

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**Pre-U Certificate**

## **MARK SCHEME for the May/June 2013 series**

### **9772 ECONOMICS**

**9772/03**

Paper 3 (Investigation), maximum raw mark 40

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## 1 Transport and the Environment

**‘Transport systems in the UK are totally dependent on the use of scarce fossil fuels. Much more widespread use of alternative energy sources is necessary to develop more sustainable systems. Significant government intervention will be required to achieve this transition.’**

**Evaluate the extent to which economic reasoning supports this statement. [40]**

Candidates should demonstrate that they understand the problems associated with the use of fossil fuels, both in terms of scarcity and environmental damage. They should recognise the opportunity cost of using fossil fuels for transport and the negative externalities generated by its use. They should link these problems to a clear explanation of the concept of sustainability. They should support their analysis with data in order to indicate the scale of the issue. They should understand some of the alternative technologies available, their scope and the problems inherent in their more widespread use. They should understand the methods government could use to intervene in these markets, with the better candidates offering specific policy initiatives, with supporting independent research. They should reach a clear and well-supported conclusion on the extent to which fossil fuel dependence is a problem that can be solved by the use of alternative energy sources and the extent to which government intervention is required to achieve this transition. Analysis may be assisted by the use of diagrams. The best responses will incorporate empirical evidence to support their arguments, whilst weaker responses will give more generic pros/cons of fossil fuel problems, more in line with a Paper 2 extended essay response.

**Answers may include:**

**Knowledge and understanding** of scarcity and sustainability.

Examples:

- Scarcity of fossil fuels and the opportunity costs inherent in their use for transport
- Understanding of alternative energy sources
- The nature of potential government intervention
- Sustainability, relating to:
  - transport demand and economic growth
  - the environment
  - the stock of resources

**Application** of scarcity and sustainability in the UK context.

Examples:

- Dependence on fossil fuels by type
- Global pricing trends and supply issues
- Existing use of alternative sources

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**Analysis** of the consequences of continued fossil fuel dependence, the opportunities presented by alternative fuel technologies and appropriate methods of intervention.

Examples:

- Consequences of fossil fuel dependency:
- Market failure:
  - Negative externalities
  - Rising global fuel prices and their impact on
    - welfare and equity
    - government revenues
    - balance of trade
    - economic growth
  - Energy security and impact on
    - welfare
    - economic growth
- Opportunities presented by alternative technologies
  - Externalities
  - Sustainability
    - Efficiency
    - Growth
    - Environmental
    - Stock of resources
  - Trade
- Appropriate methods of intervention to encourage transition:
  - Examples:
    - Renewable Transport Fuels Obligation
    - Plug-in Car Grant and recharging infrastructure
    - Subsidies/tax breaks – e.g. for research and development support
    - Rail electrification
    - Fuel duty
    - Road tax and congestion charge discounts

Good candidates are likely to support their analysis with appropriate diagrams as well as relevant and recent data on, for example, emissions and forecasts.

Candidates may also use macroeconomic analysis and consider the significance of fossil fuel dependence, and conversely global leadership in the use of alternatives, on international competitiveness and comparative advantage, e.g. USA leads the world in wind energy; Germany in solar, China for hydro.

It may be necessary to briefly outline the nature of the technologies being discussed, but candidates should not be rewarded for lengthy technical descriptions of them, with the focus being kept on the economics of the technologies.

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**Evaluation** of the extent to which fossil fuel dependency is a problem and whether intervention is required to solve it.

Basic evaluation will accept the question at face value, accepting that market failure exists and government intervention is necessary, without delineating any further. They may recognise that fossil fuel dependency is a problem but that there is currently no obvious and clear-cut solution. They may recognise that the government is already intervening, but question whether this intervention is significant, given the scale of the issue. They are likely to focus mainly on technologies to fuel cars rather than other modes of transport and may well focus too narrowly on only one form of technology.

Stronger candidates are likely to deal more explicitly with specific solutions and the practicality of their implementation. They are likely to understand the complementary role that a 'stick and carrot' set of policies can play in resolving the issues. They are likely to cover a wider range of transport modes and technologies. They are also likely to understand that solutions are not purely government-led but will recognise the role that the market is playing and its likely function in the future.

In the case of alternative fuel technologies for cars and trains they may well question the purpose of transition to electric power if this electricity continues to be produced by burning fossil fuels. They may then discuss the scope for electricity generation by other means and the inherent problems with these technologies as well as the opportunities for the UK with potentially significant untapped 'reserves' of wind, wave and tidal power. Candidates may also question the use of biofuels and analyse their environmental credentials.

Coverage of a wider range of modes may involve brief coverage of less mainstream technologies such as airships and solar sails and the contribution they may offer, particularly for freight transport where speed of delivery is less critical.

They are likely to critically evaluate a range of measures currently employed by government and consider whether they are necessary and sufficient. They may move on to make specific recommendations for future policy.

The strongest candidates are likely to not accept the question at face value, and explicitly consider the concepts of sustainability and the role of both the government and market in the present and future. They may argue that markets are already working well by raising transport costs in response to scarcity and those consumers are already changing their habits by walking and cycling more and that these trends are likely to continue in the future and also encompass more localised sourcing of goods as freight charges rise. They may argue that markets will effectively achieve the transition to more sustainable alternatives without intervention. The best responses will show critical awareness of the nature of government intervention and the risk of government failure, e.g. they may even argue that intervention which attempts to guess future technological development and consumer preferences could lead to government failure. However, they may also consider existing distortions in fossil fuel markets such as the OPEC cartel and the extent to which these markets can achieve optimal outcomes. Strong candidates may also focus on the role of government intervention to achieve a modal shift in transport, rather than simply promoting alternative energy use.

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## Theory and Analysis

<p>Level 4</p> <p>(18–22 marks)</p> <p>Mid mark 20</p>	<p>There is clear evidence of a thorough knowledge of scarcity and sustainability of both fossil fuels and alternatives. The economic consequences of fossil-fuel dependency are clearly understood – going beyond just an analysis of negative externalities – as are the opportunities presented by alternatives, applied to a range of modes. At the top end, there is a thorough understanding of current government policy in this area.</p> <p>Answers in this level will actually look at the specific assertions in the quote such as whether <i>significant</i> intervention is key, and alternative energy necessary.</p> <p>At the top end of this level, the development of these points is thorough and detailed, with supporting evidence and data, incorporated within an answer with strong economic foundations and diagrams. The use of theory and analysis is comprehensive, with almost flawless integration of the two into a clearly flowing essay.</p>
<p>Level 3</p> <p>(12–17 marks)</p> <p>Mid mark 15</p>	<p>In this level, a clear and thorough attempt is made to answer the specific question set on whether they agree/disagree with the question. Links between the question being asked and the perspective being put forward are clear throughout the essay. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. Such errors may prevent entry into L4, but do not detract from the overall essay.</p> <p>Those candidates, who applied data and independent research well within a specific range of current policies, will go towards the higher end of this range.</p> <p>At the top end of this level, scarcity and sustainability are clearly linked and there is a clear appreciation of the opportunities afforded by several alternative technologies, but may generalise transport systems. There is likely to be some appreciation of existing methods of intervention.</p> <p>In this level, market failure is discussed (perhaps focussing predominantly on one failure such as negative externalities), with a range of policies to reduce fossil fuel dependency.</p> <p>At the mid-to-bottom end of this level, there will be a lack of breadth or depth in some of the analysis/independent research and the answer is more likely to read as a prepared list of theoretical issues rather than a well-structured essay. There may be a lack of critical awareness in a couple of areas or obvious undeveloped areas. At the bottom end of the level, candidates' responses may only focus on part of the question.</p>
<p>Level 2</p> <p>(6–11 marks)</p> <p>Mid mark 9</p>	<p>At the top end of this level, a generalised attempt to answer the question has been made on an almost exclusively theoretical basis. but candidates fall significantly short on critical awareness or current context.</p> <p>At the middle of this level, the problems caused by scarcity are understood and clearly linked to sustainability but such links may be undeveloped. There is some coverage of alternatives and their economic benefits but government intervention focus is undeveloped. There may be some inaccuracies or oversimplifications and/or limited critical awareness, which detract from the answer on the specific question.</p> <p>At the bottom end of this level, they may make only a superficial attempt to answer the specific question set, with only a cursory reference to either sustainability, scarcity or government intervention.</p>
<p>Level 1</p> <p>(1–5 marks)</p> <p>Mid mark 3</p>	<p>There may well be a limited understanding of scarcity related to fossil fuel use and a vague link to sustainability may be made.</p>

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## Evaluation

Here follows a recap of some of the areas that might be included and a breakdown of what will be expected at the various levels.

Issues include:

- Is there a clear alternative to fossil fuels?
- Does electricity offer benefits if it is still generated using fossil fuels?
- Are biofuels part of the solution?
- Can alternative fuel technologies be applied to aviation and shipping?
- Is a carrot or a stick approach better?
- Is existing intervention effective?
- Is it sufficient?
- What are the alternatives to government intervention?
- What role do/can markets play?
- Is government failure likely?
- Challenging the question – is sustainable energy *necessary* in short run (e.g. discovery of shale), and will *significant* government intervention be *required*?

Level 3 (13–18 marks) Mid mark 16	Given the length of this paper, to achieve this level of evaluation there must be significant and comprehensive coverage of several relevant areas. At the top end of this level, there will signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.
Level 2 (7–12 marks) Mid mark 10	At least two relevant issues will be considered in reasonable depth but the overall scope of evaluation leaves areas unexplored and conclusions may lack any rigorous justification. The conclusion is a generic pros/cons conclusion, that does little more than sit on the fence.
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, 'fossil fuel dependency is a difficult problem to solve as all of the alternatives are currently very expensive'. There is no attempt to draw together the relevant issues in a conclusion.

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## 2 China and the Global Economy

**'China's impressive economic growth rates have been based on being the lowest cost producer. As the prices of China's exports rise this advantage is being eroded. This will inevitably lead to slower growth.'**

**Evaluate the extent to which economic reasoning supports this statement. [40]**

Candidates should demonstrate their understanding of growth in the Chinese economy and the role of globally competitive prices in stimulating and maintaining this growth. Weak candidates will give a broad overview of Chinese growth drivers, but better candidates will focus on the specific quote about the erosion of this cost advantage, and understand a range of factors which are causing prices to rise in China and the likely impact of these price increases on trade 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 extent to which economic analysis and their independent research supports the view that rising costs will inevitably lead to slower growth rates. Analysis may be assisted by the use of diagrams.

Most candidates will focus on a narrow range of causes of the rise in price of China's exports – such as issues in the labour market – while stronger candidates will focus on a wider range of causes, including the exchange rate, rising resource costs, the rise of competitor nations, the changing economic structure of the economy. Strong candidates will address the issue of cost pressures specifically mentioned in the quote, whilst weaker candidates will ignore the cost issue and give an overview of other problems facing the Chinese economy.

**Answers may include:**

**Knowledge and understanding** of international competitiveness and economic growth.

Examples:

- Theory of comparative advantage
- Factors contributing to low costs of production
- International competitiveness factors
- Export-led growth
- Nature of economic growth

**Application** of international competitiveness in the Chinese context and causes of declining competitiveness.

Examples:

- Exports of cheap manufactured goods
- Examples of Chinese growth rates
- Extent to which growth has been export-led
- Impact on growth rates of other economies
- Rising wage costs for example from rising regional minimum wages, income inequality/unrest, labour shortages
- Rising raw material costs from global supply shocks and scarcity
- Appreciating exchange rate
- Removal of protectionist barriers (domestic subsidies, WTO-rulings on tariffs, countervailing tariffs)

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**Analysis** of the role of lowest cost in China's growth and the impact of rising costs.

Examples:

- Low-cost factors encouraging growth:
  - Factor endowments (abundance of labour and land)
  - Cheap and plentiful labour
  - Low land costs
  - Limited regulation
  - Taxation and subsidies
  - Exchange rate
- Non-cost factors encouraging growth:
  - Special Economic Zones
  - Work culture
  - Infrastructure
  - Education and skills
  - Scale
  - Government support
  - Innovation
  - Protectionism
- Impact of rising costs:
  - Loss of competitive/comparative advantage to other LEDCs e.g. Vietnam/Bangladesh/Thailand
  - Erosion of competitive/comparative advantage over MEDCs and the role of transport costs
  - Potential change in the range of goods in which China has a comparative advantage

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, Chinese economic policy, 12<sup>th</sup> Five Year Plan.

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**Evaluation** of the extent to economic analysis supports the statement.

At the lowest end, candidates are likely to conclude that as costs rise this will inevitably lead to a loss of competitiveness. They may well conclude that China must move up the ‘value-chain’ in order to combat this erosion. At this level candidates are likely to compare China unfavourably with MEDCs in terms of quality of output and with LEDCs unfavourably in terms of costs.

At higher levels candidates will recognise that this issue is more complex and that there are many other factors which can determine competitiveness. Productivity is likely to be highly relevant and candidates may refer to relative unit labour costs as being the key determinant of competitiveness. This could lead to a profitable discussion of the factors affecting these costs as well as making direct comparisons with other economies. Such candidates are likely to understand that rising costs is merely one side of the competitiveness discussion, with a focus on what is happening to productivity simultaneously being key.

Candidates may also consider the non-cost factors that have determined, and may continue to determine, China’s growth path. Work culture, role of institutions, lack of regulation, investment in infrastructure, education, skills and government intervention may all be relevant factors. More subtle evaluation is likely to be achieved by candidates who distinguish between China’s competitors and recognise that it is competing with MEDCs, LEDCs and transition economies and that different factors may be relevant in different competitive environments.

At the top end, candidates will explicitly question in turn the assumptions made in the question, namely whether:

- Chinese growth has been fundamentally based on being the lowest cost producer
- This cost advantage is indeed actually being eroded
- This will inevitably lead to slower growth (or whether China’s economic model and/or government policy can address this)
- Whether there are bigger threats to China’s economic growth than rising costs

The best candidates will show an ability to exhibit critical awareness and the subtleties of whether rising costs are a threat to China’s growth or not.

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## Theory and Analysis

<p>Level 4</p> <p>(18–22 marks) Mid mark 20</p>	<p>The answer shows a thorough understanding of the importance of a range of factors that contribute to China’s competitiveness – both cost and non-cost factors. There will be in-depth analysis of both the causes and the actual impact of rising costs on China’s growth. In this level, there is likely to be a clear indication of the significance of specific drivers of cost increases (such as lack of urban labour, ageing population, minimum wages, regulations, exchange rate changes, social unrest), and their likely impact over time.</p> <p>At the top end of this level, all aspects of the quote will be developed (lowest cost producer growth model, rising prices of exports, and inevitability of hampering growth). The development of points is thorough and detailed, with supporting evidence and data, incorporated within an answer with strong economic foundations (such as comparative advantage, relative unit labour costs, and labour market effects, or exchange rate effects). The use of theory and analysis is comprehensive, with almost flawless integration of the two into a clearly flowing essay.</p>
<p>Level 3</p> <p>(12–17 marks) Mid mark 15</p>	<p>In this level, a clear and thorough attempt is made to answer the specific question set on whether they agree/disagree with whether China’s cost rises will inevitably lead to slower growth. Links between the question being asked and the perspective being put forward are clear throughout the essay. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. Such errors may prevent entry into L4, but do not detract from the overall essay.</p> <p>At the mid-top end of this level, all 3 aspects of the quote are discussed but one of these may be superficial (‘lowest cost producer’ growth model, effect of rising prices of exports, and inevitability of hampering growth).</p> <p>At the middle of this level, there is a good understanding of the international competitiveness and the impact of rising costs with a range of causes analysed with an economic framework.</p> <p>At the mid-bottom of this level, the full extent of the question is not analysed, e.g. there is a lack of breadth of analysis surrounding the nature of cost pressures. There will be a lack of breadth or depth in some of the analysis (perhaps a range of cost issues or an awareness of non-cost issues will be limited) and the answer is more likely to read as a prepared list of issues rather than a well-structured essay. There may be a lack of critical awareness in a couple of areas or obvious undeveloped areas.</p>
<p>Level 2</p> <p>(6–11 marks) Mid mark 9</p>	<p>In this level, a generalised attempt to answer the question has been made but candidates fall short on critical awareness or current context. For example, candidates may portray a view of China with assertions, but that is unsupported with independent research.</p> <p>At the top of this level, candidates will access China’s cost competitiveness from a narrow range/angle e.g. just labour costs.</p> <p>They may make only a superficial attempt to answer the specific question set, for example, with the candidate wandering off the specific costs topic and discussing purely why China’s growth will not slow down, or how China could reform its economic model. There will be some understanding of international competitiveness and rising costs. But any analysis will be very superficial, for example, arguing that higher costs must inevitably reduce competitiveness. There is likely to be a lack of clear understanding of the Chinese context.</p>
<p>Level 1</p> <p>(1–5 marks) Mid mark 3</p>	<p>There is little understanding of rising costs and their impact on competitiveness.</p>

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## Evaluation

Here follows a recap of some of the areas that might be included and a breakdown of what will be expected at the various levels.

Issues include:

- Will rising costs inevitably lead to a reduction in competitiveness?
- Does China need to move up the 'value-chain'?
- How do China's relative unit labour costs compare?
- What impact will non-cost factors have?
- How does China's competitive position vary between MEDCs, LEDCs and transition economies?
- Has Chinese growth been fundamentally based on being the lowest cost producer?
- Is China's cost advantage really being eroded?
- If so, will this inevitably lead to slower growth or are other changes occurring e.g. policy changes?
- Challenging the question – is a lower growth rate a real problem for China or actually helpful with rebalancing?

<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. The conclusion is a generic pros/cons conclusion, that does little more than sit on the fence.</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, 'China's costs are increasing and it must move up the 'value-chain' to continue to grow'. There is no attempt to draw together the relevant issues in a conclusion.</p>

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### 3 The Millennium Development Goals

**'Developing economies should concentrate on economic growth if they are serious about improving the quality of life of their citizens. The Millennium Development Goals are at best a distraction and at worst lead to the misallocation of scarce resources.'**

**Evaluate the extent to which economic reasoning supports this statement. [40]**

Candidates should demonstrate a clear understanding of economic growth and the contribution that it can make to living standards. They should understand the nature and scope of the MDGs and the opportunity costs that may be involved in pursuing these targets. They should engage in discussion about the relative benefits of pursuing economic growth versus targeting the MDGs and 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 pursuit of the MDGs is likely to be more or less effective than targeting economic growth as a means of improving living standards. Top candidates will deal with the issue of the MDGs potentially being harmful to growth as a misallocation of resources and not simply that they may be ineffective. Good candidates are likely to explicitly consider the situation in a variety of developing economies and be able to differentiate between them, whilst weaker candidates will adopt generalisations. They are also likely to support their arguments with data and case study evidence. A simple regurgitation of the different MDGs and statistics though should be treated as a weak response. Weaker candidates may confuse this question with one that is purely about the flaws of economic growth as an indicator of standards of living. Stronger candidates will focus on how the MDGs do, or do not, improve the quality of life in LEDCs, in a more practical manner, as well as distinguishing between economic growth and economic development.

**Answers may include:**

**Knowledge and understanding** of economic growth, living standards and the MDGs.

Examples:

- The nature/measurement of economic growth and its contribution to living standards
- Pursuit of the MDGs and their contribution to rising living standards
- Measurement/definition of 'quality of life'
- Misallocation of resources, deadweight loss, government failure

**Application** of economic growth and raising living standards in a LEDC context.

- Examples of economies which have grown and resulted in increased living standards
- Examples of economies where the pursuit of MDGs has not led to a significant improvement in living standards
- Examples where economic growth does not equate to improving quality of life

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**Analysis** of the links between economic growth and living standards and between the MDGs and living standards.

Examples:

- Economic growth and living standards
  - Increased consumption choices
  - Increased tax revenue
  - Increased expenditure on merit goods e.g. health and education
  - Incentive effects
  - Productivity
  - Trade and comparative advantage
- MDGs and living standards – analysing the links between them, and understanding the economic reasoning behind the causation:
  - Education – quality of human capital, productivity, skill level, value-chain, positive externalities
  - Health – quality of human capital, productivity, quantity of human capital, negative externalities
  - Environment – quality of economic growth, sustainability, efficiency
  - Trade – technology transfer, access to wider markets, exploiting comparative advantages
- Opportunity cost for growth of pursuing the MDGs
  - Government expenditure
  - Alternative macroeconomic objectives
  - Short term vs long term considerations
  - Use of aid and loans – dependency culture, exploitation
  - Human/physical capital
  - the idea that market-based solutions (such as Bolsa Familia and Microfinance) may be preferable to government intervention
- Obstacles to growth as a result of pursuing the MDGs
  - Debt
  - Regulation
  - Government failure
  - Political vested interests
  - Lack of institutions
  - Corruption

Candidates should be rewarded for supporting their analysis with diagrams – but diagrams must be used in a relevant manner to answer the specific question of whether the MDGs improve or hinder quality of life. For the higher analytical marks candidates should be able to support their answer with relevant data and case study examples on the link between the pursuit of either economic growth or the MDGs and living standards.

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**Evaluation** of the extent to which prioritising economic growth is likely to be a more effective method of raising living standards than the pursuit of the MDGs.

At the lower end, evaluation may well argue that economic growth has the potential to raise living standards but may well not do so due to distribution issues. Conversely, they could argue that markets are effective methods for allocating resources and that any attempt by governments and NGOs to allocate, no matter how laudable the motive, is likely to lead to sub-optimal outcomes and, in the case of LEDCs this may well take the form of waste and corruption.

However, there may not be any explicit consideration of the factors that determine outcomes for a particular economy or for a particular indicator.

At a mid-to-lower level, candidates are likely to be more specific about the weaknesses of growth in delivering rising living standards. Such candidates are likely to understand the limitations of using economic growth as a proxy for quality of life, e.g. inequality, negative externalities, negative expenditures, composition of GDP etc. For example, they may argue that economic growth is effective at delivering increased consumption choices but that this may well be accompanied by increased health risks, increased incentives to leave formal education and declining environmental quality. Comments may also be made about the unevenness of growth between sectors, regions and groups of individuals so that the benefits of growth may well not be shared evenly and result in broadly improving living standards.

At the mid-to-top level, candidates will recognise this question is more than simply flaws in measuring economic growth. They may well question the problems inherent in targeting the MDGs and their limitations in delivering improved living standards. They may well argue that the increased intervention required in many LEDCs to hit the targets has led to inefficiency, bureaucracy and corruption issues. This, in turn, may well have prevented markets from operating effectively, held back growth, limited the resources available to LEDCs over time and thus slowed or even retarded any improvement in living standards.

Strong answers are likely to develop this discussion into an explicit consideration of the timescale of the effects. For example, they could argue that the MDGs will ensure that a base level of living standards is achieved but, in holding back growth, may well lead to lower living standards in the longer term – by for example only focussing on primary education. Some may discuss whether the MDGs are designed to achieve growth in the first place i.e. what is the real motivation for the MDGs and do they prioritise quality of life above growth – are they mutually exclusive?

The strongest candidates will be explicit about the distinction between economic growth and economic *development*. There may be reference to the Kuznets' curve of income inequality vs development. Strong candidates may also discuss the role of country-specific differences e.g. the quality of institutions (such as corporate governance/corruption) in delivering the benefits of the MDGs. Good candidates should be able to support the point that MDG success will depend on country conditions i.e they are not a distraction if the right institutional and governance framework is in place. The best candidates are likely to support these arguments fully with reference to case study evidence.

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## Theory and Analysis

<p>Level 4 (18–22 marks) Mid mark 20</p>	<p>The answer shows a thorough knowledge of economic growth and economic development, the links between these concepts and the influence of the pursuit of the MDGs on both. Distinctions are made between individual economies or groups of economies and these points are supported by examples and data. In this level, there should be sufficient depth to both issues raised in the question – whether MDGs cause a misallocation of resources/are a distraction, and whether economic growth is key to improving quality of life – but candidates differentiate between different economies, with supporting data on country-specific research. The development of points is thorough and detailed, with supporting evidence and data, incorporated within an answer with strong economic foundations. The use of theory and analysis is comprehensive, with almost flawless integration of the two into a clearly flowing essay.</p>
<p>Level 3 (12–17 marks) Mid mark 15</p>	<p>In this level, a clear and thorough attempt is made to answer the specific question set on whether they agree/disagree with the question. Links between the question being asked and the perspective being put forward are clear throughout the essay. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. Such errors may prevent entry into L4, but do not detract from the overall essay.</p> <p>In this level, there is sufficient coverage of the links between both economic growth and development, the MDGs and quality of life, with some effective use of data. There is good use of economic theory and independent research to support the points being made.</p> <p>At the mid-to-bottom end of this level, the analysis lacks breadth or depth and is more likely to read as a prepared list of advantages or disadvantages of pursuing the MDGs, and may generalise about the effects across all developing economies. Candidates at this end of the level may focus on only part of the question – such as whether MDGs are a waste of resources or whether economic growth improves quality of life. There may be a lack of critical awareness in some areas, or issues left unexplored.</p>
<p>Level 2 (6–11 marks) Mid mark 9</p>	<p>At the top end of this level, a generalised attempt to answer the question has been made but candidates fall short on critical awareness or current context.</p> <p>They may make only a superficial attempt to answer the specific question set for example arguing that MDGs are important as they promote education and health, but only a narrow range of issues are considered.</p> <p>There is some limited understanding of the MDGs and links to economic development and/or growth. But such discussion is likely to be general points related to a narrow range of goals.</p>
<p>Level 1 (1–5 marks) Mid mark 3</p>	<p>There is a lack of understanding of the MDGs and/or economic growth.</p>

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## Evaluation

Here follows a recap of some of the areas that might be included and a breakdown of what will be expected at the various levels.

Issues include:

- Does pursuit of the MDGs reduce growth prospects?
- Are scarce resources being wisely used?
- Is there evidence of bureaucracy and corruption?
- Will economic growth lead to economic development?
- Are some aspects of living standards more likely to be achieved through the MDGs?
- Can generalisations about the best approach be made or will it vary between economies?

<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. The conclusion is a generic pros/cons conclusion, that does little more than sit on the fence.</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 MDGs have been partially successful in achieving development goals but many of the poorest economies are still not growing and the majority of their populations therefore remain in poverty’. There is unlikely to be any attempt to draw together the relevant issues in a discussion.</p>

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**4 Economics Thinkers and their relevance today (Adam Smith, Karl Marx and John Maynard Keynes)**

**‘In a modern economy, Keynes’s views exert greater influence on the economy as a whole, whereas Smith’s have more influence on the operation of individual markets. Marx’s views have ceased to be relevant.’**

**Based upon your study of these thinkers, evaluate the validity of this statement. [40]**

There are three aspects to the quote and the strongest candidates will consider all of them. Candidates should demonstrate an awareness of the economic thought of Keynes and be able to apply this to the management of the macro-economy. They should demonstrate an awareness of Smith’s thought and its application to the micro-economy. They should also show that they understand why Marx’s thought may be perceived to be irrelevant. They should be able to give clear current examples of the influence, or otherwise, on modern economic orthodoxy. Candidates should be able to draw comparisons between the thinkers and reach a clear and well-supported judgement about the validity of the statement. Weak candidates are likely to generalise the thinkers’ views, or give a broadly historical account of their views, with little attempt to address the ‘modern economy’ aspect of the quote. Strong candidates are likely to recognise that the portrayals of the schools of thought in the question are simplistic and that the influence of all three thinkers is actually more subtle than the statement suggests. Analysis may be assisted by the use of diagrams.

**Answers may include:**

**Knowledge and understanding** of the economic thought of Keynes, Smith and Marx.

Examples:

- Keynes and government intervention in the macro-economy
- Smith and the importance of free markets
- Marx’s critique of capitalism

**Application** of the works of the thinkers to the modern economy.

Examples:

- Keynes – dominance of the mixed economy, varying degrees of state ownership, extensive intervention in response to crises
- Smith – dominance of the market mechanism as a method of resource allocation
- Marx – increasing irrelevance as a result of the collapse/transformation of command economies

**Analysis** of the validity of the influence of the schools of thought to modern economics.

Examples:

- Keynes, likely to focus on macro and the recent public resurgence of Keynesianism as a credible macro-economic doctrine, including:
  - Demand management
  - Infrastructure spending
  - Multiplier
  - Intervention in financial markets
- Smith, likely to focus on the free operation of markets and the global dominance of markets as an allocative mechanism, including:
  - The invisible hand
  - Specialisation
  - Laissez-faire
- Marx, likely to focus on failings in Marx’s thought and reasons why it is likely to be regarded as irrelevant, including:
  - Collapse of command economies

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- Flawed labour theory of value
- Current dominance of capitalism, despite predictions to the contrary

Candidates should be able to support their analysis throughout with current examples.

**Evaluation** of the extent to which the Keynesian ideas on intervention are dominant in the modern economy.

Basic evaluation is likely to broadly support the statement, but may make the point that the influence of the thinkers is more subtle than it suggests. They may challenge the dominance of Keynes at the macro level, arguing that neo-classical thought has been prevalent in recent decades and that Keynes has been talked about a lot in recent years but there is not a great deal of policy to show for it. They may challenge the dominance of Smith's laissez-faire approach in the micro sphere and point to widespread intervention in markets. Equally, they may challenge the notion that Marx's thought is irrelevant and suggest that the most recent 'crisis of capitalism' demonstrates that the system may not be as secure as mainstream economic thought believes.

Stronger candidates are likely to have a more thoroughly developed appreciation of the scope of each thinker's contribution and point out that each thinker added to modern economic thought in ways that go beyond the 'headline' theories. For example:

Keynes, micro legacy:

- Liquidity trap and intervention in financial markets
- Regulation of financial institutions
- Unemployment and intervention in labour markets
- Role of expectations (animal spirits)

Smith, arguments for intervention:

- Protection of property rights
- Law and order
- Protection from injustice or oppression
- Public works and public institutions
- Education and health

Marx, contribution to 'mainstream' economics:

- Measures to reduce inequity and inequality
- Restrictions on capital
- Intervention in labour markets

The best candidates are likely to recognise that modern economic orthodoxy is an amalgam of ideas taken from all three thinkers (among many others) and that the dominance of one set of ideas or another ebbs and flows over time. They may argue, for example, that the mixed economy is underpinned by the primacy of markets, which is fundamentally Smith's prescription. Equally, they may contest that Marx's challenge to unregulated markets and the damage to welfare caused by excessive inequality is the principle that led to the creation of a mixed economy. They may also explore the extent to which all three thinkers, including Smith, advocated intervention and therefore all believed, to a greater or lesser extent, in a mixed economy.

At the top end candidates may consider the global picture when considering which economic orthodoxy the quote is referring to and recognise that the prevailing orthodoxy varies between countries e.g. Beijing Consensus vs Washington Consensus.

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## Theory and Analysis

<p>Level 4</p> <p>(18–22 marks) Mid mark 20</p>	<p>In this level, candidates will go beyond the usual conventional depiction of the theories of Keynes (interventionist) vs Smith (free market) vs Marx (anti-capitalist), and show an understanding of the subtleties of the approaches. There will be an attempt to amalgamate independent research with an application to the relevance to the modern world.</p> <p>The answer shows a thorough knowledge of the contribution of all the three thinkers to modern economic thought and policy. There are clear examples of relevant ideas drawn from recent events and analysed in depth from the perspective of the thinkers.</p> <p>At the top end of this level, development of points is thorough and detailed, with supporting evidence and data, incorporated within an answer with strong economic foundations. The use of theory and analysis is comprehensive, with almost flawless integration of the two into a clearly flowing essay.</p>
<p>Level 3</p> <p>(12–17 marks) Mid mark 15</p>	<p>In this level, a clear attempt is made to answer the specific question set on whether the quote is valid. Links between the question being asked and the perspective being put forward are clear. There is a solid understanding of a range of supporting points, with relevant supporting empirical examples. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. Such errors may prevent entry into L4, but do not detract from the overall essay.</p> <p>At the top of this level, a clear understanding of the three thinkers is exhibited but perhaps there is some lack of depth at times, or lack of application to current economics/examples.</p> <p>At the bottom of this level, the answer is dominated by a good understanding of the influence of only two of the economic thinkers, with only a superficial reference to the third.</p>
<p>Level 2</p> <p>(6–11 marks) Mid mark 9</p>	<p>At the top end of this level, a generalised attempt to answer the question has been made but candidates fall short on critical awareness or current context. They may make only a superficial attempt to address the full quote, instead perhaps discussing Keynes vs Smith vs Marx in general. Points made may be generalised or very narrow in their focus e.g. Keynes advocates ‘spending out of a recession’ and Smith advocates laissez-faire, with Marx being totally irrelevant in this day and age.</p> <p>The analysis may lack breadth or depth and is more likely to read as a prepared list of theories, giving a broadly historical account, rather than an attempt to make it relevant to the ‘modern economy’. There is also a lack of critical awareness in some areas.</p> <p>At the bottom of this level, knowledge of the economic thinkers may be superficial, with only 1 out of the 3 thinkers discussed.</p>
<p>Level 1</p> <p>(1–5 marks) Mid mark 3</p>	<p>There is a lack of clear understanding of the ideas of the economic thinkers.</p>

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## Evaluation

Here follows a recap of some of the areas that might be included and a breakdown of what will be expected at the various levels.

Issues include:

- Are Keynes's ideas dominant in macroeconomics?
- Are Smith's ideas dominant in macroeconomics?
- Are Marx's ideas irrelevant?
- To what extent is the statement an over-simplification?
- How have the thinkers contributed to modern economic thought in ways not suggested by the statement?
- To what extent is it meaningful to consider the influence of one economist, rather than the accumulation of theory over time?
- Does the statement only represent the view from one group of economies?

<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 be signs of real in-depth research and/or originality. In all cases there will be a clear conclusion drawn at the end that relates specifically to the set question.</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. The conclusion is a generic pros/cons conclusion, that does little more than sit on the fence.</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, 'Modern economies are Keynesian in the sense that they are mixed, but they are also based on markets, advocated by Smith'. There is no attempt to draw together the relevant issues in a conclusion.</p>