

**MARK SCHEME for the May/June 2015 series**

**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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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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.

#### 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 'The factors that shift the demand curve, such as advertising, are of greater importance to firms than simply lowering the price to increase the quantity demanded.'

To what extent do you agree with this statement?

[25]

Candidates should show a clear understanding of the distinction between movements along and shifts of the demand curve. The use of the phrase 'of greater importance' in the question should indicate that the answer should evaluate the importance of both cases rather than just looking at a shift in the demand curve.

**Answers may include:**

**Knowledge and understanding** of the factors that can cause a demand curve to shift and also clear understanding of the link between a demand curve and total revenue, and between total revenue and the potential aims of a firm. Better answers may concentrate on both the position AND the slope of the demand curve.

**Application** to real life – there may well be a discussion on how advertising can build up brand awareness and/or brand loyalty and how this may affect the PED for a product/slope of the demand curve.

**Analysis** of the implications of both shifts of, and movements along, demand curves.

Examples:

With a movement along a demand curve, how does this impact on Total Revenue (TR)? Analysis of the link between PED and TR. Similarly some discussion of the costs of advertising and how this might affect profitability of the firm – also could be covered under evaluation.

**Evaluation** of the issues involved might include the following examples:

- Short run vs long run discussion.
- Consideration of other factors outside the control of an individual firm that can also cause a shift in the demand curve.
- Discussion of the difference between informative advertising – and hence greater knowledge/information for consumers – and persuasive advertising and an attempt to generate perceived differences between goods (and possible 'waste of resources').
- Consideration of whether firms want to increase demand – could open up into a wider discussion of aims of firm, as long as kept relevant to set question – but particularly in context of 'will extra sales generate extra revenue/profit?'

A good answer is likely to discuss issues such as:

- What is the firm aiming to do?
- Should a firm concentrate on the present or always be looking towards the future, as far as demand goes?
- How much that affects the demand for a firm is outside the control of the firm?

In a well-structured answer it is likely that there will be a conclusion drawn at the end to explain the candidate's overall view.

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### Theory and Analysis

Level 4 (13–17 marks) Mid mark 15	There is a clear demonstration of an understanding of the difference between shifts of, and movements along, demand curves. The analysis will be both precise and comprehensive and almost certainly accurate diagrams will be used to show differences. At the top of this level a candidate will need to go further than just explaining about aiming to shift a demand curve through advertising or lowering the price and the analysis will need to have been widened to cover at least one other relevant issue, with some link to the issue of the aims of firms.
Level 3 (9–12 marks) Mid mark 11	The candidate is likely to look at both the implications of a shift in the demand curve and the implications of a lowering of price, though will cover both angles rather superficially or with some errors in the analysis.
Level 2 (5–8 marks) Mid mark 7	The candidate is likely to focus <b>just</b> on the implications of a shift in the demand curve, without analysing the implications of lowering of price. There is a definite appreciation of what the question is asking but the answer will fail to go into any 'meaningful' analysis and will probably be more a collection of statements rather than any true explanation.
Level 1 (1–4 marks) Mid mark 3	Explanations are either missing or inaccurate. The answer is likely to fail to address the set question but instead be a very weak attempt to rehash a textbook explanation simply of causes of a shift in the demand curve.

### 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>• What is the firm aiming to do?</li> <li>• Should a firm concentrate on the present or always be looking towards the future, as far as demand goes?</li> <li>• How much that affects the demand for a firm is outside the control of the firm?</li> </ul> In a well-structured answer it is likely that there will be a conclusion drawn at the end to explain the candidate's overall view.
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 and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: 'There are many other factors that affect demand as well as advertising.'

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**2 To what extent do you agree with the statement that the market failure involved in the provision of public goods is easy to spot but difficult to correct? [25]**

Candidates should show a good understanding both of the characteristics of public goods and also of the reasons why market failure arises with such goods. However, this question also requires candidates to go on to consider the problems involved with attempts at government intervention, in an effort to try to correct for the market failure, and to look at the area of government failure.

**Answers may include:**

**Knowledge and understanding** of the relevant theory such as:

Explaining that public goods are non-rival, non-excludable (and possibly also non-rejectable). Candidates may well wish to distinguish between pure public and quasi-public goods.

**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:**

Candidates are likely to explain why the characteristics of public goods lead to the ‘free rider’ problem, which will thus result in the problem of ‘non-revealed preference’. Hence this will result in the lack of provision within the free market and hence the market failure. However, the lack of perfect knowledge on the part of the government, not least due to the non-revealed preference, causes major issues when decisions are made as to how much of the good should be provided. The candidates will need to consider the issue of government failure – usually regarded as ‘making the situation worse’ – although often candidates will write about a situation when the ‘market failure’ is not totally corrected as being ‘government failure’ and should not be penalised for this interpretation. Analysis of whether government provision is always a better alternative to no provision whatsoever will need to be considered at the top end. Better candidates will analyse the clear difference between whether governments **should** intervene and whether they **can** intervene.

Candidates may also distinguish between intervention in the form of state provision of these goods and state financing of private sector provision of these goods. Good answers should contain reference to examples.

**Evaluation** of the issues involved.

Examples:

- The problems arising from the characteristics of public goods assume that individuals act ‘rationally’ – is this a realistic assumption to make? In particular, do most ‘economic agents’ understand the rationale behind ‘taking a free ride’?
- Is there a clear difference between public goods – where it is assumed that the market will not provide the good at all – and other market failures, where there may well be provision but in the ‘incorrect quantities’? That is, can government intervention at least partially ‘correct the situation’ more easily with public goods than in other cases?
- Does this, therefore, make a difference between the consideration of pure public goods and quasi-public goods?
- There may well be ‘opportunity cost’ issues involved with government intervention to provide public goods – especially at times of fiscal constraint. Does this further complicate the issue?

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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, the reasons why market failures occur and the difficulties encountered when trying to correct for these failures. The candidate also accurately explains why the level of intervention in the market is difficult to calculate. At the top of this level there is likely to be analysis of the difference between no intervention and ‘inaccurate intervention’. Good examples will be used to back up the analysis.
Level 3 (9–12 marks) Mid mark 11	The candidate will either demonstrate a good understanding of the problems involved with public goods OR with intervention in such markets but will not cover ‘both sides of the coin’ in enough detail. Alternatively, both sides may be covered but at too superficial a level to enable the candidate to demonstrate a good understanding of the issues involved.
Level 2 (5–8 marks) Mid mark 7	There is likely to be some understanding shown but the answer and examples will be superficial and the candidate will not have appreciated the point of the question about ‘intervention being difficult’ – the answer is likely just to be a superficial explanation of what are public goods.
Level 1 (1–4 marks) Mid mark 3	A very weak answer that will merely state a few of the issues involved but with no real analysis and the answer is likely to include a lot of confusion/inaccuracies.

### 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>• Do individuals act rationally?</li> <li>• Are the problems discussed with regard to public goods unique or are they common with all forms of market failure?</li> <li>• Do we need to sub-divide goods into ‘public goods’ and quasi-public goods?</li> <li>• Even if intervention isn’t perfect, isn’t it better than no intervention?</li> <li>• What are the wider implications of government intervention in terms of opportunity cost and alternative uses of resources – especially at times of fiscal constraint?</li> </ul> <p>There is likely to 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 and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: ‘There are similar problems with other types of market failure.’

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3 'Trade unions secure justified wage increases, improve firms' productivity and increase employment.'

Evaluate this statement.

[25]

Candidates should show a good understanding of the theory behind wage determination and the role that trade unions can play within labour markets. Better candidates are likely to show knowledge of how the veracity of the statement will depend upon the type of labour market in question. Similarly, the relevance of a simultaneous increase in productivity in terms of implications of the other two variables in the statement will need to be considered. Clearly the use of the word 'justified' in the question encourages the candidates to evaluate what we mean by this term.

Answers may include:

**Knowledge and understanding** of the relevant theory such as:

Some background on what unions are and the rôle that they can play in wage determination. Knowledge of the difference between perfectly competitive labour markets and those where there is the existence of a monopsonist employer will be useful. Candidates are likely to make use of the  $mrp = mcl$  diagram to show how both wage levels and employment levels are determined and also to show how changes in productivity may cause shifts in the  $mrp$  curve.

**Application:**

Consideration of recent events involving unions – ideally candidates will be able to give 'current examples' either to justify the statement or to provide counter-evidence.

**Analysis:**

Examples:

- Candidates will need to explain the theoretical ways in which unions might help influence the level of wages their members receive and/or the level of employment within an industry.
- There will need to be some discussion as to how unions can improve productivity. The expected approach will be that unions can work with management to implement new techniques to improve output/adopt new technology (an anti-Luddite approach). However, candidates may also argue that, if they receive a wage increase, workers will feel more motivated/more appreciated and hence will be more productive per se, regardless of any change in technology.
- To answer the set question fully, candidates will have to analyse how changes to productivity can affect the equilibrium levels of wages and employment – probably through the shift in the  $mrp$  curve.
- The type of labour market in question will be considered by better candidates and at the top level candidates will show how an increase in wage through, effectively, a union-imposed minimum wage could result in higher employment in one situation and lower employment in another.

**Evaluation** of the issues involved, for example:

- In today's globalised economy, how much power does any group of workers have to determine the pay that they receive?
- Is the state of technology not far more important in determining the level of productivity? Unions may 'facilitate' increases in productivity by 'not standing in the way of progress', but are unlikely to 'cause' greater productivity.
- Don't unions often have a choice to make between higher wages and lower employment or lower wages and greater employment? (If indeed they actually have a choice at all in today's world!)
- What do we mean by the term 'justified'? Do we mean 'deserved' or 'affordable'?

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### Theory and Analysis

Level 4 (13–17 marks) Mid mark 15	There will be a clear and accurate explanation of how unions could, in theory, play a rôle in influencing <b>all three</b> of the variables mentioned in the question. At the top of this level, there will need to be some discussion of how it is not a 'one size fits all' answer and how the characteristics of the particular labour market will affect the outcome. At this level candidates are likely to provide recent examples both to support and also to refute the claims made in the statement.
Level 3 (9–12 marks) Mid mark 11	The candidate is likely to have a decent knowledge of the rôle that can be played by a union in wage/employment level determination but is unlikely to consider the issue of productivity and the implications of changes in this. Alternatively the candidate may mention all three variables but the analysis of at least one will be too superficial and not enough will be explained – merely stated.
Level 2 (5–8 marks) Mid mark 7	Any 'analysis' is likely to be extremely superficial and will most likely consist of a few statements without any explanation/consideration of consequences. Answers at this level will show no appreciation of the influence that unions may have actually had in recent years.
Level 1 (1–4 marks) Mid mark 3	A very limited appreciation of the role that might be played by a union. No attempt at all to try to analyse <i>how</i> a union can influence any of the relevant variables.

### 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>• Is not the type of industry in question of real significance? Can unions have any influence when there is global competition?</li> <li>• What about industries where there is no 'final product' per se – how can the issue of 'raising productivity' to 'justify a higher wage' be dealt with in such circumstances?</li> <li>• Is there not a 'trade-off' that needs to be made by unions between wages and jobs?</li> <li>• What do we actually mean by the term 'justified'?</li> </ul> There is likely to be a conclusion drawn at the end to explain the candidate's overall view – even if this is that there is no clear-cut answer.
Level 2 (3–5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, 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 and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: 'The influence that a union can have will depend upon the industry under discussion.'

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### Section B

- 4 'The actual rate of unemployment is of less relevance than the type of unemployment when it comes to formulating appropriate policies.'

To what extent do you agree with this statement?

[25]

Candidates should show a good understanding of how the different policies that may be used are more or less appropriate depending upon the various types of unemployment. Clearly candidates will need to mention the possible policies that could be used but it should be noted that this is not merely a question of 'what should the government do to solve unemployment?' but requires an approach where better candidates will clearly demonstrate that they understand that there are several types of unemployment.

When discussing 'appropriate policies', candidates will need to demonstrate a good understanding of what the problems from unemployment might be and explore whether these problems come about simply as a result of the level of unemployment or from the composition of unemployment.

**Answers may include:**

**Knowledge and understanding of:**

What is meant by the rate of unemployment – including knowledge of the different ways in which it is measured within the UK – and possibly some explanation as to the rationale behind having different measures.

**Application** in terms of demonstration of what is currently happening with unemployment within the UK, how things may have changed in recent years and how this has had an impact upon the appropriateness of different policies.

**Analysis** of the different causes of unemployment and how they bring different problems and require different approaches. For example, the candidate may look at the issues of youth unemployment in contrast to those caused by structural unemployment, or between cyclical unemployment as opposed to long-term unemployment. Better candidates will consider therefore how different types cause different issues and hence require different policy responses.

**Evaluation** of the issues involved.

Examples:

- Whilst the type of unemployment may often be important, aren't there some 'generic' problems arising from unemployment, regardless of what has caused it, and therefore 'size' is important?
- Should a policy be aimed at looking to reduce/eradicate unemployment or at looking to deal with the problems caused by the unemployment?
- How much influence can a government have on unemployment, especially in a global economy, and hence how should this affect its approach?
- The whole issue of 'do unemployment figures represent the true case?' – e.g. unemployment vs underemployment and the issue of full-time vs part-time jobs.
- Are there possible problems from making unemployment too 'tolerable'? – the whole issue of 'make work pay' etc.

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### Theory and Analysis

Level 4 (13–17 marks) Mid mark 15	There will be a clear discussion of what makes a policy ‘appropriate’ – looking at the problems that may be caused by unemployment – and an accurate and comprehensive analysis of the importance of the nature and make-up of unemployment as opposed to merely the rate of unemployment. At the top of this scale there will have been accurate analysis of how at least one policy would be effective for problems caused by a certain ‘type’ of unemployment yet ineffective/inappropriate for those caused by another type.
Level 3 (9–12 marks) Mid mark 11	There will be some appreciation of the main issue behind the question – namely that it is about the appropriateness of policies and whether the problems caused by unemployment are generic or not – but the answer is likely to lack convincing analysis of why the mere rate of unemployment may be insufficient. Alternatively the answer may be quite good at explaining the ‘differences’ between various ‘types of unemployment’ but fail to go on to explain how these can lead to different policies being appropriate at different times.
Level 2 (5–8 marks) Mid mark 7	There may be some appreciation of the main issue behind the question but the answer is likely to lack any convincing analysis of why the mere rate of unemployment may be insufficient. Alternatively the answer is likely to spend far too much time on looking at causes of unemployment and fails to offer any real attempt at answering this particular question.
Level 1 (1–4 marks) Mid mark 3	There is very little evidence shown that the candidate understands that different types of unemployment can require different responses, nor is there any real evidence that they have an accurate knowledge of precisely what is meant by unemployment.

### 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>• Isn’t the rate a problem in itself – what about ‘generic’ problems from unemployment?</li> <li>• Should policies be looking to reduce the unemployment or at alleviating the problems caused by the unemployment? Ultimately, isn’t prevention better than a cure?</li> <li>• Is the rate of unemployment an accurate statistic that truly reflects the underlying situation?</li> <li>• Might policies to deal with problems conflict with other government policies, particularly in terms of fiscal implications?</li> </ul> <p>There is likely to 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.

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Level 1 (1–2 marks) Mid mark 2	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, it stops there at the comment, and the point is not developed. For example: 'We need to consider whether unemployment data actually accurately reflect the true situation.'
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**5 'UK inflation targets should not be set, as too many contributing factors are outside the control of the Bank of England.'**

**Evaluate this statement.**

**[25]**

Candidates should show a good understanding of what is meant by 'inflation targets' and be able to analyse all the various factors that might affect inflation rates. There also should be some discussion of both the relevance of such targets and also the purpose of setting them, so as to anchor inflationary expectations, in order fully to answer the set question.

**Answers may include:**

**Knowledge** and **understanding** both of the use and purpose of inflation targets in the UK and also of whether these targets have been met – and if not, as has been the case of the UK in recent years, why not.

**Application** of targets with, almost certainly, a description of the current 2.0 target for CPI set for the Bank of England to try to achieve. In addition, reference could be made to possible alternative targets, for example 'core' inflation.

**Analysis** of the very rationale behind setting an inflation target and possible problems.

Examples:

- To try to control demand pressures within an economy.
- The various causes of inflation and whether it is feasible to target inflation caused by, for example, cost-push pressures.
- Can a monetary authority not compensate for the factors outside their control? Just because certain contributing factors can't be controlled, does this mean that all intervention is meaningless?

**Evaluation** of the issues involved.

Examples:

- Potential conflicts in terms of inflationary targets and other macroeconomic objectives.
- Just because a target cannot be achieved, does this make its existence a waste of time?
- What purpose does an inflation target serve? Does it matter if it is not met?
- Differing relative importance of outside factors over time.

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### Theory and Analysis

Level 4 (13–17 marks) Mid mark 15	There is likely to be a clear, precise and accurate explanation of why there have been difficulties for the Bank of England in meeting the inflation target it has been set. There will be discussion of the various causes of inflationary pressure and it is likely that better candidates will approach the question from a (recent) historical perspective to examine why targets were met in the early years of their existence but not more recently. Candidates will need to address whether or not the setting of a target in itself serves any purpose and at the top end candidates are likely to discuss the difference between having a target that is unattainable and not having a target at all.
Level 3 (9–12 marks) Mid mark 11	There will be a reasonable understanding of why there have been problems in recent years but the answer is likely to focus solely on what the 'external contributing factors' are, or on how the Bank of England has used various tools to achieve a target – primarily through changes in the Base Rate – rather than drawing the two sides of the analysis together.
Level 2 (5–8 marks) Mid mark 7	The answer is likely to be superficial and there will be limited explanation either of the attempts to achieve a target or of what factors affect the inflation rate, but far too much will be left simply stated rather than explained.
Level 1 (1–4 marks) Mid mark 3	There will be little of any relevance. The answer may well talk about an inflation target but almost no knowledge will be shown as to how this target might be achieved.

### 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>• Just because the Bank of England can't influence all factors, does that mean that they shouldn't aim to influence the overall level of inflation – even if they can't achieve the set target?</li> <li>• Should a target act as a 'one size fits all' objective? Shouldn't the target be flexible to make allowance for the external factors?</li> <li>• Does the fact that a target is not met mean that the target shouldn't have been set? Is it not better to have tried and failed than never to have tried at all?</li> </ul> There is likely to be a conclusion drawn at the end to explain the candidate's overall view – even if this is that there is no clear-cut answer.
Level 2 (3–5 marks) Mid mark 4	One of the above will be discussed in detail or a couple of points touched on, 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 and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: 'We need to consider what the point is of having an inflation target, regardless of whether it is achieved or not.'

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- 6 To what extent do you agree with the statement that comparative advantage is still the main driver of international trade? [25]

Answers may include:

**Knowledge** and **understanding** of the theory behind comparative advantage and also knowledge of free trade areas. Knowledge of the WTO and its aims may well be shown.

**Application** – including almost certainly the use of numerical examples to show how comparative advantage can bring about benefits to both parties. Also, better candidates may be able to use relevant and accurate statistics to demonstrate how much trade is focused on ‘free trade areas’ – most likely to focus on UK’s trade within the EU but certainly credit should be given to other examples that are used.

**Analysis:**

Examples:

- As above, showing *how* comparative advantage can produce benefits and hence *why* there is a benefit to a country to undertake such trade.
- Possible analysis of trade diversion and trade creation with the use of free trade areas.
- Consideration of other factors that promote trade – geographical proximity, loyalty, historical links, political unions etc.
- Has globalisation increased the role of comparative advantage in the determination of trade, or diminished it? – this can be part of evaluation as well.

**Evaluation** of the issues involved.

Examples:

- How do changes in exchange rates affect international trade? Is not ‘competitive advantage’ a better phrase to use in today’s world?
- Is the model of comparative advantage not built upon too many over-simplistic assumptions?
- The use of the phrase ‘main driver’ – it may well be a factor but how great is its importance?

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### Theory and Analysis

Level 4 (13–17 marks) Mid mark 15	There is a clear and accurate explanation of the theory behind comparative advantage. At this level there will certainly be consideration of some of the potential pitfalls with the theory and it is most unlikely that the candidate will have just accepted that the theory could be used to justify all trade that takes place. There will be a good discussion on the rationale behind free-trade areas and, at the top of this level, there is likely to be analysis of how these can create trade between countries and also divert trade away from other countries. There is also likely to be some discussion on non-economic drivers of international trade, and may also be relevant use of statistics in support.
Level 3 (9–12 marks) Mid mark 11	There will either be a good understanding and explanation of the proposed benefits of comparative advantage, but little of the potential flaws in the theory and no real consideration of other potential causes of trade, OR the answer will touch on most areas of relevance but the analysis will be rather superficial and there will be a sense of too much being stated rather than explained.
Level 2 (5–8 marks) Mid mark 7	Any analysis is likely to be rather superficial and there will, at best, be limited knowledge shown of the theory behind comparative advantage – although the candidate may show that they know the general rationale behind the theory – e.g. ‘in order to increase overall output, countries specialise where they have a comparative advantage’ – without really explaining how this all works!
Level 1 (1–4 marks) Mid mark 3	There will be little of any relevance. No relevant theoretical analysis will be included, but there may be some knowledge of trade patterns.

### 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>• In a world where bartering very rarely exists, aren't exchange rates just as, if not more, important than theoretical comparative advantage?</li> <li>• How realistic are the (over?)simplifying assumptions upon which the model is based?</li> <li>• The question talks about ‘the main driver’ – can it be the most important factor to explain some trade whilst other trade might have more historical/political reasons for its existence?</li> </ul> <p>There is likely to 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 and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: ‘The reasons for trade vary depending upon with whom the trade takes place.’