

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

Pre-U Certificate

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

**9772 ECONOMICS**

**9772/02**

Paper 2 (Essays), maximum raw mark 75

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

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

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

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The purpose of the essay paper is to enable candidates to select appropriate economic models, theories and concepts that they apply to the circumstances of the question and produce good, logical arguments and draw conclusions. The best essays will have a substantial conclusion that 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 preamble of what is expected from candidates – but 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.

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### 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. Within each level examiners should begin at the central mark, and then consider whether or not the answer merits more or less reward on the basis of quality within the level.

#### 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.

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## Section A

### 1 Examine the extent to which the government should intervene to produce public goods.[25]

Candidates should distinguish between pure public and quasi-public goods. They would be expected to refer to non-rivalry; non-excludability and some may also consider whether these goods are also non-rejectable. The distinction between the two should be extended to whether or not government provision of both types of good is necessarily welfare enhancing. Good candidates might explain that the opportunity cost of extending the provision of pure public goods to the marginal consumer is zero, but that is not true of quasi-public goods. Candidates are also invited to distinguish state production or provision of these goods and state financing of the production of these goods. Good answers should contain reference to examples.

#### Answers may include:

**Knowledge and understanding** of the characteristics of pure public and quasi-public goods. Candidates should be capable of illustrating the difference with reference to examples. The issue of whether or not government production/provision should be encouraged and is efficient should also be addressed. The issue of the free-rider problem should be raised.

**Application** to real life, especially with regard to the likely results of government provision – pure public goods will not be provided in the absence of some form of government intervention whereas the same is not true of quasi-public goods. The cost to society of non-provision should be identified, as well as the possibility of over-provision by the state.

**Analysis** of whether government provision is always a better alternative to no provision whatsoever.

#### Examples:

- Whether goods would be provided by the free market in the absence of the state?
- The problems of imperfect information in the market – the difficulties of providing the right amount of a good leading to a sub-optimal outcome.
- The relative merits of different forms of government provision in particular markets – private sector provision may allow for greater choice; however, the network economies of state provision might enhance efficiency and it might be easier to guarantee uniformity of provision within the state sector.
- The separation between state production and financing the private sector to produce pure public and quasi-public goods

#### Evaluation of the issues involved

#### Examples:

- Consideration of the shortcomings of both state and market provision of these goods.
- The extent of the welfare loss that non-provision and under- or over-provision might imply.
- The opportunity cost of government intervention in the market.
- Consideration of the likelihood of government failure – is the government sufficiently well-informed to take appropriate action? Might action in one market lead to distortions in another?
- The distributional issues involved – the extent to which market based provision of quasi-public goods would be 'regressive', whether it is appropriate for the government to intervene and affect the profits of those firms providing quasi-public goods relative to other industries?
- The costs of regulating market based provision of pure public and quasi-public goods.

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### Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	There is a clear understanding of what public goods are – including a clear understanding of the key characteristics of these goods – and there is a distinction made between pure public and quasi-public goods. At this level there will also be consideration of the extent to which the differing characteristics of the goods affect the extent to which the government should intervene to produce them. The best candidates will distinguish between state provision and state finance/private sector provision.
Level 3 (9 – 12 marks) Mid mark 11	The candidate is likely to be able to define public goods but might not be able to draw a clear distinction between pure and quasi-public goods. They will be aware of their different characteristics without any real depth or display of understanding, and have some appreciation of at least one model of providing public goods.
Level 2 (5 – 8 marks) Mid mark 7	There is a clear appreciation of what public goods are but there are errors or omissions in the candidate's answer. The candidate is likely to give a simplistic account of some forms of provision without really grasping the fact that state-sector provision has both strengths and weaknesses, or the case for private sector provision.
Level 1 (1 – 4 marks) Mid mark 3	Explanations and diagrams are either missing or inaccurate. The answer is likely to fail to address the set question but instead be a poor attempt to re-hash a textbook explanation on intervention to tackle negative externalities.

### Evaluation

Level 3 (6 – 8 marks) Mid mark 7	A good answer is likely to discuss issues such as: <ul style="list-style-type: none"> <li>• The extent to which the different characteristics of public goods necessarily mean different methods of provision.</li> <li>• Evaluation of the relative merits of different forms of provision: both market based and the opportunity cost, likelihood of government failure and distributional issues associated with government provision.</li> <li>• Is government provision likely to be effective in the circumstances?</li> <li>• The importance of 'perfect' information in formulating policy.</li> <li>• The possibility of a solution combining elements of both market-based and state provision.</li> </ul> <p>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.</p>
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.
Level 1 (1 – 2 marks) Mid mark 2	Whilst there might be some appreciation that evaluation could be carried out the point is not developed.  For example: 'The state should always provide public goods of all descriptions because it has the resources to do so.'

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**2 With reference to examples, assess the extent to which technology has changed market structure and affected the ability of firms to earn supernormal profit. [25]**

Candidates should show a good understanding of market structure, and the implications of the spread of technology for market structure. Good candidates may take the view that the spread of technology has different effects, depending upon the market being considered. In some cases, technology may encourage lower entry barriers, encourage the emergence of new firms, or make markets more contestable. Candidates might suggest that there may then be a move away from oligopolistic markets and towards monopolistically competitive markets. This will be associated with reduced ability to earn supernormal profit. However, there should also be discussion of the fact that technology might enhance the power of branding, how network effects may strengthen a firm's dominant position increasing its ability to earn supernormal profits.

**Answers may include:**

**Knowledge and understanding** of how technology may affect the market. At a simplistic level candidates will be expected to consider how markets may be made more competitive. For example, what was previously an oligopoly might have become monopolistically competitive. Better candidates will explain that the spread of technology has implications for the cost structures of firms, the level and elasticity of demand for a product, and the profitability of firms. Better answers will use diagrams to demonstrate these effects.

**Application** of models of market structure to real life, with regard to specific industries: for instance, the impact of traditional bricks-and-mortar retailers, the emergence of successful niche retailers, the impact of e-commerce on market structure, a middle route e.g. where the clicks-and-mortar retailer develop a high street and a virtual presence. Candidates might also look at how technology has changed other industries such as biotechnology and the production of GM foods.

**Analysis** of the way the technology has changed market structure and the implications of this for profit

**Examples:**

- The changing market structure: has the market grown, how has the market changed in other ways with reference to the number of firms and relationship between those firms, nature of the product, the types of competition prevalent. The rise of the small-scale 'consumer-producer'.
- The spread of technology might imply both lower costs and increased price sensitivity among consumers: this might reduce the ability of firms to earn supernormal profits. This might be illustrated by diagrams.
- The possibility of technology fostering network effects and the possibility of consumers being 'locked in' to buying particular brands, or particular industry standards being entrenched.

**Evaluation** of the issues involved

**Examples:**

- Attempts to evaluate the extent to which the market structure has changed, with reference to the number of firms, the nature and price of the product, the ease of entry and exit, the nature of information within the market.
- An attempt to ascertain whether the spread of technology has affected all markets.
- An attempt to assess whether or not there is an overall trend to more competitive markets and lower levels of producer profit.

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### Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	There should be clear understanding of the term market structure and how the spread of technology has altered market structure. Good candidates should use accurate diagrams, the best showing good knowledge of the impact of technology on different forms of market structure. The best candidates will highlight the fact that the impact of technology is market specific: in some instances there will be lower barriers to entry, more competition and less ability to earn supernormal profit, but that the reverse could also apply, and that there will also be other markets where there is little or no impact. At this level candidates will be expected to show confidence in applying theoretical concepts to specific industries from a range of possible alternatives.
Level 3 (9 – 12 marks) Mid mark 11	Candidates should be able to identify that technology has changed market structure and to understand the implications of this for the supernormal profit of firms in those industries. Candidates might have some ability to apply this to specific industries but development of their ideas will lack real depth and/or accuracy in the use of diagrams. <i>Alternatively, an answer may only look at the impact of technology in a one-sided manner.</i>
Level 2 (5 – 8 marks) Mid mark 7	Candidates show limited appreciation of either the impact of technology on market structure or the impact on the ability to earn supernormal profit. There are likely to be errors and omissions in candidates' answers and generalised statements about how technology has made all markets more, or less, competitive. Alternatively, an answer may be almost entirely theoretical, with no attempt made to refer to examples.
Level 1 (1 – 4 marks) Mid mark 3	Candidates are only able to examine the impact of technology on market structure and supernormal profit with little, if any, accuracy or reference to a specific industry. There are likely to be few diagrams, and those that are drawn are likely to be poorly explained.

### Evaluation

Level 3 (6 – 8 marks) Mid mark 7	<p>A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> <li>• The likely role of technological change in changing market structure.</li> <li>• Whether or not market structure has actually changed or not.</li> <li>• The extent to which the spread of technology has impacted upon supernormal profit.</li> </ul> <p>There need not be a definitive conclusion drawn, but the better candidates will look at a range of different potential outcomes, with the very best looking directly at specific examples.</p>
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way. There will be little attempt to consider the question in an industry-specific context.
Level 1 (1 – 2 marks) Mid mark 2	<p>Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, the point is not developed.</p> <p>For example: 'Clearly technology has altered market structure but it is difficult to ascertain exactly how.'</p>

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- 3 **Privatisation policies have now been developed to such an extent that regulated private ownership is preferable to nationalisation.**  
**With reference to examples, evaluate the extent to which this statement is true.** [25]

Candidates should have clear understanding of privatisation, nationalisation and regulation and be able to use these terms in appropriate contexts. Candidates should have clear understanding of the theoretical advantages and weaknesses of nationalisation, the theoretical benefits and disadvantages of privatisation and the role that regulation has played in ensuring that consumers have gained the supposed benefits of privatisation. Given the lead in the question, candidates are expected to refer to relevant examples where appropriate.

**Answers may include:**

**Knowledge and understanding** of relevant theory, including that concerning:

- The poor performance of nationalised industries.
- The different forms of privatisation – selling off the public sector in its entirety, selling off majority stakes but retaining an interest, selling off government owned shares, selling off profitable assets.
- The theoretical advantages of privatisation – increased competition and efficiency, increasing labour market flexibility, exposing firms and their investment decisions to the disciplines of the market, the dispersal of share ownership, as a way of cutting the Public Sector Net Cash Requirement (PSNCR).
- Knowledge of the role that regulation has played in ensuring the privatised companies have acted in the public interest.

**Application** of the privatisation theory to specific industries to show areas where privatisation has been a success, the utilities sector, and areas where the privatisation might be said to have failed, such as railways perhaps. Candidates might also consider other areas where the impact of privatisation is open to question such as the National Air Traffic Services (NATS) and the banking sector in the light of the recent financial crisis.

**Analysis** of areas where privatisation has altered market outcomes favourably and unfavourably, as well as the role that regulation has played, perhaps with reference to regulatory policy such as price capping/performance criteria.

**Evaluation** of the issues involved:

- The extent to which privatisation is always preferable to nationalisation or whether there are certain industries that should remain nationalised.
- Whether or not privatisation has increased competition, increased efficiency and resulted in lower prices and better standards of service.
- Whether privatisation has increased the flexibility of labour markets and allowed for the modernisation of working practice.
- Whether or not regulation has always been successful [including the issue of regulatory capture] – has it been overly harsh and limited the ability of firms to invest, or has it been unduly lenient and allowed firms to make excess profits?
- The case for the renationalisation of certain sectors of industry – the rail network for example.
- An overall assessment of whether privatisation has been a success or not.



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### Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	There will be clear explanation of the difference between nationalisation and regulated private ownership. Good candidates will highlight the fact that many of the privatised firms were transferred as monopolies into the private sector and that this necessitated regulation. The best answers will combine good theoretical knowledge of the benefits of privatisation with an attempt to apply this to criteria for measuring improved performance. This may look at indicators such as real price, production costs, quality of service, competitiveness of privatised firms in increasingly global markets. Candidates may also attempt to assess the extent to which regulation has been responsible for securing improved performance, at the very top end.
Level 3 (9 – 12 marks) Mid mark 11	The difference between forms of ownership will be accurately identified but there may not be understanding of the role of regulation in helping to achieve this. At the bottom end, the candidate will fail to identify the degree to which theoretical gains have been translated into improved performance.
Level 2 (5 – 8 marks) Mid mark 7	Analysis is likely to be superficial and contain inaccuracies. 'Regulated private ownership' is likely to be only partially understood: there might be limited appreciation of the advantages of privatisation, either in theoretical or applied terms. Candidates may struggle to see the relevance of regulation in answering the question.
Level 1 (1 – 4 marks) Mid mark 3	Very little appreciation of the differences between nationalisation and 'regulated private ownership'. Candidates may only appreciate a general sense that privatisation is likely to increase efficiency but elaborate upon this in a largely non-technical manner.

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### Evaluation

<p>Level 3 (6 – 8 marks) Mid mark 7</p>	<p>A good answer is likely to touch upon:</p> <ul style="list-style-type: none"> <li>• The extent to which privatisation has delivered the theoretical benefits associated with it.</li> <li>• The extent to which the privatisation of different industries has had different effects.</li> <li>• Evaluation of the extent to which some instances of privatisation have been unsuccessful – the privatisation and subsequent renationalisation of Railtrack, for example.</li> <li>• The degree to which it has been regulation that has helped deliver the benefits of privatisation or whether firms being exposed to actual competition has delivered these benefits.</li> <li>• The extent to which there are macroeconomic benefits of privatisation.</li> </ul> <p>The candidate will attempt to draw a conclusion to explain an overall view – with the majority of answers likely to argue that, for the most part, the view expressed in the question is a fair one.</p>
<p>Level 2 (3 – 5 marks) Mid mark 4</p>	<p>One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way. The candidate will struggle to talk about the benefits/drawbacks of 'regulated private ownership' in applied terms</p>
<p>Level 1 (1 – 2 marks) Mid mark 2</p>	<p>Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, the point is not developed.</p> <p>For example: 'Privatisation has generally delivered many benefits for both the firms concerned and the economy at large.'</p>

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## Section B

- 4 **Between 2009 and 2011 Ireland's real GDP is expected to fall by more than 10%. Explain what is meant by this, and examine the extent to which measures of national income are an accurate reflection of living standards in more economically developed countries (MEDCs).** [25]

Candidates should be able to define all of the key terms in the question – real GDP, MEDCs and living standards. They should recognize that real GDP and living standards are positively related but that the link between the two is not a straightforward one. Better candidates are likely to deal with a range of problems of using real GDP as a proxy for living standards and the difficulties of compiling GDP data in MEDCs. Weaker candidates may overlook the explanation of what the fall in real GDP implies and focus on a textbook account of the shortcomings of GDP as a measure of living standards without reference to either MEDCs or Ireland.

### Answers may include:

**Knowledge** and **understanding** of what GDP measures and how it is calculated. An appreciation of what a 10% fall in real GDP means.

Examples:

- Sources of inaccuracy – difficulties of compilation, the size of the shadow economy, non-tradable output, difficulties of valuing the public sector,
- Problems of using real GDP over time – population changes, defence and related goods, the relationship between consumption and investment, externalities, income distribution, reductions in leisure time, the quality of goods and services.

**Application** to MEDCs will be rewarded. Candidates should look to examine the problems of compiling GDP statistics. Candidates should know that even in MEDCs there are a number of difficulties of calculating national income

**Analysis** of the way national income statistics can be related to standards of living and the increased availability of economic opportunity. The best candidates might be expected to consider the link between real GDP and non-material aspects of living standards, perhaps mentioning 'happiness' or 'subjective well-being' and referring to recent work on the subject by Layard *et al.* Candidates may also mention work that seeks to decouple economic growth and subjective well-being such as the Easterlin paradox.

**Evaluation** of the issues involved

Examples:

- The extent to which changes in real GDP reflect changes in living standards
- Alternative measures of economic welfare and their relationship with the standard of living – the Human Development Index, Human Poverty Index, Gender Empowerment Measure, Gender-Related Development Index etc.
- Other potential measures of living standards – access to public services, ownership of consumer durables.
- Other MEDC accuracy issues – the difficulty of calculating real GDP, the use of PPP measures of GDP to ensure that a nation's GDP reflects the ability of its consumers to buy a uniform basket of goods and services, changes in methods of calculation and the calculation of inflation, population changes, (Ireland has seen substantial immigration in the recent past), the difficulties of international comparison.

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### Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	<p>There is a clear understanding of what a fall in real GDP means <b>and</b> the difficulties of GDP compilation in MEDCs <b>and</b> recognition of how both real GDP and alternative measures of economic welfare relate to a nation's living standards.</p> <p>At this level the candidate will be expected to relate economic theory to the specific context of MEDCs, and also to the specific case of a 10% fall in Ireland.</p>
Level 3 (9 – 12 marks) Mid mark 11	<p>The candidate will be able to define real GDP and explain what is meant by a 10% fall and identify its shortcomings as a measure of living standards within an MEDC context. However the ability to see why GDP compilation poses difficulties in MEDCs may well be lacking.</p> <p>They are likely to have some grasp of alternative measures of economic welfare but again may find it difficult to relate them to MEDCs. There is not likely to be any real depth or display of understanding and little appreciation of the specific context of the question.</p>
Level 2 (5 – 8 marks) Mid mark 7	<p>There is appreciation of what is meant by real GDP and some grasp of its relationship with living standards but there are errors or omissions in the candidate's answer. The candidate is likely to give a simplistic account of problems of the relationship between real GDP and standard of living but may overlook the fall in real GDP and the MEDC context of the question.</p>
Level 1 (1 – 4 marks) Mid mark 3	<p>Explanations are either missing or inaccurate. The answer is likely to fail to address the set question but instead regurgitate notes or a previous task on national income accounting. There will be little if any attempt to consider the aspects which make national income accounting in MEDCs so complex.</p>

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## Evaluation

Level 3 (6 – 8 marks) Mid mark 7	<p>A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> <li>• Evaluation of how significant a 10% fall in real GDP in two years actually is, particularly within the context of the Irish economy.</li> <li>• How MEDCs national income accounting may differ from country to country and over time.</li> <li>• The extent to which difficulties in compiling GDP statistics in an MEDC over or understate GDP.</li> <li>• The degree to which the shadow economy may interfere with GDP compilation.</li> </ul> <p>The candidate will be likely to relate these issues to MEDCs; this does not necessarily require awareness of specific case studies but general awareness of how these problems apply to MEDCs.</p>
Level 2 (3 – 5 marks) Mid mark 4	<p>One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way. The candidate will be reluctant to engage with the MEDC angle of the question.</p>
Level 1 (1 – 2 marks) Mid mark 2	<p>Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation but the point is not developed.</p> <p>For example: 'Measures of national income may not be perfect reflections of living standards for several reasons.'</p>

- 5 **In the March 2010 Budget the Chancellor announced a budget deficit of £167 billion. Explain what is meant by this and evaluate the extent to which this impacts upon the ability of the Government to achieve its macroeconomic objectives. [25]**

Candidates should know how to define a budget deficit, with reference to government expenditure and government receipts, and its implications for the economy's macroeconomic objectives. The extent to which a budget deficit is a problem depends upon a number of things: not least its size as a % of GDP; its causes (cyclical v structural); its duration; and the implications of tackling it. In this specific case, it is clear that the budget deficit is a sizeable one, exists because of a mix of cyclical and structural causes and its correction has significant implications for the government's ability to achieve its macroeconomic objectives.

Answers may include:

**Knowledge** and **understanding** of exactly what a budget deficit is, the main macroeconomic objectives of government and the relationship between two.

Examples:

- The relationship between the budget deficit (a flow) and the national debt (a stock).
- Why the state of the economy has meant that the budget deficit has reached £167 billion – a mix of cyclical and structural factors – perhaps mentioning the 'automatic stabilisers' associated with the economic downturn that started in 2007.

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**Application** in considering the consequences of reducing the budget deficit for growth, inflation, unemployment, the balance of payments, the inequality of income and wealth distribution, and any other objectives.

**Analysis** of the extent to which changes in the government's policy stance may impact upon macroeconomic objectives.

Examples:

- How a budget deficit need not cause problems for a country which is having little difficulty in attracting investors to finance the deficit.
- Consideration of when the size of the budget deficit might mean interest rates rising.
- The extent to which the budget deficit may result in 'crowding out'.
- The inter-generational equity issues involved – does higher spending now necessarily mean higher levels of taxation for future generations?

**Evaluation** of the issues involved.

Examples:

- The extent to which the UK is able to dispose of government debt – the Debt Management Office has sold record quantities of debt in the past two years.
- Whether or not the size of the budget deficit might necessitate higher interest rates.
- Whether attempts to reduce the budget deficit, either by reducing government spending or increasing taxation will impact upon macroeconomic objectives and the extent to which they will inevitably have adverse consequences, particularly for growth, unemployment and inequality.
- An attempt to compare the size of the UK budget deficit with the budget deficits of other economies, particularly within an EU context. Good candidates might suggest that unlike members of the Eurozone, the UK does not have to comply with the Fiscal Stability Pact.
- Deficit v debt: an awareness that the importance of one depends upon the size of the other.
- The extent to which the importance of the size of the deficit depends upon what the government is spending the deficit on – looking at the difference between current and capital spending.
- The degree to which the 2010 deficit may mean that the UK avoids a "double-dip" recession which would increase future levels of debt.
- An evaluation of the concept of "crowding out": it might be argued that "crowding out" hasn't occurred in the UK, and/or that 'crowding-in' has happened.

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### Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	Candidates need to be clear in defining a budget deficit and have a good grasp of why a budget deficit of this size is problematic. They should appreciate the relationship between the budget deficit and the national debt. They should be capable of seeing how measures to tackle the deficit will inevitably be contractionary and that this will have negative implications for growth, unemployment and inequality but that inflation and the Balance of Payments may improve.
Level 3 (9 – 12 marks) Mid mark 11	Candidates are aware that a sizeable budget deficit, or policies to reduce it, will have necessarily damaging implications for the government's ability to achieve its macroeconomic objectives. There will be a clear sense that, on balance, there are likely to be negative implications in tackling the deficit.
Level 2 (5 – 8 marks) Mid mark 7	There will be reasonable understanding of what a budget deficit is and the ways in which it can be corrected, although there may be some uncertainty about this and about the relationship between the budget deficit and macroeconomic objectives. Alternatively, the answer concentrates entirely on the implications for objectives of G being greater than T, but ignores the issue of the implications of actions needed to tackle such a large deficit.
Level 1 (1 – 4 marks) Mid mark 3	Explanations are necessarily limited. At the top end there will be some awareness of what 'a budget deficit' is but the weakest candidates may confuse a budget deficit with a current account deficit. The answer is likely to have no sense of the implication of the budget deficit for macroeconomic objectives.

### Evaluation

Level 3 (6 – 8 marks) Mid mark 7	The best answers are likely to evaluate issues such as: <ul style="list-style-type: none"> <li>• The extent to which a £167 billion budget deficit is a problem.</li> <li>• The relative ease with which the UK has been able to fund the budget deficit.</li> <li>• The degree to which the UK budget deficit is a problem relative to its trading partners.</li> <li>• The extent to which the size of the budget deficit implies that crowding out and adverse inter-generational equity issues are inevitable.</li> <li>• The implications of a significant budget deficit for economic growth, inflation, unemployment, the balance of payments and the equality of income and wealth.</li> </ul>
Level 2 (3 – 5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.
Level 1 (1 – 2 marks) Mid mark 2	There is some appreciation that it is important that the issue can be evaluated but there is only some undeveloped attempt to do so. For example: 'A budget deficit of this size is problematic and this has implications for the government and the economy.'

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**6 With reference to examples, examine the likely economic effects of globalisation on less economically developed countries (LEDCs). [25]**

Candidates should define globalisation in terms of the free movement of goods and services, factors of production and financial capital. They should also be capable of defining less economically developed countries with reference to GDP, infrastructure, industrial structure and so on. Candidates need to adopt a balanced approach, asserting that globalisation has both advantages and disadvantages for LEDCs. However, on balance, it is likely to be the case that in the long-run globalisation will benefit LEDCs provided that their economies can exploit their cost advantages and are sufficiently flexible to cope with the short-term shocks associated with globalisation.

**Answers may include:**

**Knowledge and understanding** of what globalisation entails both in general and in an LEDC context. They should understand the advantages of free trade.

**Application** to the reality of globalisation. Good candidates may discuss whether 'globalisation' in practice resembles globalisation in theory, or whether successive rounds of trade negotiations at Doha and Cancun have reflected the negotiating power of MEDCs, advantaging them at the expense of LEDCs. There may be some mention of whether the relatively low income inelasticity of LEDC primary products will necessarily impede their growth relative to MEDCs.

**Analysis** of the potential advantages and disadvantages of globalisation to LEDCs

Examples:

- Consideration of possible benefits of globalisation: allowing for specialisation and the exploitation of comparative advantage, greater competition driving efficiency gains, increased choice for consumers and improved access to foreign markets.
- Consideration of the fact that in the short-term, LEDCs may feel that globalisation allows foreign firms 'unfair' access to their markets driving domestic firms out of business, increasing unemployment and slowing growth.
- Awareness that the effects of globalisation will be various depending upon the economy and economic agents concerned. In the long-term though there is the possibility that everyone may gain.
- Analysis of the fact that factor immobility in LEDCs limits their ability to adapt to globalisation and that, even should they be capable of producing goods more cheaply than MEDCs, inelasticity of supply may limit beneficial effects.
- The reduced ability of governments to plan to move the economy to higher value added production.

**Evaluation** of the issues involved

Examples:

- The extent to which it is inevitable that globalisation will bring benefits for all LEDCs.
- The considerable time-lags between the initial costs of globalisation for an LEDC and the benefits that will ultimately accrue.
- The implication that in the short-run MEDCs are advantaged, such that LEDCs may run current account deficits in the short-run and the potentially damaging consequences that this may have for their terms of trade and long-run growth.
- The danger that globalisation will encourage 'a race to the bottom' with LEDCs sacrificing environmental and health and safety standards in an attempt to attract FDI.
- The extent to which globalisation will facilitate the transfer of technology enabling LEDCs to grow ever more rapidly as a result of outsourcing and higher levels of FDI.
- Globalisation as a process rather than as an end-state.



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- Globalisation as having regressed since the 2008 credit crunch.
- The impact of the existence of regionalised trading blocs.

### Theory and analysis

Level 4 (13 – 17 marks) Mid mark 15	Candidates should be capable of defining globalisation in terms of the free movement of goods and services, factors of production and financial capital. They should then move on to consider the effects of globalisation. They should understand that although these effects should be advantageous, there will inevitably be costs too from opening up their economies. There should be clear focus on LEDCs and awareness of the lags between increasing globalisation and its potential benefits as well as distinction between agents who gain and those who lose out.
Level 3 (9 – 12 marks) Mid mark 11	There will be reasonable understanding of what is meant by the term 'globalisation' and the various benefits and drawbacks of at least one element of it [e.g. greater free trade], although this analysis might be incomplete in places. There will be some analysis of what this means for LEDCs but little development of this.
Level 2 (5 – 8 marks) Mid mark 7	Candidates are aware that globalisation is generally associated with a free trade position but explanations may contain errors and omission and little sense of structure. At the bottom of this level there will be awareness that 'globalisation' should be associated with benefits and costs but little sense that these may well occur at different times.
Level 1 (1 – 4 marks) Mid mark 3	Explanations are necessarily limited. There might be some awareness of what 'globalisation' is but the weakest candidates may struggle to link it to, for example, free trade and its various benefits and costs. The answer is likely to have no understanding of globalisation within an LEDC context.

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### Evaluation

<p>Level 3 (6 – 8 marks) Mid mark 7</p>	<p>The best answers are likely to evaluate issues such as:</p> <ul style="list-style-type: none"> <li>• The extent to which globalisation will bring benefits.</li> <li>• Whether or not there is evidence that LEDCs have benefited from globalisation in the short-run or in the long-run. The very best candidates might do this with reference to examples.</li> <li>• The degree to which successive rounds of trade talks have been biased in favour of MEDCs and against LEDCs.</li> <li>• The extent to which there has been sufficient time to judge the effects of globalisation on LEDCs.</li> <li>• An attempt to evaluate the degree to which there has been technology transfer and/or a race to the bottom.</li> <li>• Some attempt to assess whether or not LEDCs will suffer from supply-side bottlenecks.</li> </ul>
<p>Level 2 (3 – 5 marks) Mid mark 4</p>	<p>One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.</p>
<p>Level 1 (1 – 2 marks) Mid mark 2</p>	<p>There might be some appreciation that evaluation could be carried out but in a general sense that the candidate thinks it is inevitable that globalisation benefits everyone with little idea of why there are complexities because of the LEDC context.</p> <p>For example: 'Globalisation will clearly benefit LEDCs because their ability to export to MEDCs will increase and this will always be a good thing'.</p>