagram shows the budget line of a consumer who spends the whole of his income on goods X and Y. Initially the consumer purchases combination J.



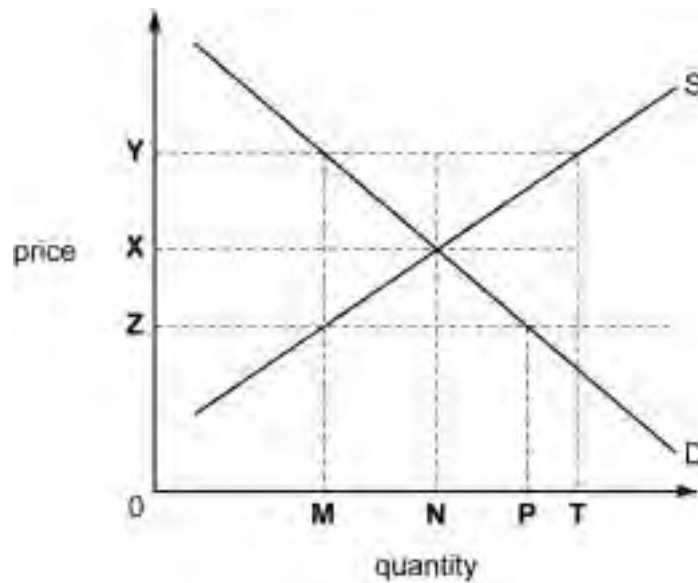
The consumer subsequently purchases combination K. Which of the following could explain the change in his consumption?

- A a change in his tastes in favour of Y
- B an increase in the price of X
- C an increase in the price of X combined with a decrease in his budget
- D a decrease in the price of Y combined with a decrease in his budget

4 What is **not** determined by the price mechanism in a market economy?

- A the allocation of resources
- B the distribution of income
- C consumer preferences
- D relative prices

5 The diagram represents the supply and demand situation for cod in the United Kingdom. D and S represent demand and supply in the domestic market. The European price of cod is **0Z**.



Assuming the UK retailers can import cod at the European price, what price will be received by UK fishermen and what quantity will they supply?

- | | <i>price</i> | <i>quantity</i> |
|---|--------------|-----------------|
| A | 0X | 0N units |
| B | 0Y | 0T units |
| C | 0Z | 0M units |
| D | 0Z | 0P units |

- 6 An eighteenth-century Swiss clock maker made a total of 15 identical carriage clocks. There are currently just three collectors of these clocks, **X**, **Y** and **Z**. The table shows their demand schedules.

	quantity demanded (units)		
price (£000)	X	Y	Z
5	0	0	3
4	1	0	4
3	2	3	5
2	3	6	6
1	4	9	7

X, **Y** and **Z** initially possess 5 clocks each. They then come together to trade between themselves.

At the market clearing price (or equilibrium price) which of the following is correct?

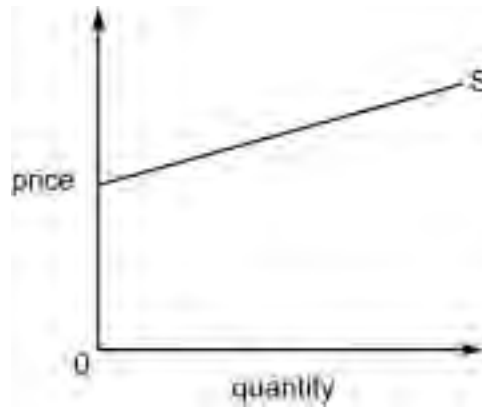
- A** **X** is a buyer; **Y** and **Z** are sellers.
B **X** and **Y** are buyers; **Z** is a seller.
C **X** and **Z** are buyers; **Y** is a seller.
D **Y** and **Z** are buyers; **X** is a seller.
- 7 The table gives estimates of own-price and cross-price elasticities of demand for tea and instant coffee.

commodity	elasticity with respect to the price of:	
	tea	instant coffee
tea	-0.48	+0.11
instant coffee	+0.13	-0.67

Other things being equal, what would be the change in the quantity of instant coffee demanded as a result of a 1% decrease in the price of tea?

- A** +0.67% **B** +0.13% **C** -0.11% **D** -0.13%

- 8 The diagram shows a supply curve.



Which statement describes the price elasticity of supply along this curve?

- A** It is constant and greater than unity at all quantities.
B It is constant and less than unity at all quantities.
C It diminishes as quantity increases.
D It increases as quantity increases.
- 9 In the short run, a firm is producing at its minimum average cost per unit of output.
 What effect will a small reduction in output have on the firm's marginal, average and total cost?

	<i>marginal cost</i>	<i>average cost</i>	<i>total cost</i>
A	fall	fall	fall
B	fall	rise	fall
C	rise	fall	fall
D	rise	fall	rise

- 10 The short-run total cost curve of a firm is given by $SRTC = 1500 + 20Q^2$, where Q is the level of output.

What are the firm's fixed costs?

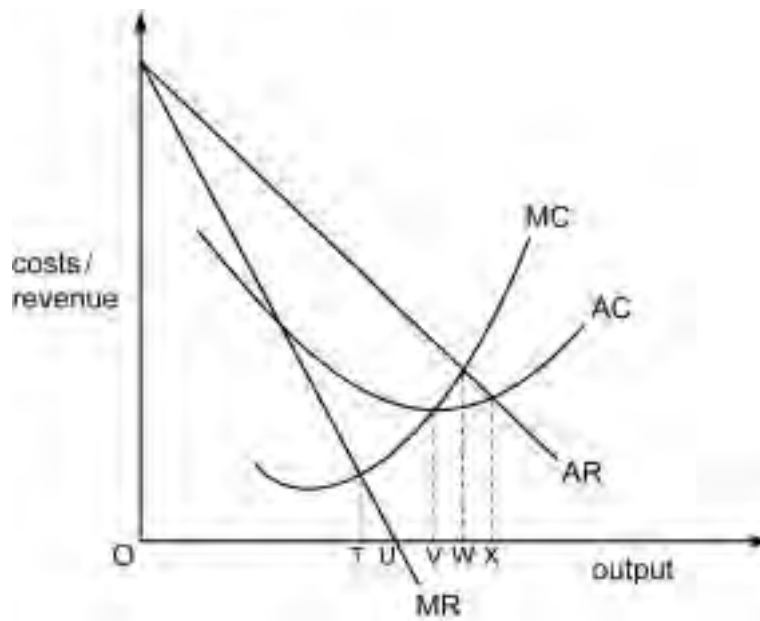
- A** $20Q^2 - 1500$ **B** 1500 **C** $20Q^2$ **D** $\frac{1500}{Q}$

- 11 A perfectly competitive firm is producing 2 000 boxes of biscuits per week which it sells for £2.50 per box. This output of 2 000 boxes per week incurs the following costs.

total fixed cost	£2 000
total variable cost	£4 000
marginal cost	£2.50

In the short run, what should the firm do to maximise its profits or minimise its losses?

- A raise its price
 B increase output
 C maintain output at its present level
 D cease production altogether
- 12 The diagram shows the revenue and cost curves of a monopolist.



The firm decides to change its objective from profit maximisation to revenue maximisation. Output will change from **OT** to

- A **OU**.
 B **OV**.
 C **OW**.
 D **OX**.

- 13 A discriminating monopolist, faced with two demand curves of differing elasticity, will equate the marginal cost of production with
- A marginal revenue in each market.
 - B average cost in each market.
 - C the sum of marginal revenues in the two markets.
 - D average revenue in each market.
- 14 Which of the following comes closest to being a 'pure' public good?
- A defence
 - B education
 - C electricity supply
 - D health services
- 15 Which of the following is likely to result from an increase in subsidies for public transport in cities?
- A a reduction in distances travelled to work
 - B a reduction in the number of bus routes
 - C a reduction in traffic congestion
 - D lower occupancy rates on buses
- 16 The following schedules relate to a firm.

production schedule

number of workers employed	1	2	3
total output (units)	20	35	45

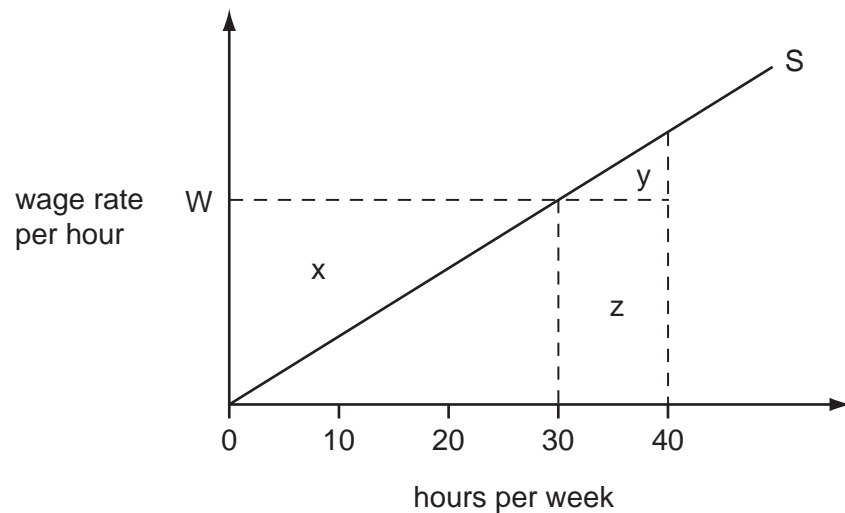
demand schedule

price (£)	10	9	8
quantity demanded (units)	20	35	45

What is the marginal revenue product from the employment of the third worker?

- A £45
- B £65
- C £115
- D £360

17 The diagram shows a worker's supply of labour curve.



Initially the worker is required to work a minimum 40-hour week at the hourly wage W .

Which area measures the gain to the worker in producer surplus if she is allowed to work the number of hours she wishes to work?

- A** $x + y$ **B** $x - y$ **C** y **D** $y + z$

18 The gross domestic product of a country is £3 000 m, and the price index stands at 150.

What is the country's gross domestic product, valued in the prices of the base year of the price index?

- A** £1 000 m **B** £2 000 m **C** £3 000 m **D** £4 500 m

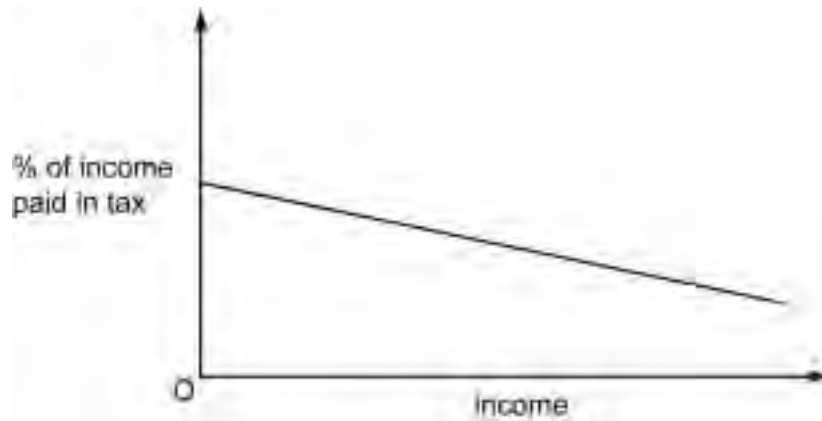
19 Which of the following is most likely to lead to a rise in a country's potential growth of real GDP in the long term?

- A** an increase in capital investment
B an increase in consumer spending
C an increase in imports of consumer goods
D an increase in government spending

20 What is the marginal propensity to consume?

- A** the change in consumption divided by the change in income
B the change in income divided by the change in consumption
C the percentage change in consumption divided by the percentage change in income
D the percentage change in income divided by the percentage change in consumption

- 21 Which of the following will **not** cause an increase in the equilibrium level of GDP?
- A an increase in government spending
 - B an increase in consumption
 - C an increase in exports
 - D an increase in imports
- 22 If an economy operating at full employment experiences a more efficient allocation of resources because of technological progress, then national income per head will
- A rise in real terms.
 - B fall in real terms.
 - C be distributed more equally among the population.
 - D remain the same.
- 23 The diagram below represents the percentage of an individual's income taken in tax under a particular system.



The diagram shows that the tax is

- A flat-rate.
- B progressive.
- C proportional.
- D regressive.

- 24 In country Z the underlying trend rate of growth is 3.0%. The table below shows the actual rate of growth in real national income over four successive years.

Year	Percentage growth in real national income
1	2.2%
2	0.9%
3	0.3%
4	1.9%

Between Year 1 and Year 4 it is most likely that

- A the economy experienced a recession.
 - B inflation increased.
 - C unemployment increased.
 - D actual GDP rose above potential GDP.
- 25 A budget deficit means that
- A tax revenues exceed government spending.
 - B imports of goods and services exceed exports.
 - C government spending exceeds tax revenues.
 - D exports of goods and services exceed imports.
- 26 The Bank of England can reduce inflationary pressure in the economy if an increase in interest rates leads to a decrease in
- A savings.
 - B the exchange rate.
 - C consumer borrowing.
 - D unemployment.

27 The table shows the ability of two countries to produce two commodities.

	production of commodity Y per person	production of commodity Z per person
country P	1000	1600
country Q	1500	2000

Which statement is correct?

- A P has an absolute advantage in Z and Q has a comparative advantage in Y.
 - B P has an absolute advantage in Z and Q has an absolute advantage in Y.
 - C P has a comparative advantage in Z and Q has an absolute advantage in Y.
 - D P has a comparative advantage in Y and Q has an absolute advantage in Z.
- 28 Which of the following would **not** be a reason for a government to impose a quota on imports?
- A to prevent dumping
 - B to protect infant industries
 - C to raise tax revenue
 - D to support a strategic industry
- 29 A government may seek to improve the current account balance of payments by introducing either expenditure-reducing or expenditure-switching policies.

Which of the following is an expenditure-reducing policy?

- A a government subsidy on home produced products
- B a rise in income tax
- C devaluation of the currency
- D the imposition of a tariff

30 The table shows alternative price elasticities of demand for exports and imports of country X.

combination	exports	imports
A	0.5	0.5
B	0.5	1.5
C	2.0	0.5
D	2.5	1.5

There is a depreciation of the currency of country X.

Assuming there are no supply bottlenecks, which combination of price elasticities offers the best prospect for an improvement in the balance of trade?

[Total: 30]

Section B

Answer **all** questions.

Question 1

The table shows a simplified Consumer Price Index (CPI).

Expenditure on	Weight	Price Index Year 1	Price Index Year 2
Food and Drink	3	100	110
Housing	5	100	105
Clothing	2	100	90
	Total weights = 10	CPI Year 1 = 100	CPI Year 2 = ?

- (a) Use the table above to calculate the value of the CPI in Year 2. [2]
- (b) What is the rate of inflation between the two years? [1]
- (c) What is the purpose of the weights in the table? [2]

Question 2

- (a) What are the three injections into the circular flow of income and why are they called 'injections'? [3]
- (b) If $mpc = 0.6$, what will be the final change in National Income arising from an initial increase in Investment of £200m? [2]

Question 3

- (a) Giving an example, what is 'real wage unemployment'? [2]
- (b) Explain how it is possible for both employment **and** unemployment to be rising at the same time. [3]

Question 4

- (a) If the rate of interest in the UK rises, other things being equal, what is likely to happen to the exchange rate? [1]
- (b) If there is a fall in the value of Sterling, explain what is likely to happen to:
- (i) the Current Account of the Balance of Payments [2]
- (ii) inflationary pressures within the UK. [2]

[Total: 20]

Section C

Answer **all** questions.

Question 5**Extract 1****Your M&S – Your Planet**

Marks and Spencer plc have announced a plan to become 'carbon neutral' in order to reduce the negative externalities associated with their business.

The retailer plans to stop contributing to landfill and to use recycled or sustainable materials wherever possible. There are also plans to use green energy derived from food waste to power stores, warehouses and vehicles.

Marks and Spencer have stated that 97% of their customers have asked them to behave responsibly, but some critics argue that environmental initiatives such as these simply pass on costs to consumers, resulting in higher prices with profit levels untouched.

It is estimated that the initiatives will cost the company £200m over five years. Marks and Spencer made a pre-tax profit of almost £750m in the financial year ending in 2006.

Extract 2**Stern, Stark News on Climate Change**

The Stern Review was published amid great publicity in 2006.

Nicholas Stern's data suggests that current and projected rates of carbon emissions are likely to push up global temperatures to levels where melting glaciers, rising sea levels and crop failure will displace 200 million people and wipe out 40% of species from the planet.

The economic implications of negative externalities associated with carbon emissions appear stark. Stern suggests that the cost of policies necessary to combat climate change could amount to 1% of global GDP per year – but the cost of inaction would be far greater, possibly resulting in a fall of 20% in global consumption levels.

Possible policies to combat climate change include:

- reducing consumer demand for heavily polluting goods;
- increasing the efficiency of energy production and promoting cleaner energy;
- reducing carbon emissions through a global permit trading system.

Extract 3**Enviroskeptics**

Is climate change real? The debate is divided.

Commentators such as Bjorn Lomborg have published works which dispute the claim that the planet is heading towards a 'doomsday scenario' of overheating, overpopulation and declining natural resources.

It has been suggested that problems such as deforestation and pollution result from poverty and the early stages of industrialisation and once economies reach a certain point of development they actually become cleaner and more environmentally aware.

It has been argued that the climate change lobby is an academic industry in which 'bad news' scenarios attract the highest levels of funding; non-urgent and minor problems do not make headlines or win research grants and awards.

This view disputes the importance of initiatives to tackle environmental issues, and could mean that policies aimed at limiting global economic growth may actually sustain poverty and low levels of development in the most vulnerable countries on the planet.

- (a) Explain the term 'negative externalities' (Extract 1). [2]
- (b) Using a diagram, show how the higher costs associated with environmental policies would be expected to affect the price and output level of a retailer such as Marks and Spencer. [3]
- (c) Explain how initiatives such as those mentioned in Extract 1 may actually lead to higher profits for Marks and Spencer. [5]
- (d) Evaluate the effectiveness of **one** of the three policies mentioned in Extract 2 to counter climate change. [10]
- (e) 'Higher spending on environmental policies will only result in lower social welfare.' To what extent do you agree with this statement? [10]

[Total: 30]

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Level 3 Pre-U Certificate
Principal Subject

ECONOMICS

9772/01

Paper 1 Multiple Choice, Short Answers and Data Response

SPECIMEN MARK SCHEME

2 hours 15 minutes

MAXIMUM MARK: 80

This document consists of **9** printed pages and **1** blank page.



Section A

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

Section B

Question 1

- (a) $(3 \times 110 + 5 \times 105 + 2 \times 90) / 10 = 1035 / 10 = 103.5$ [2]
 Just 1 mark if answer of 1035 is NOT divided by sum of weights
 No marks for $(110 + 105 + 90) / 3 = 305 / 3$ etc.
- (b) $103.5 - 100 = 3.5\%$ [OFR] [1]
- (c) Show the importance to consumers of each item in TOTAL spending where individual weight divided by sum of the weights gives relative amount spent on each item. [2]
 For accurate explanation [2]
 2 marks can also be awarded for superficial explanation – e.g. reflects spending patterns – which is then backed up with example – e.g. 50% of total spending is on housing.

Question 2

- (a) Investment, Government spending and Exports (**do not** allow Net Exports but do allow abbreviations – i.e. I, G and X. All three required to gain the mark) [1]
 For correct explanation behind name, award [2]
 E.g. Add spending into circular flow from other sectors other than households; basic circular flow is $Y = C$, injections show spending from other sectors etc.
- (b) Value of multiplier = $1 / (1 - 0.6) = 1 / 0.4 = 2.5$ [1]
 Final change = Initial change \times multiplier = $\text{£}200\text{m} \times 2.5 = \text{£}500\text{m}$ [1]

Question 3

- (a) Basic explanation that [real] wages are too high relative to cost of alternatives, or comment such as “when workers’ high wages mean jobs disappear” [1]
 Any appropriate example – e.g. UK Call Centre workers, UK factory workers etc. [1]
- (b) Simple explanation of an increase in total number of people available for work [1]
 Award an extra mark for each extra relevant piece of information provided (**up to a maximum of 2 further marks**) [2]
 E.g. Increase in participation rate; increase in those eligible for benefits; discussion re. different measures of unemployment; increase in working population – e.g. due to increase of workers from new EU countries etc.

Question 4

- (a) Any answer that clearly states or implies that there will be an increase in the value of the £ relative to another currency / other currencies [1]
- (b) (i) An ‘improvement’ – or ‘reduction in deficit’ / ‘increase in surplus’ or similar [1]
 Explanation – i.e. X likely to rise and M to fall as X become relatively cheaper for overseas buyers and M more expensive – or similar 1 mark [1]

- (ii) Inflationary pressures likely to rise as price of imports in terms of £s rise therefore cost push pressures increase [2]
If candidate looks at demand factors and argues that increase in net exports leads to an increase in Aggregate Demand which can cause an increase in demand pull pressures – also award 2 marks

Section C

Question 5

Answers should be primarily assessed on the basis of good economics, clearly explained and/or illustrated.

(a) Explain the term 'negative externalities' (Extract 1).

[2]

	Knowledge
2 marks	Good understanding of <i>negative externalities</i>
1 mark	Partial understanding of externalities, perhaps with no reference to <i>negative</i>
0 mark	No relevant or only very limited understanding

Candidates should make relevant reference to spillover effects and/or third parties and/or the divergence of private and social costs.

(b) Using a diagram, show how the higher costs associated with environmental policies would be expected to affect the price and output level of a retailer such as Marks and Spencer. [3]

	Application	Analysis
2 marks		Good explanation of diagram
1 mark	Relevant use of data/extract – recognition that costs have risen	Partial explanation of diagram
0 mark	No relevant or only very limited use of extract	No relevant or only very limited explanation

Candidates will typically show either a demand/supply or demand/costs diagram. Higher costs will shift supply inwards or costs upwards, resulting in a higher equilibrium price and a lower equilibrium output.

An answer with no diagram will be awarded a maximum of 1 mark.

An answer showing and referring to lower costs will be awarded a maximum of 2 marks.

An answer showing only a diagram will be awarded a maximum of 1 mark.

- (c) Explain how initiatives such as those mentioned in Extract 1 may actually lead to higher profits for Marks and Spencer. [5]

	Knowledge	Application	Analysis
2 marks		Good use of data/extract	Good explanation
1 mark	Understanding of the term <i>profit</i>	Partial use of data/extract	Partial explanation
0 mark	No or limited understanding of the term <i>profit</i>	No relevant or only very limited use of extract	No relevant or only very limited explanation

Candidates are expected to consider issues such as:

- Higher demand and therefore revenue, e.g. through increased 'green credentials' with consumers
- Premium pricing of environmentally-friendly goods
- Possibilities for lower energy costs
- Possibilities for lower transport costs
- Avoidance of green taxes (either current or future) such as landfill taxes, increased air freight duties

The mark for knowledge is awarded for showing understanding of the term *profit* in terms of the relationship between (total) revenue and (total) costs.

- (d) Evaluate the effectiveness of one of the three policies mentioned in Extract 2 to counter climate change. [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

Analysis

Answers with no direct reference to climate change will be awarded a maximum of 2 marks.

Answers covering more than one policy will be marked on the basis of the first policy mentioned – text referring to other issues should be ignored.

Evaluation

Issues discussed in evaluating the effectiveness of *reducing consumer demand for heavily polluting goods* may include:

- Own-price and cross-price elasticity of demand;
- Consumer and producer incidence of tax;
- Green taxes to internalise externalities;
- Variable rates of tax, e.g. higher road tax charges on more polluting vehicles;
- Impact of education and advertising campaigns on behaviour;
- International disparities;
- Subsidies to low pollution consumers/producers.

Issues discussed in evaluating the effectiveness of *increasing the efficiency of energy production and promoting cleaner energy* may include:

- Taxes and subsidies as punishment/reward;
- Public versus private sector funding for research and development;
- 'Market' solutions such as rising oil prices providing a free market incentive to shift to alternative energy sources;

- Positive and negative externalities associated with cleaner power, e.g. lower local pollution levels, aesthetic impact of wind turbines, pros and cons of nuclear power;
- Impact on employment/unemployment – perhaps with reference to structural unemployment;
- Cost versus benefits of alternative energy sources;
- Problems associated with the reliability of renewable sources such as solar power – perhaps with reference to energy as an essential and strategic industry;
- Power of ‘big business’ to influence consumption levels and patterns.

Issues discussed in evaluating the effectiveness of *reducing carbon emissions through a global permit trading system* may include:

- The need for international agreement on carbon emission levels;
- The need for international agreement on use of permits;
- Initial allocation of permits;
- Target outcome of ‘clean’ producers selling to ‘polluting’ nations, and inherent incentives;
- Possible unintended outcomes: concentration of buying by MEDCs, holding back development in NICs or LEDCs;
- Costs associated with monitoring and policing emissions;
- ‘Real world’ outcomes, such as reference to Kyoto Protocol or similar.

For each of the policies – a clear and full appreciation of the relative merits of at least two of the issues mentioned above, or similar, is needed for an award of all 6 evaluation marks.

- (e) 'Higher spending on environmental policies will only result in lower social welfare.' To what extent do you agree with this statement? [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

Analysis

Candidates should refer to issues such as the role of price and its impact on utility, profit levels as a source of social welfare, tax revenue as a transfer payment, and the influence of external costs and benefits on social welfare.

Evaluation

Issues discussed in evaluating the impact of environmental initiatives may include:

- Price elasticity of demand and the 'incidence' of price rises – perhaps contrasted with the 'polluter pays' principle;
- Determinants of PED (and possibly XED);
- Impact of externalities on social welfare;
- Dead weight welfare loss;
- Opportunity costs associated with the diversion of government funds from other uses;
- Opportunity costs associated with the diversion of private sector investment from other uses;
- Short run versus long run implications arising from the Stern Review.

A clear and full appreciation of at least two of the above issues is needed for an award of all 6 evaluation marks.



ECONOMICS

9772/02

Paper 2 Essays

SPECIMEN PAPER

2 hours 15 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use a soft pencil for any diagrams, graphs or rough working.

Do not use paper clips, highlighters, glue or correction fluid.

Answer **three** questions. **One** must be chosen from Section A and **one** from Section B. The third question can be chosen from either section.

You are advised to spend 5 minutes planning each answer and no more than 40 minutes writing each essay.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **2** printed pages.



Answer **three** questions. **One** must be chosen from Section A and **one** from Section B. The third question can be chosen from either section.

Section A

- 1 'The development of the internet and e-commerce has helped improve knowledge and communication between buyers and sellers.' To what extent have markets become more perfectly competitive? [25]
- 2 With reference to **either** education **or** health care, discuss whether the government should continue to be the principal provider of the service. [25]
- 3 Evaluate the advantages and disadvantages of the national minimum wage in the UK. [25]

Section B

- 4 Evaluate the most appropriate policies to be adopted if the British government wishes to reduce the current level of unemployment. [25]
- 5 'The benefits of free trade outweigh any disadvantages.' Discuss this view. [25]
- 6 'Government attempts to reduce the inequality in income distribution inevitably lead to a deterioration in the performance of the national economy.' Discuss. [25]

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Level 3 Pre-U Certificate
Principal Subject

ECONOMICS

9772/02

Paper 2 Essays

SPECIMEN MARK SCHEME

2 hours 15 minutes

MAXIMUM MARK: 75

This document consists of **15** printed pages and **1** blank page.



The purpose of the essay paper is to enable candidates to select appropriate economic models, theories and concepts which they apply to the circumstances of the question and produce good, logical arguments and draw conclusions. The best essays will have a substantial conclusion which may recognise that various answers are possible or that it is not possible to draw firm conclusions in all cases. Full justification should be given for the conclusions drawn. The questions are set deliberately to require candidates to plan and structure an answer.

Candidates should try to illustrate their arguments with recent and contemporary examples. Examiners should reward these appropriately. Certainly, a well-illustrated essay should score more highly than one which, while being sound in terms of theory used, does not draw on actual events.

For each question there follows a pre-amble of what is expected from candidates – always remembering that an ‘unexpected but accurate approach’ must be rewarded. A general list of areas that might be included is then given, followed by an example of the sort of answer that would fall into each level of assessment, both in terms of Theory and Analysis and in terms of Evaluation.

Marking criteria for Paper 2

For this paper, marks should be awarded in two categories. The first covers the knowledge and understanding of relevant economics, how this is applied and how the information/issues are analysed (Theory and Analysis) and the second covers the candidate's evaluation of the issues involved (Evaluation). Examiners should look to mark the essay holistically and decide into which relevant Levels the answer lies. The Levels will not necessarily be the same for the two categories.

Theory and Analysis

Level 4 (13 – 17 marks) Mid mark 15	An excellent answer that shows accurate and comprehensive application of relevant theory. There will be in-depth and coherent analysis. At the top end there will be signs of real insight and/or originality, not normally expected to be seen at this level.
Level 3 (9 – 12 marks) Mid mark 11	An answer that logically addresses the issues involved and generally shows a correct application of the relevant theory. An attempt is made to analyse and there is some depth or coherence but not necessarily both.
Level 2 (5 – 8 marks) Mid mark 7	Some correct application of relevant theory will be shown but there may well be inaccuracies contained within the answer. An appreciation of the need to analyse may be demonstrated, but not much more than this. The answer is likely to lack any real coherence.
Level 1 (1 – 4 marks) Mid mark 3	The answer contains something of relevance to the set question. However, theory may be misunderstood, or incorrectly applied. At this level, any analysis shown will be extremely superficial.
Level 0 (0 marks)	Nothing of any relevance to the set question is shown within the answer.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	There is in-depth, coherent, comprehensive and well-balanced evaluation. At the top end there will be signs of real insight and/or originality, not normally expected to be seen at this level.
Level 2 (3 – 5 marks) Mid mark 4	There is a definite attempt to consider various points of view or outcomes for different economic agents or distinction between short-run and long-run consequences etc. but the coverage of these is less than comprehensive.
Level 1 (1 – 2 marks) Mid mark 2	There is some attempt at evaluation but issues are more likely to be stated than examined.
Level 0 (0 marks)	There is no evidence of any evaluation whatsoever.

Section A

1 'The development of the internet and e-commerce has helped improve knowledge and communication between buyers and sellers.' To what extent have markets become more perfectly competitive?

Candidates should show a good understanding of perfect competition and the difference between real world market structures and the theoretical model. We can expect candidates to have some knowledge of developments in e-commerce but the emphasis must be on the extent to which these developments affect market structures. Candidates who use this essay to show off their substantial knowledge of the internet and companies operating here are unlikely to score highly.

Answers may include:

Knowledge and understanding of perfect competition and developments in e-commerce.

Examples:

- Assumptions of perfect competition;
- Description of the model of perfect competition;
- The outcomes of perfect competition;
- Knowledge of developments in e-commerce.

Application of the model of perfect competition to various situations including e-commerce.

Examples:

- The differences between the model and the 'real world';
- The similarities and differences between the model and e-commerce:
 - eBay has many elements of a perfect market,
 - price comparison websites enable greater knowledge of prices,
 - it is easier to shop around on the internet.

Analysis of the markets for goods and services sold through the internet and through traditional channels.

Examples:

- The internet does not cover all markets;
- Not everyone has access to the internet;
- Consumers may still prefer well-known brand names (Amazon, Tesco);
- The extent to which consumers are rational;
- Software and music are increasingly distributed over the internet;
- The effects on local stores from supermarket home delivery of internet orders.

Evaluation of the extent to which markets have become more like perfect competition.

Examples:

- Brand names are still important;
- It depends on how many people have internet access;
- Only certain goods and services can be sold or distributed via the internet;
- Consumers may prefer to see some products in shops;
- It will, therefore, vary according to the market in question.

Theory and Analysis

Level 4 (13 – 17 marks) Mid mark 15	There is a clear discussion of how internet selling is relevant to the various assumptions of perfect competition, in particular perfect knowledge and the absence of barriers to entry. The answer analyses what changes to the real-life situation are forthcoming due to e-commerce. At the top of this level a candidate may question the whole concept of rational behaviour and look at the inter-relationships between different markets within the context of e-commerce, e.g. web-links.
Level 3 (9 – 12 marks) Mid mark 11	Knowledge of the assumptions of perfect competition is clearly demonstrated and there is an attempt to explain what changes e-commerce have brought about. The analysis generally does marry reality and theory together but is not comprehensive.
Level 2 (5 – 8 marks) Mid mark 7	There is a display of some knowledge of what is meant by perfect competition, although not 100% accurate, but no explicit link between the relevant assumptions and the role of e-commerce. Alternatively, the answer focuses on knowledge and communication due to e-commerce but there is no explicit reference to perfect competition.
Level 1 (1 – 4 marks) Mid mark 3	A very limited knowledge of what is meant by perfect competition is shown, but there will probably be some confusion and inaccuracies. The candidate merely displays their knowledge of sites such as eBay and Amazon without explaining their relevance to the question.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	A good discussion considers how different consumers are affected depending upon whether they have access to the internet. Brand loyalty is discussed and its implications for competition and barriers to entry. How the time span involved will affect the influence for e-commerce and barriers to entry etc. may be included. There may be a discussion on the whole issue of the relevance in today's world of the perfectly competitive model. There will be a conclusion drawn at the end to explain the candidate's 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 superficially.
Level 1 (1 – 2 marks) Mid mark 2	There is some evidence that there are different views as to whether competition has increased or not, but only very superficial evaluation of the factors involved, e.g. comments such as 'it depends whether you have internet access or not', without developing the point further.

2 With reference to either education or health care, discuss whether the government should continue to be the principal provider of the service.

Candidates should demonstrate a good understanding of merit goods and the arguments for governments providing these. They should also be aware that it is not necessary for governments to organise the provision but that their involvement may be limited to paying for all or part of the provision through some form of social insurance. The problems of providing the services on a large scale should also be considered. While personal experience may provide some good illustrations, candidates who use this essay as a rant against poor provision or against privatisation will not score highly. What we are looking for is a balanced answer that considers both sides of the argument with a clear, justified conclusion.

Answers may include:

Knowledge and understanding of merit goods and the provision of either health care or education in the UK.

Examples:

- Definition of merit goods (and the difference between merit goods and public goods);
- Merit goods produce positive externalities;
- Consumers may not have knowledge of the benefits they may gain from consuming merit goods;
- Outline knowledge of the way education or health are organised in the UK.

Application of knowledge of merit goods and the provision of either health care or education in the UK.

Examples:

- Consumers of education may not be aware of the benefits of education in terms of earning power or benefit to the economy;
- Consumers of health services may not be aware of the benefits to society of a healthy population;
- Consumers may not be prepared to pay for vaccination and try to 'free ride';
- The problems in the provision of either of the services:
 - waiting lists,
 - poor cost control,
 - bureaucracy,
 - central control rather than responsiveness to local needs,
 - government interference and frequent changes in policy.

Analysis of the problems in the provision of either health care or education and some alternative methods of provision.

Examples:

- Private provision with either private insurance or government finance of the service;
- Social insurance;
- PFI;
- Pay beds in NHS hospitals;
- Current reforms to the services;
- Alternative systems from abroad;
- Equity arguments;
- Efficiency arguments.

Evaluation of government provision and one or more alternatives.

Examples:

- Government may do better to leave provision to the private sector and finance the service;
- Private provision and finance may leave many poorer people without adequate health care or education;
- The present system is inefficient and expensive so an alternative is appropriate;
- The most equitable solution is the present system, which governments should try to implement more efficiently.

Theory and Analysis

Level 4 (13 – 17 marks) Mid mark 15	There is an accurate description of the characteristics of either education or health care that explains why the market mechanism may not provide the optimum output of these goods. The answer will cover both externalities and imperfect knowledge. At this level, a diagram showing the divergence between marginal private benefit (mpb) and marginal social benefit (msb) is likely to be shown. At the top of this level, there may be an attempt to discuss how mpb may not be accurate due to imperfect information. Knowledge of current intervention and consequences will be demonstrated and there will be some analysis of potential alternatives as well as an obvious appreciation that there is already considerable provision by the private sector in both of these areas.
Level 3 (9 – 12 marks) Mid mark 11	The chosen market will clearly be identified as being a merit good, but the candidate may just concentrate on the issue of externalities, although the coverage here will be thorough. An analysis of either the consequences of current intervention or of possible alternatives will be supplied.
Level 2 (5 – 8 marks) Mid mark 7	Whilst some appreciation of merit goods is made, there will be limited explanation and occasional confusion and inaccuracies. There will be some analysis of how the current system works as far as government provision is concerned but possibly little or no appreciation that there is already significant private provision in both markets.
Level 1 (1 – 4 marks) Mid mark 3	There may well be confusion between merit goods and public goods although an understanding is shown that there is a problem with the market being left to its own devices. Analysis will be thin or non-existent with little or no mention of alternatives.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	Detailed and comprehensive evaluation will cover issues such as ‘is government intervention currently working?’, consideration of various ways in which the government could intervene and their relative merits, e.g. direct provision or finance of private sector provision, implications for different income groups in society of alternatives etc. There will be a conclusion drawn at the end to explain the candidate’s 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 areas will be discussed in detail or a couple of points touched on superficially.
Level 1 (1 – 2 marks) Mid mark 2	There is some evidence that alternatives have relative merits but there is no development of ideas and points are likely just to be stated, e.g. ‘a lack of an NHS will hit poorer people more’ / ‘the existence of private schools help those from rich families’.

3 Evaluate the advantages and disadvantages of the national minimum wage in the UK.

Candidates should show knowledge of various market structures in the labour market in order to be able to evaluate this question fully. They may also consider the issue from a macroeconomic perspective and this should also be rewarded appropriately. We should expect some knowledge of the implementation of the NMW in the UK. Candidates should be able to put their discussion into the context of the UK's economic performance since 1999 and take this into account in their evaluation. Very few candidates will have any personal experience to call on but beware of rants against stingy employers!

Answers may include:

Knowledge and understanding of the way wages are determined in different markets and the history of the NMW in the UK.

Examples:

- Wage determination in a perfect market;
- Wage determination with monopolistic elements;
- The level of the NMW.

Application of the way wages are determined in different markets and the effect of the imposition of a NMW in these markets.

Examples:

- The possible effects of a minimum wage in perfect and monopolistic markets;
- Knowledge of what has happened since the introduction of the NMW in the UK.

Analysis of the effects of the NMW since 1999.

Examples:

- Predicted and actual effects on employment including voluntary and involuntary unemployment;
- Effects on training and productivity;
- Effects on opportunities for new entrants to the labour market including the possible influence of immigration;
- Macroeconomic implications for both aggregate demand and supply.

Evaluation of the advantages and disadvantages of the NMW.

Examples:

- Whether it has led to a more equitable distribution of income;
- The effects on employment opportunities;
- The effects on growth, inflation, productivity and competitiveness;
- Whether the effects would have been different in a different macroeconomic environment.

Level 4 (13 – 17 marks) Mid mark 15	There is clear evidence of the effect a national minimum wage (NMW) can have both on the labour market for recipients of such a wage and also in other areas due to wage differentials. The candidate clearly knows the current situation and is likely to show some historical knowledge. Analysis of the implications for the distribution of income appears. Whilst this is predominantly a micro question, the answer then goes on to discuss implications for the wider macro-economy, and credit should be given if the work is accurate. At the top level, there might be analysis as to how a minimum wage could, under certain circumstances, cause employment levels to rise or how an increase in incentives, due to higher pay, can lead to an increase in the marginal revenue product of labour and all the implications of this.
Level 3 (9 – 12 marks) Mid mark 11	There will be a clear understanding of what is meant by a minimum wage and the basic employment diagrams are shown. The analysis of the advantages and disadvantages will be thorough OR there will be good application to the UK case but not both.
Level 2 (5 – 8 marks) Mid mark 7	Whilst the basic idea behind a minimum wage will be stated, there may well be some inaccuracies with the application of the theory. There will not be any appreciation of the implication for other workers nor of wider implications of such a policy.
Level 1 (1 – 4 marks) Mid mark 3	There will be some attempt to consider minimum wages but there will be no accurate economic analysis and the answer is likely to concentrate on more political statements such as 'workers deserve to be paid more money', without any economic justification.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	At this level there will be a comprehensive and accurate consideration of the pros and the cons of the NMW. Consideration will be given to various types of workers, to employers, to wider issues such as unemployment rates etc. There may be consideration of international competitiveness issues and an appreciation that it is hard to decipher what the overall effect has been, given that so many other variables have been influencing the labour market since the NMW's introduction. There will be a conclusion drawn at the end to explain the candidate's 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 superficially.
Level 1 (1 – 2 marks) Mid mark 2	Whilst there is a clear appreciation that there are two sides to the argument, issues are just stated rather than being evaluated – e.g. 'A NMW helps poor people but at the expense of employers', without any real development of the argument.

Section B

4 Evaluate the most appropriate policies to be adopted if the British government wishes to reduce the current level of unemployment.

To score highly, it is vital that candidates deal with the situation as it is at the time of the examination. Candidates should consider various policies and consider their appropriateness in the current circumstances.

Answers may include:

Knowledge and understanding of the current level of unemployment, the current macroeconomic circumstances and the causes of unemployment.

Examples:

- Knowledge of the current level of unemployment in the UK measured both by the Labour Force Survey and the claimant count;
- Understanding of the causes of unemployment such as structural (including technological), demand deficient (or cyclical) and classical (real wage).

Application of economic theory to explain the current level of unemployment.

Examples:

- Explanation in terms of the AD/AS model;
- Explanation using a model of the labour market;
- Knowledge of the main causes of unemployment at the time of the examination.

Analysis of policies to cure unemployment and consideration of whether they are appropriate in current circumstances.

Examples:

- Fiscal or monetary expansion (and recognition that the latter is not in the government's hands);
- Tax and benefit policies to encourage people to take jobs;
- Subsidies to employers;
- Training;
- Information on job vacancies;
- Help with job applications;
- Policies to encourage geographical mobility;
- Policies in the context of other objectives of policy (inflation, growth, balance of payments) including consideration of trade-offs such as the Phillips curve.

Evaluation of the most appropriate policies in the current circumstances.

Examples:

- Expansion of aggregate demand may not be appropriate if there are concerns about inflation;
- Policies should be related to the causes of unemployment identified;
- What is appropriate in the short term and the long term;
- Consideration of whether the government wishes to reduce unemployment at the present time.

Theory and Analysis

Level 4 (13 – 17 marks) Mid mark 15	There is a thorough display of knowledge of the current situation concerning UK unemployment. The probable causes are examined and there is detailed analysis as to how the suggested policies might reduce the unemployment. At the top of this level, candidates may bring in global aspects and analyse how exogenous factors have a role to play.
Level 3 (9 – 12 marks) Mid mark 11	There is some knowledge of the current situation demonstrated, either in terms of actual figures or of causes. A variety of possible policies is considered and a connection is established between type of unemployment and appropriate remedy in at least one case.
Level 2 (5 – 8 marks) Mid mark 7	An attempt is made either to consider the current level of UK unemployment or the various policies that could be used, but in either case, the coverage is thin and there is very limited analysis.
Level 1 (1 – 4 marks) Mid mark 3	This is a simple standard textbook explanation of unemployment with no attempt to consider the current situation. No policies are mentioned and the answer fails to address the set question.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	There is a thorough evaluation of how various policies are appropriate depending upon the cause of the unemployment. There is mention of the trade-offs that might have to be made to achieve reduced unemployment. There is evaluation of how time-lags may be relevant with regard to the effectiveness of a policy. At the top of this level the debate may be opened to discuss if any government should automatically intervene to influence unemployment or whether market forces should be allowed to operate. There will be a conclusion drawn at the end to explain the candidate's 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 areas will be discussed in detail or a couple of points touched on superficially.
Level 1 (1 – 2 marks) Mid mark 2	There is some appreciation that different policies have different effects but there is no development of these points and there will just be statements such as 'Cuts in Job seekers' allowance will be best to get people back to work'.

5 'The benefits of free trade outweigh any disadvantages.' Discuss this view.

We can expect a wide variety of answers to this question depending upon the perspective candidates choose to adopt. (They may wish to consider the question from the point of view of the UK, more economically developed countries in general, newly industrialising countries, less economically developed countries in general, or all types of countries.) In all answers, it is vital that candidates start from a sound foundation in trade theory. While we should not necessarily expect a numerical example of comparative advantage, candidates should show that they know and understand this theory. Good candidates will weigh up the advantages and disadvantages of free trade and the arguments for protection, and an evaluation should follow logically from this analysis.

Answers may include:

Knowledge and understanding of trade theory.

Examples:

- Absolute and comparative advantage;
- Arguments for free trade;
- Arguments for protection, including:
 - infant industry argument,
 - employment considerations,
 - unfair trade, including dumping and low wages in LEDCs,
 - protectionist policies by other countries.

Application of trade theory.

Examples:

- The benefits of free trade;
- Numerical and/or graphical illustrations;
- The costs or disadvantages of free trade.

Analysis of the advantages and disadvantages of free trade and protection.

Examples:

- Faster growth and higher standards of living;
- The argument that the benefits are spread thinly while the costs may impinge heavily on small, clearly identifiable groups;
- Whether infant industries ever grow up;
- Whether lower wages in LEDCs imply unfair competition;
- Globalisation and its advantages and disadvantages;
- Recent experience to illustrate the arguments.

Evaluation of the arguments for and against free trade.

Examples:

- Whether the theoretical benefits of free trade are realised in practice;
- Whether all countries benefit from free trade;
- The circumstances in which countries should use protectionist policies;
- Consideration of the situation in the short term and long term.

Theory and Analysis

Level 4 (13 – 17 marks) Mid mark 15	There is sound appreciation of the benefits of trade due to comparative advantage demonstrated, probably via numerical or graphical means. Disadvantages – and hence reasons for protection – are accurately discussed and there is analysis of some protectionist policies. At the top of the level an answer is likely to analyse the assumptions used to show benefits from trade, in particular with reference to constant opportunity cost rates, no transport costs etc. and also to analyse who the real gainers and losers from trade might be.
Level 3 (9 – 12 marks) Mid mark 11	Advantages and disadvantages from free trade are stated accurately. The analysis of the issues involved, such as the importance of opportunity cost rates and 'exchange rates', has depth or coherence but not necessarily both.
Level 2 (5 – 8 marks) Mid mark 7	There is a reasonable attempt to look at the benefits and disadvantages but there is likely to be some inaccuracy within the answer and little attempt to analyse why, for example, the benefits occur.
Level 1 (1 – 4 marks) Mid mark 3	A couple of benefits and/or costs may be stated but there is no use of any theory to explain them and no attempt to analyse what lies behind the theory.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	There is a thorough evaluation of issues such as the distribution of the benefits and the costs both within and between countries. The issue of time span is considered, as is the impact of political interference on trade decisions. Mention is likely to be made of the World Trade Organisation (WTO) and its aims in discussion of the relevant importance of the benefits and disadvantages. There will be a conclusion drawn at the end to explain the candidate's 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 superficially.
Level 1 (1 – 2 marks) Mid mark 2	There is some evidence of the need to evaluate but there will be no real justification to points made but merely statements such as 'Trade should occur because it is good for developing countries'.

6 'Government attempts to reduce the inequality in income distribution inevitably lead to a deterioration in the performance of the national economy.' Discuss.

Candidates should show knowledge of the distribution of income in the UK and recent changes in this; many will put this in a longer time frame of 20-30 years. They should be able to offer an explanation for the distribution and for recent trends before considering the range of policies available to reduce the inequality in the distribution. The evaluation will involve arguments of equity and efficiency.

Answers may include:

Knowledge and understanding of income distribution and methods of reducing inequality.

Examples:

- Determinants of the distribution of income;
- Ways of measuring the distribution of income;
- Progressive taxation;
- National minimum wage;
- The use of the benefit system;
- Services in kind (education, health etc.).

Application of knowledge of factors determining income distribution and methods of reducing income distribution.

For example:

- Recent trends in the distribution of income in the UK;
- Explanations for the trend;
- Market failure;
- Policies used in recent years to redistribute income.

Analysis of policies to redistribute income and the effect on the performance of the economy.

For example:

- Incentives and disincentives;
- The Laffer curve;
- Trends in growth, unemployment, competitiveness and productivity;
- Government failure.

Evaluation of the policies used and consideration of the impact on the performance of the economy.

For example:

- Equity arguments;
- Efficiency arguments;
- Judgements of the performance of the economy and the impact this has on income distribution;
- Consideration of the view that it is better to have a more unequal distribution of income if this leads to faster growth so that everyone is better off in the long run.

Theory and Analysis

Level 4 (13 – 17 marks) Mid mark 15	There are clear signs of an accurate knowledge of the distribution of income – and no confusion with the distribution of wealth. The ways in which a government might intervene are clearly examined and their effects on the economy analysed. At the top of this level candidates are likely to have a detailed examination of incentives at an individual level and may also consider implications for foreign competitiveness.
Level 3 (9 – 12 marks) Mid mark 11	The answer shows a good understanding of the distribution of income and possible government action to reduce its inequality. The analysis of the implications of the policies for the performance of the national economy shows some depth in places but not consistently.
Level 2 (5 – 8 marks) Mid mark 7	There is a fair understanding of the distribution of income, although there may be some confusion shown between income and wealth. There is a disjointed mention of possible government attempts to reduce inequality but the answer will lack any real coherence.
Level 1 (1 – 4 marks) Mid mark 3	Some mention is made of the distribution of income and/or how a government might attempt to reduce it but there is no linkage between these and the performance of the national economy.

Evaluation

Level 3 (6 – 8 marks) Mid mark 7	Issues such as ‘what do we mean by a “deterioration in the performance of the national economy”?’’, the problem with knowing, in a highly complex economy, what factors are having what effect, the issue of long run versus short run and also whether a government should actually try to reduce the inequality may well be considered. There will be a conclusion drawn at the end to explain the candidate’s 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 superficially.
Level 1 (1 – 2 marks) Mid mark 2	There is some evidence of the need to evaluate but little expansion of any issue raised. Comments such as ‘the poor may gain but at the expense of the rich’ may be stated without any further discussion.



ECONOMICS

9772/03

Paper 3 Investigation

SPECIMEN PAPER

1 hour 15 minutes

Additional Materials: Answer Booklet/Paper

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Answer **one** question.

You are advised to spend 5 minutes planning your answer.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **2** printed pages.



Answer **one** question.

1 Transport and the environment

'Road pricing is the only realistic solution to the UK's transport problems.' Discuss. [40]

2 China and the global economy

'Impressive growth rates in the Chinese economy demonstrate the benefits of the free market.' Discuss. [40]

3 Expansion of the EU

'Enlargements of the EU in 2004 and 2007 will increase UK economic growth in the next ten years.' Discuss. [40]

4 The pensions crisis

To what extent has the UK government contributed to the pensions crisis? [40]

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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Level 3 Pre-U Certificate
Principal Subject

ECONOMICS

9772/03

Paper 3 Investigation

SPECIMEN MARK SCHEME

1 hour 15 minutes

MAXIMUM MARK: 40

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The purpose of the investigation paper is to enable candidates to select appropriate economic models, theories and concepts which they apply to the circumstances of the question, and to produce good, logical arguments and draw conclusions. Good essays will have a substantial conclusion which may recognise that various answers are possible or that it is not possible to draw firm conclusions in all cases. The best essays will have conclusions showing insight and originality of thought which is fully applied to the specific question set. The questions are set deliberately to require candidates to plan and structure an answer.

It is expected that candidates will have studied the topic area in some detail and should be aware of recent developments. Therefore, candidates should try to illustrate their arguments with recent and contemporary examples. Examiners should reward these appropriately. Certainly, a well-illustrated essay should score more highly than one which, while being sound in terms of theory used, does not draw on actual events. Very good essays may refer to economic data to support analytical and evaluative points and are likely to make use of international comparisons.

For each question there follows a pre-amble of what is expected from candidates – always remembering that an ‘unexpected but accurate approach’ must be rewarded. A general list of areas that might be included is then given, followed by an example of the sort of answer that would fall into each level of assessment, both in terms of Theory and Analysis and in terms of Evaluation.

Marking criteria for Paper 3

For this paper, marks should be awarded in two categories. The first covers the knowledge and understanding of relevant economics, how this is applied and how the information/issues are analysed (Theory and Analysis) and the second covers the candidate's evaluation of the issues involved (Evaluation). Examiners should look to mark the essay holistically and decide into which relevant Levels the answer lies. The Levels will not necessarily be the same for the two categories.

Theory and Analysis

Level 4 (18 – 22 marks) Mid mark 20	An excellent answer that shows accurate and comprehensive application of relevant theory. There will be in-depth and coherent analysis. At the top end there will be signs of real insight and/or originality, not normally expected to be seen at this level.
Level 3 (12 – 17 marks) Mid mark 15	An answer that logically addresses the issues involved and generally shows a correct application of the relevant theory. An attempt is made to analyse and there is some depth or coherence but not necessarily both.
Level 2 (6 – 11 marks) Mid mark 9	Some correct application of relevant theory will be shown but there may well be inaccuracies contained within the answer. An appreciation of the need to analyse may be demonstrated, but not much more than this. The answer is likely to lack any real coherence.
Level 1 (1 – 5 marks) Mid mark 3	The answer contains something of relevance to the set question. Theory may be misunderstood, or incorrectly applied. At this level, any analysis shown will be extremely superficial.
Level 0 (0 marks)	Nothing of any relevance to the set question is shown within the answer.

Evaluation

Level 3 (13 – 18 marks) Mid mark 16	There is in-depth, coherent, comprehensive and well-balanced evaluation. At the top end there will be signs of real insight and/or originality, not normally expected to be seen at this level.
Level 2 (7 – 12 marks) Mid mark 10	There is a definite attempt to consider various points of view or outcomes for different economic agents or short-run versus long-run consequences etc. but the coverage of these is less than comprehensive.
Level 1 (1 – 6 marks) Mid mark 4	There is some attempt at evaluation but issues are more likely to be stated rather than examined.
Level 0 (0 marks)	There is no evidence of any evaluation whatsoever.

1 Transport and the environment

‘Road pricing is the only realistic solution to the UK’s transport problems.’ Discuss.

Candidates should demonstrate that they understand current transport problems in the UK and have an awareness of the range of solutions available to deal with these problems. They should be able to analyse the relative merits and limitations of these solutions in a UK context and have an awareness of current transport policy and proposals for the future. They should use appropriate analytical tools and data to support their arguments. International comparisons are likely to be useful when considering the extent of the problems and the potential solutions. They should reach a clear and well-supported conclusion on the extent to which road pricing offers a viable solution. Candidates are likely to focus primarily on passenger transport. Those who recognise that freight transport is also part of the problem should be rewarded. Analysis may be assisted by the use of diagrams.

Answers may include:

Knowledge and understanding of the UK’s transport problems and road pricing systems.

Examples:

- Congestion;
- Environmental externalities;
- Road pricing – i.e. charging for the use of road space.

Application of road pricing in a UK context.

Examples:

- Current methods in place to deal with the UK’s transport problems;
- How road pricing is likely to be implemented – through GPS technology (although a lengthy explanation of the technical aspects of the method is unlikely to attract many marks).

Analysis of the road pricing solution and its alternatives.

Examples:

- Failings of the current methods used to deal with these problems, including road tax and fuel duty;
- Limits of localised solutions including park and ride schemes, public transport subsidies and congestion charging;
- The inherent advantages of road pricing, notably the ability to vary charges for different roads/times/vehicles;
- The importance of the concepts of ‘peak demand’ and ‘modal shift’;
- The difference between the problems of environmental externalities and congestion;

Good candidates are likely to support their analysis with appropriate diagrams as well as relevant and recent data on, for example, recent traffic growth and projected future trends.

Evaluation of the strengths and weaknesses of road pricing, contrasted with other methods and explicit consideration of whether it is the only realistic solution.

Basic evaluation may take the form of contrasting strengths and weaknesses of the alternatives, including pointing out the technical issues with road pricing – pricing, cost, evasion, reliance on fallible technology. They may also contrast the high short-run cost of such a scheme with the potential long-run benefits. Critics of such a scheme may point to the high price inelasticity of road transport and suggest that this is simply a punitive tax on motorists who have no modal choice.

Stronger candidates may recognise that current methods do not effectively internalise the externality. For example, road tax does not take account of the mileage driven and thus the externalities generated; also, drivers in urban areas may pay less in fuel duty than those in rural areas and yet create much greater externalities. They may show this diagrammatically with a simple shift in mpc, contrasted with the pivoting mpc achieved by road pricing.

At the higher levels of evaluation there could be:

- some international comparisons and reference to recent UK experience with congestion charging – critics may point to equity issues here;
- an understanding of the extent to which road pricing fits into the wider economic objectives of the current government (especially growth) and other transport policies. An appreciation of the realities of policy making could be rewarded here, although we should be aware of the division between politics and economics;
- reference to sustainability and the idea that transport solutions may need to move beyond simple concepts of capacity and efficiency, considering why transport demand is so high. They could argue that road pricing is simply a method of improving efficiency and managing capacity and is therefore a medium-term solution at best. Real solutions would involve urban planning to change work, retail and leisure patterns and reduce overall transport demand;
- questioning of the assumption that there can be an ‘only’ solution. Practically it is likely to form part of a package of measures.

Theory and Analysis

Level 4 (18 – 22 marks) Mid mark 20	There is clear evidence of a thorough knowledge of what the environmental implications are and also what other issues, such as congestion, are resultant from the UK’s transport system. Various potential solutions are analysed in an accurate and comprehensive manner – such as road pricing, fuel taxes, prohibition of traffic, public transport alternatives. At the top end there may well be analysis drawn from investigation of experiences of other countries or a widening of the issue to consider other modes of transport other than motor vehicles.
Level 3 (12 – 17 marks) Mid mark 15	The answer will still address some of the problems and potential solutions but there will be a lack of 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.
Level 2 (6 – 11 marks) Mid mark 9	Whilst various issues will be considered, there may be some inaccuracies or oversimplifications – for example, believing that specific toll roads are the only way that road pricing can occur or that inner-city congestion is the only problem. Any analysis will be very superficial – for instance, ‘cars are bad, so their use must be stopped’, with no thought as to whether the alternatives might also have their own problems.
Level 1 (1 – 5 marks) Mid mark 3	There may well be a misunderstanding of the term ‘road pricing’ or a total lack of consideration either of alternative solutions or of what the transport problem might be.

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:

How realistic a solution is road pricing?

How does the inelasticity of demand for car travel affect the issue?

Are there other realistic solutions?

What are the short-run/long-run costs and benefits of various alternatives?

Should we be looking at more roads or fewer cars?

Should all journeys be viewed as equally harmful?

Is environmental damage more important than the problems of congestion?

<p>Level 3 (13 – 18 marks) Mid mark 16</p>	<p>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.</p>
<p>Level 2 (7 – 12 marks) Mid mark 10</p>	<p>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.</p>
<p>Level 1 (1 – 6 marks) Mid mark 4</p>	<p>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, ‘the implications for the environment are different in the long-run than in the short-run’. There is no attempt to draw together the relevant issues in a conclusion.</p>

2 China and the global economy

‘Impressive growth rates in the Chinese economy demonstrate the benefits of the free market.’ Discuss.

Candidates should demonstrate their understanding of the current state of the Chinese economy. They should be aware of recent rapid growth rates and the liberalisation of many markets in China. They should be able to analyse the reasons for this growth and examine the link between liberalisation and growth. 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 importance of free markets to China’s recent economic success. Good candidates are likely to look at the Chinese economy in a global context, especially through reference to other South East Asian economies. Analysis may be assisted by the use of diagrams.

Answers may include:

Knowledge of economic growth and free markets.

Examples:

- Economic growth and how it can be measured;
- Free market, planned and mixed economies.

Application of economic growth and free markets in a Chinese context.

Examples:

- China’s economic history (lengthy explanation of the command system will gain few marks);
- Market reforms in China;
- Recent growth trends in China.

Analysis of factors influencing growth rates in China.

Examples:

- Cheap and plentiful labour;
- Plentiful land and relatively lax planning controls;
- Limited environmental regulation;
- Large potential market for consumption goods.

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, relative factor costs. Good candidates will be able to use data to illustrate and compare with other economies.

Evaluation of the extent to which the Chinese economy is a free market and the extent to which this has led to growth.

At the lower end, marks should be awarded for a recognition that increased liberalisation has led to growth levels far beyond those achieved with state planning. Candidates may refer to areas like Shanghai and contrast growth rates here with those in the rest of China.

At higher levels candidates may be able to make direct comparisons with other developing countries, especially in SE Asia, which may have similar factor endowments. They may consider why China has achieved higher growth rates than its competitors. This discussion could lead on to questioning of the extent to which government intervention in these economies varies. Candidates could argue that industrial re-location by MNCs has been particularly focussed on China because of the factors listed above, but also due to factors which are largely a product of government intervention, including:

- Good transport and communications infrastructure;
- Reliable and cheap energy supplies;
- Relatively high educational and health standards;
- Political and economic stability.

Comparison could be made with other rapidly growing economies (and economies which have grown rapidly in recent decades) which have combined free trade with extensive government intervention, for example, India, Taiwan and South Korea. The point could also be made that whilst China has relatively free external markets its internal markets are generally more heavily regulated.

Candidates may also broaden the debate by considering the issue of free global markets. China engages in free trade but many of its major trading partners do not. The example of the recent EU clothing quotas could be used to illustrate this point. The argument could be made that China is growing despite the absence of free trade.

Theory and Analysis

Level 4 (18 – 22 marks) Mid mark 20	The answer shows a detailed knowledge of the recent history of the Chinese economy, especially with regard to both economic growth and economic liberalisation. There will be in-depth analysis of the causes of the economic growth and the implications that such growth has for the economy. At the top end of this Level, there is likely to be either some comparison with other countries that have experienced impressive growth, for example, India, or some detailed analysis of other potential causes of the growth.
Level 3 (12 – 17 marks) Mid mark 15	A good knowledge of the recent history of China is shown and an attempt is made to address the set question. However, whilst the coverage may be quite comprehensive, there is a lack of 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.
Level 2 (6 – 11 marks) Mid mark 9	Whilst some relevant issues will be considered, there may be some inaccuracies - for example, confusing the 'free market' with 'free trade' and hence focusing far too narrowly on this later area. Any analysis will be very superficial.
Level 1 (1 – 5 marks) Mid mark 3	There is little of relevance to the set question with possibly just a list of pre-learned statistical data for China, without any attempt at relevant analysis of the set question.

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:

If impressive means 'high', is this in fact necessarily impressive?

Is it possible to determine direct lines of causality of economic growth?

Are there differences between the long and short-run in terms of the benefits of growth?

To what extent is China a 'free market'?

What other factors might have been relevant?

<p>Level 3 (13 – 18 marks) Mid mark 16</p>	<p>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.</p>
<p>Level 2 (7 – 12 marks) Mid mark 10</p>	<p>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.</p>
<p>Level 1 (1 – 6 marks) Mid mark 4</p>	<p>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, 'an "impressive" growth rate might not actually be a benefit in the long-run'. There is no attempt to draw together the relevant issues in a conclusion.</p>

3 Expansion of the EU

‘Enlargements of the EU in 2004 and 2007 will increase UK economic growth in the next ten years.’ Discuss.

Candidates should be familiar with the purpose of the EU and with the rationale for enlargement. They should have an awareness of the countries involved in the enlargement and their economic characteristics. Candidates should be able to explain the link between enlargement and economic growth for the EU. They should consider the benefits for the UK of this enlargement as well as the potential drawbacks. 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 enlargement will benefit the UK. Good candidates are likely to look at the issue in a global context, especially through reference to competition with other major economies and trading blocs. Analysis may be assisted by the use of diagrams.

Answers may include:

Knowledge of the EU, enlargement and economic growth.

Examples:

- The EU, its members and purpose;
- The process of enlargement and the countries involved;
- Economic growth.

Application of economic growth in the context of the EU.

Examples:

- The relationship between membership of the EU and UK economic growth;
- The rationale for enlargement from the perspective of both new member states and the ‘EU-15’.

Analysis of the factors which could increase or decrease UK economic growth as a result of enlargement.

Examples:

- The EU budget – to what extent will the UK’s contribution rise to support development in the East? Will enlargement place further strain on the CAP?
- Migrant labour – will migrant labour plug gaps in the market?
- Industrial location – will the UK suffer from further structural change as businesses re-locate to lower cost economies?
- New markets – will the new entrants provide buoyant markets for UK firms?
- Cheaper goods and materials – to what extent will consumers and firms benefit from cheap goods? Will import penetration reduce these benefits?

Candidates should be rewarded for supporting their analysis with diagrams, including AS/AD analysis. They may also introduce relevant economic concepts such as comparative advantage. For the higher analytical marks candidates should be able to support their answer with relevant data on, for example, GDP, population, migration levels, wage rates and the EU budget.

Evaluation of the extent to which enlargement will increase economic growth in the UK.

Evaluation is likely to link these questions explicitly to economic growth and consider the collective impact of these issues. Candidates may place conditionality on some issues – e.g. the impact on the labour market depends on the way in which migration is managed. They may also contrast the short-term transition costs with potential long-term efficiency gains. Reference may be made to specialisation and economies of scale.

For the higher **evaluation** marks candidates should look at enlargement in a global context. Here are two obvious approaches:

- They may see the EU as one economy, striving to compete with the US, Japan and China. Comparisons may be made with US and Japanese firms locating basic production facilities in Mexico and SE Asia whilst maintaining high value-added functions at home. The point could be made that UK firms cannot compete globally in the longer term without this competitive advantage.
- Criticism could be made more widely of the EU project, suggesting that the UK would be better off out. This needs to be an argument supported with an economic rationale, for example with data on trade figures with non-EU states or reference to the experience of non-EU states in Europe. The candidates may consider all of the benefits and costs of membership, the future uncertainty of many of the factors outlined above and the likely future of trading blocs in the face of WTO rulings.

Theory and Analysis

Level 4 (18 – 22 marks) Mid mark 20	The answer shows a thorough knowledge of the issue of enlargement in 2004 and 2007. There is an explanation of the rationale behind such expansion and some use of statistics to show the scale of the enlargement. There is explicit analysis of how such enlargement might affect the UK economy in areas such as migrant workers, increased size of marketplace, implications for the EU budget, and hence internal fiscal implications and the implications for FDI. At the top end of this level there might be some analysis of how other, non-EU related factors might influence UK growth over the next 10 years.
Level 3 (12 – 17 marks) Mid mark 15	The effects of enlargement of the EU are analysed as a catalyst for UK growth and the application is generally correct. The analysis of how it might affect growth has some depth OR coherence.
Level 2 (6 – 11 marks) Mid mark 9	Some inaccuracies either with regard to the scale of the enlargement or with the theoretical implications for growth are contained within the answer. There are very few causal links made between enlargement and UK growth in the analysis.
Level 1 (1 – 5 marks) Mid mark 3	There is a lack of understanding of what is meant by EU enlargement or the answer looks at the last ten years rather than the next ten years. There is no explicit relevant analysis within the answer.

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 it possible to isolate particular influences when looking at overall growth figures?

Does it depend upon what happens with, for example, labour migration over the coming years? – I.e. is it too early to tell yet?

Should UK growth be looked at in isolation or should we be considering EU growth in total – if so, will there be some winners and some losers within the EU?

Are the implications the same whether or not the UK stays in the EU?

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, ‘the implications might be different if the UK were to leave the EU’. There is most unlikely to be any attempt to draw together the relevant issues in a discussion.

4 The pensions crisis

To what extent has the UK government contributed to the pensions crisis?

Candidates should demonstrate an awareness of the nature and extent of the pensions crisis in the UK. They should be aware of the multi-faceted nature of the problem and the contributory factors leading to large-scale under-provision. Candidates should be able to apply the concepts of both market and government failure to this problem. They should be able to analyse the benefits and limitations of state, free market and mixed provision of pensions. 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 the UK government has contributed to the problem. 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 of the pensions crisis in the UK.

Examples:

- The problem of under-provision;
- The UK pension system and the mix between public and private provision.

Application of economic concepts relevant to the crisis.

Examples:

- Market failure and recognition that pensions are a merit good which would be under-provided in a free market;
- Government failure and the suggestion that state provision of pensions has moved the market further from the optimum position.

Analysis of the factors contributing to the crisis.

Examples:

Factors leading to market failure:

- Lack of information;
- Existence of externalities;
- Lack of portability of private pensions;
- The time lag between payment and consumption;
- Consumers making decisions between tangible current consumption and intangible future consumption;
- Inadequate forecasting of future economic conditions and consumer expectations;
- Unethical and illegal behaviour of the custodians of some company schemes.

Factors leading to government failure:

- Short-term policy-making;
- Rising incomes leading to declining real value of pensions;
- Changing expectations of consumers;
- Ageing population;
- Poor government advice;
- Inadequate regulation of private pension providers.

Alternatives to the current system may be suggested and their limitations considered:

- Movement towards completely free market in pension provision, with government seeking to counteract market failure through the provision of information and tax incentives.
- Reform of the current system of state provision through significantly increased compulsory contributions.

Candidates who use diagrams to show market failure and government intervention should be rewarded. For the higher analytical marks candidates should be able to support their answer with relevant data regarding, for example, the scale of the under-provision at present and projections for the future.

Evaluation of the extent to which the crisis is attributable to government action or inaction.

Basic evaluation is likely to conclude that governments have failed to provide adequate pensions. This is an example of government failure as individuals have been deterred from arranging their own scheme due to the existence of the state pension. As a result there is more under-provision than there would be without the intervention. Candidates may advocate one of the alternatives and justify their choice.

At higher levels candidates may make international comparisons and suggest solutions for the UK based on experience elsewhere. They may also consider pensions in the context of broader economic objectives, notably economic growth and equity, considering where state pension provision fits in with current political and economic thinking. Consideration may also be given to trends in the labour market and their effect on pensions, including increasing migrant labour and the rising trend in those working beyond pensionable age. Candidates may also question in more detail the failings of private provision, notably the assumption of rational behaviour. Parallels could be drawn with other seemingly irrational consumer behaviour in the UK such as growing consumer debt. They could also consider the extent to which regulation is necessary and likely to be effective. Once again, parallels could be drawn with similar markets in which consumers have been mis-sold complex financial products, such as endowment mortgages and Payment Protection Insurance.

Theory and Analysis

Level 4 (18 – 22 marks) Mid mark 20	The answer shows a thorough knowledge of the issues involved with the pensions crisis and accurately uses relevant statistics to highlight the extent of the problem. The issue of pensions as a merit good is examined. There is a clear explanation of how the UK pension system operates as a mix between state and private provision. There is comprehensive analysis of the various factors involved, not only the role of the government but also factors such as the ageing population, the changes to retirement legislation and the actions of the private pension providers. At the top end of this Level there may well be a comparison with the situation in other countries or some original analysis of factors that have been of relevance to a particular group of workers/pensioners that the candidate has investigated.
Level 3 (12 – 17 marks) Mid mark 15	The answer shows a reasonable understanding of some of the issues involved. There is some focus on the role of the government or a detailed explanation as to what the 'crisis' involves but not both.
Level 2 (6 – 11 marks) Mid mark 9	The major issues are discussed but there are inaccuracies within the analysis – for example, confusion between the state pension and private pensions. The role of the government is stated but there is no detailed analysis as to how the involvement has influenced the crisis. Alternatively the answer focuses purely on the state pension and fails to recognise that the private sector has a part to play.
Level 1 (1 – 5 marks) Mid mark 3	There is no clear evidence that the candidate appreciates what the problem with pensions is within the UK. A list of pre-learned points may be included but there is no real analysis.

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:

Was the crisis inevitable?

Has the government intervened too much or too little in recent years?

What are the short-run/long-run implications of the current situation?

What role does the lack of perfect information about the future have to play in decisions over private pension provision?

<p>Level 3 (13 – 18 marks) Mid mark 16</p>	<p>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.</p>
<p>Level 2 (7 – 12 marks) Mid mark 10</p>	<p>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.</p>
<p>Level 1 (1 – 6 marks) Mid mark 4</p>	<p>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, ‘some say that the government has intervened too much, whilst others would claim that not enough intervention has occurred’. There is no attempt to draw together the relevant issues in a conclusion.</p>

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