Cambridge International Examinations
Cambridge Pre-U Certificate

ECONOMICS **9772/01**

Paper 1 Multiple Choice, Short Answers and Data Response **May/June 2017**

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

® IGCSE is a registered trademark.

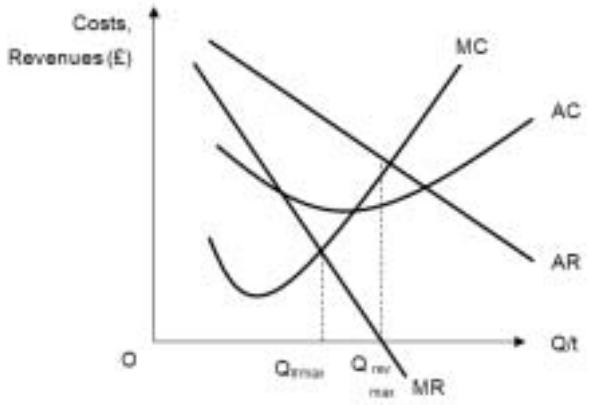
This syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 3 Pre-U Certificate.

© UCLES 2017

Question	Answer	Marks
Section A: Multiple Choice		
1	B	**1**
2	D	**1**
3	D	**1**
4	B	**1**
5	B	**1**
6	A	**1**
7	A	**1**
8	A	**1**
9	B	**1**
10	B	**1**
11	D	**1**
12	C	**1**
13	C	**1**
14	Question discounted from the assessment	**1**
15	B	**1**
16	B	**1**
17	A	**1**
18	D	**1**
19	A	**1**
20	C	**1**
21	B	**1**
22	D	**1**
23	A	**1**
24	Question discounted from the assessment	**1**
25	B	**1**
26	D	**1**
27	C	**1**

© UCLES 2017

Question	Answer	Marks
28	D	**1**
29	B	**1**
30	C	**1**

Question	Answer	Marks
	Section B: Short Answer Questions	
1(a)	 • Correct labelling of diagram, 1 mark • Correct identification of Qπmax and Q rev max, 1 mark each	**3**
1(b)	• 'Profit satisficing' refers to a situation where a manager seeks to make a level of profit acceptable to shareholders, 1 mark • and then pursue other objectives, 1 mark	**2**

Question	Answer	Marks
2(a)	Identification of any **TWO** of: • Non-rivalrous/non-exhaustible in consumption • Non-excludable • Often non-rejectionable Award one mark for any of the above, although you might expect the former to predominate.	**2**
2(b)	Answers can get full marks for arguing that the impact of technology has made it easier for private sector firms to 'exclude' people who don't pay from consuming a good. For example this can be done by encryption in the case of digital television, or using GPS technology as regards roads. Alternatively, answers might argue that technology has increasingly made some things increasingly non-rivalrous, e.g. the Internet allowing for multiple users to read the same website [1] and has reduced exhaustibility [1]. Reward answers that use an appropriate example, even if the use of language is slightly non-technical. Responses can argue that technology can make goods more or less public, depending on their example. A good example, with the appropriate technical language used will get 3 marks. Less accurate use of technical language or a weaker example will get 2 marks.	**3**

© UCLES 2017

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Features of oligopoly – 1 mark each, max 2:
• Small number of firms / concentrated market
• Barriers to entry
• Interdependence of firms / collusion possible / cartels possible
• Non-price competition / branded products / price rigidity</td><td>2</td></tr>
<tr><td>3(b)</td><td>
<table>
<tr><td></td><td colspan="3">Firm B</td></tr>
<tr><td rowspan="3">Firm A</td><td></td><td>Low price</td><td>High price</td></tr>
<tr><td rowspan="2">Low price</td><td>2
2</td><td>6
0</td></tr>
<tr><td>0
6</td><td>4
4</td></tr>
</table>
A pay-off matrix such as the above should be drawn and indication given that the numbers shown represent the profit earned by each firm [1]. An explanation which flags up the fact that in the absence of collusion, an equilibrium will be established in the top left-hand corner of the pay-off matrix.[1] This leaves the firms worse off than if they had been able to organise collusion and end up in the bottom right-hand corner [1].

An answer without a pay-off matrix will be awarded a maximum of 1 mark. Equally, inaccurate pay-off matrices will get a maximum of 2 marks.

Answers need to be clear in indicating why collusion allows firms to benefit and need to be careful when using technical language, such as ‘dominant strategy’ and ‘Nash equilibrium’.</td><td>3</td></tr>
</table>

Question	Answer	Marks
4(a)	Any of the following: • Time period • Availability of spare capacity • Availability of stocks • Ease of transferring resources (occupational factor mobility) • Cost of transferring resources • Artificial limits upon supply – e.g. patents • Barriers to entry/exit in the market 1 mark each up to a maximum of 3 marks. However, in some instances, responses may give factors that are identical. They will not be credited for this.	**3**
4(b)	The supply of manufactured goods will benefit from the shorter time period taken to produce the goods relative to the growing time required for fresh flowers [1], manufacturers of goods are also likely to benefit from spare capacity [1] and the availability of stocks [1]. Additionally, there are more likely to be limits on the supply of fresh flowers [1] Award a maximum of two marks. Award one mark if a response suggests that technological advances (e.g. air freight, new growing technologies) are making the supply of fresh flowers more elastic.	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td colspan="3">Section C: Data Response

Answers should be primarily assessed on the basis of good economics, clearly explained and/or illustrated.</td></tr>
<tr><td>5(a)</td><td>• Identification of ‘austerity’ as an attempt to improve the public finances/reduce deficit, 1 mark
• by reducing government spending, increasing taxation, or both, 1 mark</td><td>2</td></tr>
<tr><td>5(b)</td><td>
<table>
<tr><th>Mark</th><th>Analysis</th><th>Evaluation</th></tr>
<tr><td>2</td><td>Identification of what has happened to both government spending and government receipts, using numerical data in some form.</td><td></td></tr>
<tr><td>1</td><td>Identification of what has happened to either government spending or government receipts.</td><td>Identification of falling short of the target.</td></tr>
<tr><td>0</td><td>No attempt to refer to the data in Figure 1.</td><td>No relevant or very limited explanation</td></tr>
</table>
Credit any explanation that a falling budget deficit still causes the national debt to rise.
</td><td>3</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(c)</td><td>
<table>
<tr><th>Mark</th><th>Knowledge</th><th>Application</th><th>Analysis</th></tr>
<tr><td>2</td><td></td><td>Accurate drawing of AD–AS diagram showing lower AD in the short-run but higher AD (and possibly higher, or lower, LRAS) in the long-run.</td><td>Clear explanation of how austerity will affect AD, and possibly AS, in both the short-run and the long-run.</td></tr>
<tr><td>1</td><td>Identifying that austerity represents a reduction in one of the components of aggregate demand but that it has implications for interest rates, a nation’s credit rating and the decisions of economic agents to consume/invest.</td><td>Accurate drawing of only one of the above.</td><td>Explanation of how austerity will affect AD, and possibly AS, in either the short-run or the long-run.</td></tr>
<tr><td>0</td><td></td><td>No identification of how austerity will affect an AD–AS diagram.</td><td>No meaningful analysis of how austerity will affect either AD or AS.</td></tr>
</table>

Answers might expected to consider:
• The reduction in net injections in the short run – either via a reduction in government expenditure or an increase in tax revenue which might have reduced consumption, and possibly investment.
• The view that if austerity is adopted it will lower long-term interest rates and this will increase consumption and investment in the long-run, boosting future growth.
• The opinion that the successful adoption of austerity will reduce future interest repayments on national debt, allowing for government expenditure to be directed to more productive, supply-side improvements.

Answers can earn full marks for suggesting that austerity can have adverse demand and supply-side implications (e.g. hysteresis effects reducing labour supply) reducing long run growth.
</td><td>5</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(d)</td><td>
<table>
<tr><th></th><th>Analysis</th><th>Application</th></tr>
<tr><td>6 marks</td><td></td><td>Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given</td></tr>
<tr><td>5 marks</td><td></td><td>Clear evidence of evaluation and very good awareness of the relative strengths of the arguments given</td></tr>
<tr><td>4 marks</td><td>Good explanation of a suitable range of relevant issues within a clear structure</td><td>Clear evidence of evaluation and good awareness of the relative strengths of the arguments given</td></tr>
<tr><td>3 marks</td><td>Reasonable explanation of a limited range of relevant issues: some structure to the answer</td><td>Some evidence of evaluation and/or limited awareness of the relative strengths of the arguments given; may well have no final summary</td></tr>
<tr><td>2 marks</td><td>Partial explanation given: a limited or unstructured answer</td><td>Some evidence of evaluation but no clear conclusion</td></tr>
<tr><td>1 mark</td><td>Partial explanation given; a very limited answer</td><td>Limited evaluation</td></tr>
<tr><td>0 mark</td><td>No relevant explanation</td><td>No evaluation</td></tr>
</table>
<u>Analysis</u>
Answers without direct reference to the issues raised in Extract 2 will be awarded a maximum of 4 marks.
Answers should use the passage to explain Greece’s problems as regards its national debt, unemployment and negative growth. The key to the question will be in demonstrating why austerity might have caused a change in Greek macroeconomic variables. Detailed knowledge is not expected but should be rewarded.
The many issues that might be analysed include:

The extent to which austerity was inevitable given the state of Greek public finances.
The expectation that austerity would ‘crowd in’ private sector investment.
The extent to which Greek austerity deterred other Eurozone nations from running similarly excessive budget deficits, reducing risk of contagion and moral hazard.
Answers might refer to issues relating to capital flows into and out of Greece and tax collection/the Greek tax base.

</td><td>10</td></tr>
</table>

Question	Answer	Marks
5(d)	**Evaluation** There is a variety of approaches to answering the question: responses should be rewarded if they genuinely evaluate a range of issues: • Some austerity was inevitable given the scale of the problems. • The health of the Eurozone was more significant than the health of the Greek economy and the suffering of the Greeks was a price worth paying. • Whether the size of the decline in the Greek economy was such that this was too high a price to pay in order to tackle the national debt/budget deficit. • Similarly, the degree to which the extent of Greek unemployment, especially youth unemployment, is too high a price to pay in order to tackle the national debt/budget deficit. • Others might suggest that policy should have been conducted with the interests in the Greeks alone to the fore. • Short run versus long run implications, e.g. dynamic effect of austerity on debt: GDP ratios. • The extent to which 'crowding out' occurred. • The fact that the IMF, EU and ECB pressed on with austerity even though there was little evidence that it would be successful. The empirical evidence in its favour was sketchy, e.g. debate over size of the multiplier. • An assessment of whether austerity can ever correct the public finances. • The issue of the failure to revise Greek austerity targets might be pursued. For each of the areas mentioned above, an appreciation of the relative merits of at least two if the issues mentioned above, or similar, is needed for an award of all 6 evaluation marks.	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(e)</td><td>

	Analysis	Application
6 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments given
5 marks		Clear evidence of evaluation and very good awareness of the relative strengths of the arguments given
4 marks	Good explanation of a suitable range of relevant issues within a clear structure	Clear evidence of evaluation and good awareness of the relative strengths of the arguments given
3 marks	Reasonable explanation of a limited range of relevant issues: some structure to the answer	Some evidence of evaluation and/or limited awareness of the relative strengths of the arguments given; 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

Analysis
Answers might address a number of issues:

- Consideration of the difference between ‘nominal’ and ‘real’ levels of national debt – the former could be rising but could account for an ever-smaller proportion of GDP if the economy is growing even faster.
- Some evaluation of whether or not the question refers to short-run or long-run growth.
- Debate about the extent to which the size of the national debt acts as a drag on growth – Rogoff and Reinhart’s research posited that a national debt equivalent to 90% of GDP would be associated a 1% reduction in the rate of economic growth.
- Analysis of the extent to which increasing the nominal national debt has an adverse effect on a nation’s credit rating/long-term interest rates.
- Consideration of the possible causes of a high level of nominal national debt – for example, bank bailouts – and consideration of whether increasing the national debt was a price worth paying.
- Consideration of the fact that a large proportion of UK national debt is owned by British economic agents and discussion of whether ‘owing money to ourselves’ can ever be a bad thing.
- Debate about the extent to which the economy is self-correcting via automatic stabilisers and the suggestion that, other than in extreme cases, the public finances have little influence on growth in the modern world.

</td><td>10</td></tr>
</table>

Question	Answer	Marks
5(e)	Broadly-speaking answers demonstrating a good grasp of the implications of debt for economic growth will get 3 marks for analysis, with the final mark reflecting an awareness of nominal versus real and debt: GDP ratios as often being more important that nominal national debt. **<u>Evaluation</u>** There are lots of different evaluative angles that can be taken in response to this particular question. Answers should be rewarded for genuine engagement with either the theoretical arguments involved or the wider policymaking debate. • In the immediate term, adding to the national debt will be expansionary: either government spending will increase or tax revenues fall – and other expenditures likely to rise, notably consumption and investment. – Accelerator – Multiplier – Crowding in • Evaluation of the extent to which approach may see slower growth in the long-term – e.g. credit rating downgrades, as a result of increased debt interest payments, reducing the ability of the government to spend in growth-enhancing fashion; further, long-term interest rates will rise and this may act as a drag on future growth. • There might be reflection on the implications of 'austerity' for consumer and business confidence: the impact upon growth is confidence-dependent. • Evaluation how adding to the national debt through capital expenditure might be better than financing current expenditure. Reward responses that tackle the question directly, looking at national debt rather than budget deficits – perhaps implying that they appreciate the difference between 'flows' and 'stocks'. Equally, answers should not get bogged down in discussion of private sector debt. There are lots of ways of approaching the question and writing answers which demonstrate 'good economics' and are non-formulaic.	

© UCLES 2017