Cambridge Pre-U

ECONOMICS **9772/01**

Paper 1 Multiple Choice, Short Answers and Data Response **May/June 2022**

MARK SCHEME

Maximum Mark: 80

Published

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.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2022 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **15** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:
- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)

b DO credit alternative answers/examples which are not written in the mark scheme if they are correct

c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).

d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)

e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities

f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).

g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:
- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:
- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

<table>
<tr><td>4</td><td colspan="2">**Annotation:**</td></tr>
</table>

4	**Annotation:** • For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking. • For levels of response marking, the level awarded should be annotated on the script. • Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

The following annotations are used in marking this paper.

Annotation	Use or meaning
KU	Relevant economic knowledge and understanding used to help answer the question. here.
APP	Relevant application of economic concepts to the given question or context is shown. here.
AN	Relevant economic analysis of the situation in the question is demonstrated.
EVAL	Relevant, effective evaluation of the issues in the question is given here.
✓	Correct and relevant point made in answering the question.
×	Incorrect point or error made.
highlighter	Used to indicate something of significance or referred to by another annotation or comment.
[T] (text box)	A catch-all when you need to give more detail or explanation. You may also use the text box to indicate the breakdown of marks.
BOD	Benefit of the doubt given. The point has not been made quite correctly, completely or precisely, but is nearly there and the intention is clear.
^	Omission mark. A term, a label, a line on a graph, an example, etc, required to make the point correctly has been missed out of the response
OFR	Own figure rule
NAQ	Not answering the question. This answer (or part of answer) is tangential or irrelevant
NE	Not established – a statement made without any support
?	The point being made is unclear or confused
REP	Repetition of a point already made/credited
SEEN	Noted but no credit given. Can also be used for blank pages
TV	Too vague. This part of the response is not precise enough to be worth any credit

Question	Answer	Marks
1	D	1
2	D	1
3	A	1
4	A	1
5	D	1
6	B	1
7	C	1
8	C	1
9	D	1
10	D	1
11	D	1
12	C	1
13	B	1
14	A	1
15	C	1
16	C	1
17	D	1
18	C	1
19	**A**	1
20	D	1
21	C	1
22	C	1
23	B	1
24	B	1
25	A	1
26	C	1
27	A	1
28	A	1
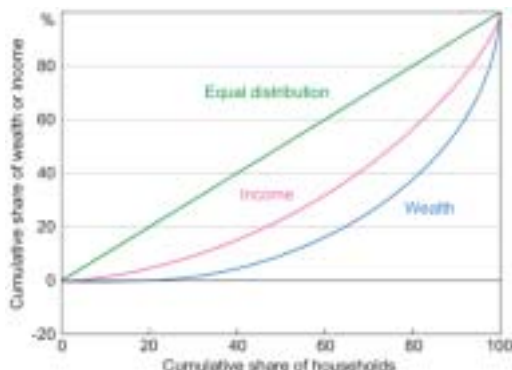
Question	Answer	Marks
29	B	**1**
30	B	**1**
31(a)	**State the difference between a change in the quantity demanded of a good and a change in demand for a good.** A change in the quantity demanded of a good represents a change in the quantity of the good that a consumer desires and is caused only by a change in price/leads to a movement along the demand curve **1 mark**. A change in demand for a good represents a shift in consumer desire to purchase the good irrespective of a variation in its price/leads to a shift of the entire demand curve for the good **1 mark**.	**2**
31(b)	**Explain how opportunity cost is different for free goods and economic goods.** Opportunity cost is the sacrifice of the value of the next-best alternative forgone **1 mark**. A free good is a good that does not suffer scarcity and is available without limit. It can be consumed without a choice being made to sacrifice alternative consumption. A free good therefore has zero opportunity cost **1 mark**. An economic good does have an opportunity cost. This is because an economic good has a degree of scarcity and value. Therefore, to consume it will require a sacrifice with an associated opportunity cost **1 mark**.	**3**
32(a)	**At a price of £2.50, the demand for a particular good is 200 units. The price elasticity of demand for the good is 0.6.** **Calculate the change in total expenditure on the good if the price is reduced to £2.00.** The original expenditure is (£2.50 × 200) £500. With a PED of 0.6 when the price falls to £2.00 (a 20% change) the increase in demand is 12% or 24 units **1 mark** Given by the PED formula 0.6 = 12/20 The new expenditure is (£2.00 × 224) £448 This means the change in total expenditure (£500 – £448) is (–)£52.00 **2 marks** Full marks to be awarded if correct answer is provided regardless of any working shown	**2**

Question	Answer	Marks
32(b)	**Good Y is a substitute for good X.** **With the help of a demand and supply diagram, show the possible change in the equilibrium price and quantity of good X resulting from a simultaneous decrease in the supply of good X and an increase in the price of good Y.** **1 mark** for the original equilibrium price and quantity for good X, P_0 and Q_0 **1 mark** for the correct shift in the supply and demand curves for good X **1 mark** for the correctly identified new equilibrium price and quantity P_1 and Q_1 for good X Note: either directional arrows or consistent notation is required. Accept an increase in Q if the candidate shifts the demand curve relatively further than the supply curve.	3
33(a)	**Explain why the problem of non-revealed preference can lead to market failure in the provision of public goods.** Non-revealed preference means the government cannot know the correct demand **1 mark**. This non-revealed preference makes it virtually impossible for the government to estimate the optimal allocation of resources required in the provision of public goods which can lead to under/over provision **1 mark**.	2

Question	Answer	Marks
33(b)	**Government provision can create rather than remove market distortions.** **With the use of an example, explain one way in which this might occur.** • 1 mark for identifying a valid example of government provision/ intervention The candidate could use any of the following as their **one** example (or correct other): • Min/max prices • Reduction in VAT • Banning of imports • Providing free healthcare 1 mark for explaining how it is expected to work to remove market distortion 1 mark for explaining how it can actually create distortions e.g. 1 mark for the government provides free NHS check-ups 1 mark for because the government feels making people pay would mean a merit good is being under-consumed 1 mark for the result that too many resources now being used, that could be better used elsewhere	3
34(a)	**With reference to price, distinguish between a perfectly competitive market and a contestable market.** A perfectly competitive market is a market in which individual firms cannot influence the price of the good or service they are selling **1 mark**. Whereas a contestable market is a market in which the existing firms (make only normal profit because they) can set a price but are limited in doing so due to existing competition and to potential (entrants) competition **1 mark**. [Price must be referred to correctly in both aspects for the full **2 marks.]**	2

Question	Answer	Marks
34(b)	**Table 34.1 shows how the total physical product of a firm changes as additional workers are employed by the firm.** **Explain how Table 34.1 illustrates the law of diminishing returns.** The law of diminishing returns states that if a firm increases its input of one factor of production while holding inputs of other factors fixed, eventually the firm will get diminishing marginal returns/decreasing marginal physical product (MPP) **1 mark**. In Table 34.1 the variable factor of production (labour) is increased whilst the fixed factor (capital) is held constant **1 mark**. There is a point where the firm becomes less productive and therefore they experience a decreasing marginal physical product (MPP) **1 mark** In table 34.1 diminishing marginal returns occurs when the 6th worker is employed (and their MPP is 8, whereas the MPP of the 5th worker had been 10, thus illustrating the law of diminishing returns) **1 mark**. **[up to a max of 3 marks**]	3
35(a)	**Distinguish between income and wealth (Extract 2 line X).** Up to **two** marks for e.g. Wealth refers to the stock of assets held by a person or household/at a single point in time **1 mark** whilst income refers to the flow of money being made/ received/wages/salary/rental by a person or household over some period of time **1 mark**.	2

Question	Answer	Marks
35(b)	**With reference to Table 35.1, briefly explain how index numbers are used to show changes in the rate of inflation.**	3

	Knowledge	Application
2 marks		Table 35.1 has 2015 as the base year with an index value of 100, the index values for consumer prices are then calculated in relation to this and then expressed in relation to the base year (100) for the years 2016 – 2020. **NB** No reference required to 'weights' or 'basket of goods'
1 mark	Index numbers are a device for comparing the value of a variable in one period with another/a base observation.	Table 35.1 has a base year with a value of 100, values for consumer prices are then calculated and expressed in relation to this.
0 marks	No knowledge of index numbers	No relevant or too limited application.

Question	Answer	Marks
35(c)	**Based on the evidence provided and using a Lorenz diagram to illustrate, explain the likely different values of the Gini coefficients for income and wealth within the UK.** Candidates should use Extract 2 to glean the information required to *sketch* the relative Lorenz curves in relation to each other. Candidates should be able to combine their economic knowledge with the extract in order to explain the likely relative different values in the Gini coefficients for income wealth within the UK.	5

	Knowledge	**Application**	**Analysis**
2 marks		Reasonable sketch of the Lorenz curves that clearly shows the Lorenz curve for wealth as further from the 45^0 line of equality than the Lorenz curve for wealth (see example)	Clear explanation of how the Gini coefficient is calculated and that it would be larger for wealth distribution in the UK than it would be for income distribution.
1 mark	The Lorenz curve is a graphical way of depicting the distribution of income or wealth within an economy. **OR** The Gini coefficient is a measure of the degree of inequality in an economy.	An attempt to draw the above albeit imperfectly.	Statement that the Gini coefficient would be larger for wealth distribution than income distribution.
0 marks	No knowledge of the Lorenz curve or Gini coefficient	An inability to draw a meaningful diagram.	No worthwhile analysis of the issues.

Question	Answer	Marks
35(d)	**Using the evidence provided, evaluate the statement that 'reshoring and reduced exports associated with deglobalisation, as well as the UK's biggest ever fiscal stimulus package, make stagflation inevitable.' (Extract 1 lines 22–24).**	10

	Analysis	Evaluation
6 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given
5 marks		Clear evidence of evaluation and very good awareness of the relative strengths of the arguments given
4 marks	Good explanation of a suitable range of relevant issues within a clear structure (Good SSP + another)	Clear evidence of evaluation and good awareness of the relative strengths of the arguments given
3 marks	Reasonable explanation of a limited range of relevant issues: some structure to the answer. (Reasonable SSP + another)	Some evidence of evaluation and/or limited awareness of the relative strengths of the arguments given: may well have no final summary
2 marks	Partial explanation given: a limited or unstructured answer	Some evidence of evaluation but no clear conclusion
1 mark	Partial explanation given: a very limited answer	Limited evaluation
0 mark	No relevant explanation	No evaluation

Answers without direct reference to the issues raised in the information provided will be awarded a maximum of 4 marks.

Analysis:
No reward for restating what stagflation is as this is clearly given to the candidates in Extract 1.

'Stagflation is what happens when a stagnating economy with low or no economic growth simultaneously suffers high inflation.'

There are several leads in the information provided that can be pursued, these include:
The UK's biggest ever fiscal stimulus package is likely to result in significant increases in government financed spending and therefore increases in aggregate demand. This could lead to demand-pull inflation especially with low growth in real GDP when supply chains are restricted due to low investment/confidence.

Question	Answer	Marks
35(d)	Accelerated deglobalisation (reshoring) is likely to result in an increase in raw material/component costs and increased production costs across sectors and therefore a reduction in aggregate supply. This will lead to cost push inflation and potentially a further reduction in real GDP. Better responses should make direct reference to the text to support their arguments. It is important that the answer stays focused on the idea of increased inflation and low/no increase in real GDP rather than an unbalanced approach towards one or the other. **Evaluation:** There are several leads to pursue in an evaluative context: • Inflation (and therefore stagflation) may be judged unlikely, • 'the recovery will take a very long time and it will destroy aggregate demand' • 'Consumers will be put off buying expensive durable goods' • 'firms will be reluctant to invest or hire labour' • 'Some find it difficult to predict inflation in these circumstances' At the top end, more than one of these leads will be fully developed to offer a definite discussion of inevitability – i.e. the top answers will need to be about more than just the issues. **Note:** an answer needs a clear conclusion to gain more than 3 marks.	

Question	Answer	Marks
35(e)	**Stagflation will lead to significant policy conflicts for a government seeking to achieve the objectives of an increase in economic growth, the control of inflation and a reduction in income inequality (Extract 1 lines xx–xx).** **In the light of the issues raised in the extracts, discuss the view that the best option to achieve all of three objectives is to use supply-side policy.**	10

	Analysis	**Evaluation**
6 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given
5 marks		Clear evidence of evaluation and very good awareness of the relative strengths of the arguments given
4 marks	Good explanation of a suitable range of relevant objectives within a clear structure (though to gain full 4 analysis marks only needs 2 to be fully developed, provided the 3rd is at least mentioned)	Clear evidence of evaluation and good awareness of the relative strengths of the arguments given
3 marks	Reasonable explanation of a limited range of relevant issues: some structure to the answer	Some evidence of evaluation and/or limited awareness of the relative strengths of the arguments given: may well have no final summary
2 marks	Partial explanation given: a limited or unstructured answer	Some evidence of evaluation but no clear conclusion
1 mark	Partial explanation given: a very limited answer	Limited evaluation
0 mark	No relevant explanation	No evaluation

Answers without direct reference to the issues raised in the information provided will be awarded a maximum of 4 marks.

Analysis
There are several leads in the data that can be pursued, these include:
- 'The search for a weapon to fight stagflation led in part to the rise of supply-side economic theories as an alternative to Keynesian economics.' (Extract 1)

Question	Answer	Marks
35(e)	• 'The OECD has suggested that reducing income inequality through Keynesian style tax and transfer policies does not harm growth, … efforts should focus on … improvements in human capital investment by the promotion of skills development and learning'. (Extract 2) One clear solution to stagflation and income inequality could be to increase aggregate supply through supply-side policies, those suggested in the extract include for example, 'improvements in human capital investment by the promotion of skills development and learning' to increase efficiency and reduce costs of production. Other supply-side policies such as infrastructure development, privatisation and deregulation could also help to create jobs, ease supply chains and reduce costs of production and so cost push inflationary pressures. This approach would address all three of the stated policy objectives. (though to gain full 4 analysis marks only needs 2 to be fully developed, provided the 3rd is at least mentioned) Better responses should make direct reference to the text to support their arguments. It is important that the answer stays focused on the issue of supply-side polices addressing all of the objectives rather than an unbalanced approach. **Evaluation:** There are several leads in the extracts that can be pursued, these include: The supply-side policies suggested will take a long time to have their desired effect and involve considerable opportunity to cost to an already financially over stretched government. This could mean that other shorter-term alternative policy approaches could be desirable. Extract 2 states that Keynesian style tax and transfer policies does not harm growth but could improve income inequality over the shorter term. However, they are likely to conflict with the objective of controlling inflation. Inflation could be controlled over the shorter-term through tighter monetary policy (increased interest rate). However, this approach is likely to conflict with the objective of increased economic growth. Moreover, if the cost-push inflation occurs because of a global increase in the price of raw materials this could 'create supply chain constraints, reverse the previous cost saving principle and drive up prices triggering inflation' (Extract 1). In this situation there is little that the UK government supply-side (or alternative) policy can do about it. At the top end more than one of these leads will be fully developed. It is also important that the best answers offer a definite discussion of 'best option'– i.e. the top answers will need to consider fiscal and/or monetary policy approaches as an alternative.	