

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Pre-U Certificate

MARK SCHEME for the May/June 2013 series

9772 ECONOMICS

9772/01

Paper 1 (Multiple Choice, Short Answers and Data Response), maximum raw mark 80

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 2013 series for most IGCSE, Pre-U, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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Section A

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	16	C
2	C	17	C
3	B or D	18	A
4	A	19	D
5	A	20	C
6	B	21	B
7	B	22	A
8	D	23	A
9	B	24	B
10	D	25	D
11	B	26	D
12	A	27	C
13	C	28	B
14	C	29	C
15	A	30	A or B

Section B

- 1 (a)** One mark for stating each of the following:
That they are non-excludable [1] and non-rival (or non-exhaustive or irreducible or non-diminishable) [1]. Also give a mark for non-rejectable [1] maximum of 2 marks for this part of question. Note, no need, nor indeed credit, for any further expansion on these characteristics. [2]
- (b)** For an accurate explanation that therefore because of these characteristics, the free-rider can enjoy all the benefits without having to contribute anything towards the costs, or similar such explanation, award up to [2]. For another mark [1] expect to see something further probably along the lines of ‘therefore there is non-revealed preference from rational economic agents’ or ‘this means that there will be market failure and without government intervention there will be under-provision of such goods’ or similar. Also award [1] for an example – including lighthouses. Maximum [3] in total. [3]

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- 2 (a) (i) £30 [1] – from $AFC \times \text{quantity}$ so 3×10 [1]
- (ii) £20 [1] – from $(\text{Price} - ATC) \times \text{quantity}$ so $(13 - 11) \times 10$ [1]

(b) For an explanation that, given the firm is operating in a perfectly competitive industry, in the long-run firms cannot earn supernormal profits [1] as other firms will be attracted by these profits and hence enter the industry [1] causing a fall in the market price and an erosion of profits down to just normal profits in the long-run [1] or similar such explanation. Award [1] for stating that there are fixed costs and so can't be a long-run situation. Maximum [3]. [3]

- 3 (a) For a 'sustained rise in the general price level over a period of time' [2] – either of 'sustained' or 'period of time' will do, or up to [2] for a similar and accurate definition e.g. a continuous fall in the value/purchasing power of money. [2]

(b) For a correctly labelled AS/AD diagram showing a shift to the left in the AS curve and consequently a higher equilibrium 'general price level' award maximum of [2]. For both marks, needs to be an "ACE" diagram – correct labelling of axes, correct labelling of curves and correct labelling of the equilibria. If an AS/AD diagram used and the correct shift shown, but P/Q labelling of axes, award just [1]. For stating that this is 'cost-push inflation' [1] – no need for any further explanation – the question merely asked for identification, not for an explanation. Also award [1] if the term 'stagflation' is used rather than 'cost-push inflation'. [3]

- 4 For explaining that a tariff is a tax that is imposed on an imported good [1] and for explaining that a quota is where a limit is placed on the quantity allowed to be imported [1]. Other points that could gain credit include [1 mark for each]:

- A tariff results in revenue for the Government whereas a quota, if effective, just results in a higher price being received by the supplier.
- A quota might, or might not, affect the equilibrium situation – it may just act as a potential ceiling for the quantity of imports.
- A diagram might be used to further the explanation – up to maximum of [2] further marks.
- A tariff shifts the S curve (world supply) to the left/upwards, a quota gives a vertical S curve.
- The effectiveness of a tariff or quota might depend upon the elasticity of demand for the product. A tariff is less predictable than a quota on the potential quantity traded.

Award up to a maximum of $2 \times [1]$ for relevant examples – one of each type maximum – this could be an actual case or a hypothetical case.

Maximum of [3] for either tariff or quota. [5]

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Section C

5 (a) Using the data in Table 1, calculate the Stamp Duty paid:

(i) on a house costing £300,000.

(ii) by a first-time buyer on a house costing £200,000.

[2]

	Knowledge and Application
2 marks	Accurate calculation of ($£300,000 \times 3\% =$) £9,000 and ($£200,000 \times 0\% =$) £0
1 mark	Just one correct answer – probably failing to spot exemption for first-time buyers.
0 marks	No accurate use of the relevant figures is made

(b) Using the information provided in Extract 2 to explain why demand for housing has risen in recent years.

[3]

	Knowledge	Application
2 marks		Correct use of factors mentioned in Extract 2 of improved life expectancy rates and growing number of one-person households (1 mark each)
1 mark	Understanding demonstrated of the fact that people living longer and/or more people living on their own will increase the overall demand for houses due to more people/smaller average household size	Correct use of just one of the two factors mentioned
0 marks	No knowledge shown	Neither of the mentioned factors used in the answer

If really detailed on just one cause, can still award [3] marks.

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(c) Explain why lower mortgage rates ‘should have helped balance out the affordability issues caused by higher real prices’ – Extract 1, line 17–18. [5]

	Knowledge	Application	Analysis
2 marks	Good demonstration of knowledge that most people fund the purchase of a house by taking out a mortgage and that monthly mortgage payments involve two parts; the paying off of the loan and the interest on the outstanding mortgage	E.g. Clear explanation of why higher <i>real</i> prices relative to real incomes would have made houses less affordable and how lower mortgage rates will have counteracted this – or similar, e.g. the lower cost of borrowing makes mortgages more affordable because of lower monthly repayments and this can offset the higher real price rises	
1 mark	A very superficial display of knowledge of how mortgages work – e.g. ‘Overall the amount you pay won’t have changed’	Some attempt – though confused – to explain both sides	May have put a simple numerical example or similar that shows understanding that the two sides may ‘balance out’
0 marks	No knowledge displayed in answer – simply a statement of provided facts	No relevant application of knowledge	No relevant analysis

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- (d) ‘When house prices were booming it was commonplace to withdraw equity...’
Extract 3, lines 8–10. Using the information provided above and your own knowledge, evaluate the extent to which house price changes affect consumption spending. [10]

	Analysis	Evaluation
6 marks		Clear evidence of evaluation and excellent awareness of the relative strengths of the arguments. At this top level there will need to be discussion of other factors which will also have had an effect on consumption and/or how the effect may be asymmetrical.
5 marks		Clear evidence of evaluation and very good awareness of the relative strengths of the arguments given – there is likely to be a definite conclusion to gain this mark.
4 marks	Good use of relevant comments in Extract 3 – especially regarding how, up to a few years ago, Mortgage Equity Withdrawal (MEW) was being used to fund a myriad of consumption items and not just the traditional ‘home improvements’. At this top level the candidate will also draw on points from their own knowledge over and above those provided. A diagram may be helpful but is not specifically required.	Some clear evidence of evaluation, but limited discussion of the relative strengths of the arguments given. The reader may well be left, however, with a sense of ‘something missing’ in the evaluation.
3 marks	A reasonable attempt to consider the majority of the relevant issues, but some aspects omitted. Some (at least implied) mention of ‘Mortgage Equity Withdrawal’ needed.	Some evidence of evaluation or limited awareness of the relative strengths of the arguments given but not both.
2 marks	Either superficial analysis of several points or greater in-depth analysis of just a single issue. Unlikely to see any use of the candidate’s own knowledge.	Some evidence of an attempt at evaluation but rather superficial and certainly no conclusion.
1 mark	A very limited attempt is made to analyse the issues, but there are major inaccuracies and/or omissions.	Very limited evaluation.
0 marks	No relevant analysis.	No evaluation.

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Extract 3 clearly alludes to the fact that increases in house prices caused an increase in consumption, through the transmission mechanism of MEW. This has clearly changed in recent years with prices on average being seen in Figure 1 initially to have fallen and then to have stabilised. Candidates will be expected to know terms such as ‘wealth effects’ and how this will have had an effect on spending, with or without the use of MEW. Better candidates are expected though to widen out the debate, particularly due to the phrase ‘the extent to which’ in the question, to consider other factors which will have affected consumption spending – for example, job security, mortgage rates, rates of interest in general.

- (e) **Using the information provided in the extracts and your own knowledge, evaluate the case for greater government intervention in the housing market.** [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	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.
2 marks	Partial explanation given: a limited or unstructured answer	Some evidence of evaluation but certainly no clear conclusion
1 mark	Partial explanation given; a very limited answer	Limited evaluation
0 marks	No relevant explanation	No evaluation

Clearly Extract 2 highlights the importance that the Commons Select Committee placed on housing, not only in terms of geographical mobility – which candidates may have mentioned in their answer to part (d) – but also due to the ‘demerit good’ characteristics of poor housing – although the extract does not use this term, better candidates should recognise this fact. Better answers may well focus on why, therefore, the government might intervene to correct this market failure. There may well be a discussion about government role in the supply of housing and candidates may have knowledge of changes in planning controls etc. and of the recent ‘Help to Buy’ scheme. At the very least, better candidates should be able to link in the costs of funding affordable housing to recent fiscal austerity. It is expected that there will be some discussion as to why housing ‘does not have the same political profile as, say, health and education’ in terms of this – possibly concentrating on short term v long term benefits/costs. Note that a maximum of [2] marks should be awarded for analysis if no explanation as to why the government should intervene.

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There is also scope to open the answer up to discuss whether the government should intervene in the market for mortgages and candidates may well quote evidence of 'tax payer ownership' of several banks, due to bail outs, as a justification for the government to be more pro-active in this side of the argument.

This question is the most open ended on the paper and should provide better candidates with a real opportunity to shine.