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**ECONOMICS**

**9772/03**

Paper 3 Investigation

**May/June 2017**

MARK SCHEME

Maximum Mark: 40

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**Published**

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This document consists of **27** printed pages.

Question	Answer	Marks
<p><b>Question 1 – Transport and the Environment</b></p> <p><b><i>“The different steps in a journey should not be thought of in isolation. If we want people to make different travel choices, we must think more clearly about their whole journey, how each part of it connects, and how we can better integrate those parts.”</i></b>  <b><i>To what extent do you agree that an integrated transport system should be the UK government’s highest priority?</i></b></p> <p>Candidates should demonstrate that they understand what is meant by an integrated transport system. Candidates are likely to focus on the issues of environmental sustainability, employment, economic growth, and social inclusion. The best candidates will focus specifically on the quote – they should be able to analyse why there is a need for such an integrated transport system, and judge whether this should be the highest priority for the UK government. Weaker candidates will discuss the limitations of modes of transport, with little attempt to bring it together to focus on the specific question. Good responses may attempt to consider the options for the UK government vs alternative priorities. They should use appropriate analytical tools and data to support their arguments, and a good differentiator may be the range of modes of transport covered in their discussion. A discussion of modal shift may also be undertaken as part of the discussion on the need for an integrated transport system. Although the question is UK focussed, international comparisons are welcomed. They should reach a clear and well-supported conclusion on why there is a need for an integrated system and whether thus this should be the highest priority for the UK government, perhaps considering the feasibility surrounding timeframes and cost issues. Whilst the former is unlikely to be debated much, the latter is a value judgement, and the strongest should discuss this. The strongest candidates may debate the role that the private vs public sector have to play in creating an integrated transport system, rather than purely government policy. Candidates are likely to incorporate both micro and macro analysis. Stronger candidates may look at the question from a range of perspectives, whilst narrower scripts may only look at passenger travel for example. Analysis may be assisted by the use of diagrams.</p>		
1	<p><b>Answers may include:</b></p> <p><b>Knowledge and understanding</b> of an integrated transport system  Examples:</p> <ul style="list-style-type: none"> <li>• The nature of integrated transport systems</li> <li>• Freight vs passenger transport systems</li> <li>• Car, rail, aviation, bus, cycling, shipping</li> </ul> <p><b>Application</b> of the need for an integrated transport system and its priority  Examples:</p> <ul style="list-style-type: none"> <li>• Current transport network issues</li> <li>• Environmental sustainability: e.g. Congestion, efficiency</li> <li>• Geographical mobility of labour</li> <li>• Social inclusion</li> <li>• Employment</li> <li>• Economic growth</li> <li>• Regional integration</li> <li>• Efficiency savings</li> <li>• International competitiveness/connectedness</li> </ul>	40

Question	Answer	Marks
1	<p><b>Analysis</b> of the need for and prioritisation of an integrated transport system Examples including:</p> <ul style="list-style-type: none"> <li>• Analysis of the state of the UK transport system and its limitations</li> <li>• Congestion</li> <li>• The macroeconomic value of an integrated transport system and infrastructure</li> <li>• International connectedness to Europe and beyond</li> <li>• Modal shift required</li> <li>• International comparison</li> <li>• Strong candidates may consider the time frame and nature of building an integrated transport system e.g. Steps for building an integrated transport system: <ul style="list-style-type: none"> <li>• Integrate public transport information</li> <li>• Integrate public transport services e.g. high frequency Tyne &amp; Wear</li> <li>• Integrate public transport fares e.g. London Oyster</li> <li>• Integrate public and private transport e.g. Cambridge Park &amp; Ride</li> <li>• Integrate transport authorities e.g. Transport for London</li> <li>• Integrate transport and land use</li> <li>• Integrate with education, health and social services</li> <li>• Integrate with environment, social and economic policy</li> <li>• Integrated ticketing machines e.g. London's Oyster cards. The experience of London, Zurich and Freiburg shows that cities with clear, integrated ticketing can deliver fast increases in public transport use. In other British city-regions, people are put off from using public transport due to complex and unclear ticketing systems.</li> </ul> </li> <li>• Effective transport connections are essential to help regional growth, especially in the North East and West Midlands.</li> <li>• Improving the access of people to jobs, and of employers to skills, by increasing the number of people able to get to jobs within up to 1 hour.</li> <li>• Providing effective road and rail links to international gateways – Birmingham Airport, national ports, and High Speed Rail (HS2), to help regions such as the West Midlands become a leading area for world trade, commerce and tourism.</li> <li>• Environmental sustainability: Positive/Negative externalities discussion: Transport improvements aim also to take people out of their cars in favour of more sustainable modes, thus promoting sustainable, low carbon growth and improving air quality.</li> <li>• Social inclusion: Low income and excluded groups include some elderly people, people with a disability, and young people.</li> <li>• Reduce air and noise pollution, greenhouse gas emissions and energy consumption</li> <li>• Improve the efficiency and cost-effectiveness of the transportation of persons and goods: Geographic mobility</li> <li>• Positive regional multiplier impacts – tourism and business</li> <li>• Competitiveness of the North West – being more integrated with the South reducing North-South divide.</li> </ul>	

Question	Answer	Marks
1	<ul style="list-style-type: none"> <li>• Thinking about for whom or why it needs to be the highest priority – workers, commuters, consumers, local firms vs national firms, local governments vs national government, geographically (im)mobile workers, elderly, young</li> <li>• The existing infrastructure is not a feasible plan to meet the forecast increase in demand over the next two decades.</li> <li>• Reduced emissions; reduced congestion; reduced noise pollution (compared to air travel); localised economic benefits;</li> </ul> <p>Candidates may also use macroeconomic analysis and consider the impact on the long run aggregate supply of creating an integrated transport policy. Concepts of efficiency and international competitiveness could be usefully introduced.</p> <p>The following bullet points note examples of supporting analysis/application that <i>could</i> be used by candidates. Note this is <b>not</b> an exhaustive list, nor is it what is required to do well, but rather it is an indicative list of the kinds of independent research that candidates could use to support their arguments.</p> <ul style="list-style-type: none"> <li>• One feature in most UK urban transport networks is minimal competition, with many markets dominated by one of the big five transport operators (Arriva, First Group, Go-Ahead, National Express and Stagecoach). The East of England continues to have the highest average weekday morning peak speed and London continues to have the lowest (at 28.6 mph and 14.9 mph respectively in the year ending June 2015).</li> <li>• More than 11% of key roads have bottlenecks of more than three hours. This has detrimental effects on speed of public transport – London buses are slower than those in Rome, Berlin, Madrid and Athens.</li> <li>• British workers spend more time commuting each day (46 minutes) than their European counterparts (in Italy, they spend 23 minutes).</li> <li>• The UK has the most severe congestion in Europe with 25% of the most heavily used motorways and roads suffering from it.</li> <li>• Car use up 52% in the 1980s and 1990s – more than other European countries except developing economies like Portugal, Greece and Italy.</li> <li>• Almost nine in 10 motorised journeys are by car, compared with EU average of eight in 10.</li> <li>• The UK has the lowest level of public subsidy for fares in Europe.</li> <li>• The UK has the most efficient operators, but because of low subsidies it has the highest fares</li> <li>• Fewer rail passenger coaches per 1000 population than any other European country except Greece, Ireland, Spain and Portugal.</li> <li>• Lower share of rail use than anywhere else in Europe.</li> <li>• Over the last 20 years, coach and bus use has grown by up to 80% in most of Europe – in the UK, use has declined although more people are now starting to use buses more, a change largely driven by London</li> <li>• UK population walks less than anywhere else in Europe except Greece (415 kilometres a year compared with the European average of 437).</li> </ul>	

Question	Answer	Marks
1	<ul style="list-style-type: none"> <li>• UK population only cycle 77 kilometres a year compared with a European average of 189.</li> <li>• Amsterdam: Integrated ticketing: Netherlands National Tariff System; Dense and growing public transport network: bus, metro, train, tram, ferry; Coordinated bus services; High levels of cycling provision: 700,000 bikes in the city; Car use discouraged within city by road limitations and high parking charges</li> <li>• The Commission for Integrated Transport studied UK and European investment in transport on behalf of the Government and found there was a "clear but stark demonstration of two generations of neglect in this country".</li> </ul> <p><b>Evaluation</b> of the extent to which the UK needs a more integrated transport system and it should be a high priority for UK government policy</p> <p>Basic evaluation may broadly accept the case put forward that an integrated transport system should be a high priority as it is needed urgently, but that such an argument requires a comparison with alternative policies and budget constraints – such a discussion may focus on a narrow range of issues, or with superficial coverage e.g. surrounding the cost of doing so. Stronger evaluation will have specific research to back this point up. At this level, candidates discuss the need for an integrated transport system but no nuances highlighting the issues of building one.</p> <p>The good candidates will go beyond just discussing the need for an integrated system and discuss the difficulties in bringing this about. A critical awareness will be shown by candidates – for example discussing the different ways this can be achieved, and the order in which steps need to be taken.</p> <p>Candidates may discuss CoBA and the inherent difficulties in weighing up priorities for government transport policy e.g. discount rates, estimation of future costs and benefits. When debating whether it the highest priority, value for money discussion surrounding tax payer financing may be undertaken.</p> <p>Further evaluation of the economic case could involve consideration of efficiency and (regional) equity arguments and the extent to which such an integrated transport system is necessary for maintaining UK competitiveness. A critical awareness of modal shift may be displayed e.g. with over 90% of journeys are currently by road, therefore fundamental reforms to this mode are likely to be more significant to creating an integrated transport system.</p> <p>Weak candidates may generalise the economic case means whilst stronger candidates will be able to delineate differences and nuances. Good candidates will be able to demonstrate how the integrated transport policy could work with respect to a range of modes, though one would not expect freight to be covered, but rather focussing on passenger modes. The views of competing stakeholders may be discussed from tax payers to commuters to firms.</p> <p>The time frame under consideration could be discussed, as well as the value judgements in whether it is the key priority for the UK government.</p>	

Question	Answer	Marks
1	<p>Candidates may look at alternative solutions, or differentiate between private and public sector solutions.</p> <p>A conclusion may centre around the fact that whilst is needed, the practical elements of an integrated transport system are significant and will require much more private and public sector collaboration, including: effective governance, some form of co-ordination of public transport network planning, close links with land use planning, clear plans, sustained commitment to their delivery and clear roles for public, private and voluntary sectors.</p> <p><b><u>Theory and Analysis</u></b></p> <p><b>Level 4 (18–22 marks) Mid mark 20:</b></p> <p>In this level, the answer shows a thorough understanding of the reasons why an integrated transport system is needed and linking this to a prioritisation for the UK government. There will be in-depth analysis which will show good independent research to support their points. In this level candidates will look at the rationale from a range of perspectives and across a range of modes. At the top end of this Level, responses will show a further sophistication for example the role of public vs private initiatives to achieve an integrated transport system, and may show critical awareness over how such a system would be created or rolled out. A clear attempt to address the prioritisation aspect of the question.</p> <p><b>Level 3 (12–17 marks) Mid mark 15:</b></p> <p>In this level, a clear attempt is made to answer the specific question set on whether an integrated transport system is needed and thus should be a high priority for the UK government. In this level a clear understanding of <i>why</i> an ITS helps address problems. Links between the question being asked and the perspective being put forward are clear. There is a solid understanding of a range of reasons why it is needed, perhaps linking both micro and macro factors, with relevant supporting data and diagrammatical analysis. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. There is some attempt to use independent research to support their points but at the lower end this may be more superficial and unsubstantiated. A range of perspectives is discussed but may lack critical awareness at times for example about the issues surrounding integrated transport systems, for example adopting a simplified policy response to creating an integrated transport system – such as coordinating schedules only. The ability to show why the government should be prioritising this lacks nuance. At the lower end of this level, the candidate may lack breadth by adopting generalisations about transport, discussing a narrow range of modes. The debate may lack sophistication. Independent research to support their points will be superficial at the lower end.</p>	

Question	Answer	Marks
1	<p><b>Level 2 (6–11 marks) Mid mark 9:</b> In this level, either the response is too theoretical and lacks the specific context of the question, or is focussed almost exclusively on the context of transport with empirical evidence but the relevance of the evidence lacks focus and is not coupled with economic analysis relevant to the specific question. There are too many assertions or an uncertainty over what an ITS actually consists of. 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 answer the specific question set – in this case, they fail to focus on whether the UK government should prioritise an integrated transport system, offering a broadly theoretical discussion on the limitations of different modes of transport such as congestion issues for example. Points made may be generalised to all of the UK whilst simultaneously being narrow in their analysis. The response may read like a Paper 2 response and candidates may show a lack of independent research to support their points.</p> <p><b>Level 1 (1–5 marks) Mid mark 3:</b> There is a lack of understanding of what an integrated transport system is or the problems associated from transport. There may be an attempt only to discuss the latter.</p> <p><b>Evaluation</b></p> <p><b>Level 3 (13–18 marks) Mid mark 16:</b> 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 – that is substantiated – at the end that relates specifically to the set question, even if the conclusion is that it is difficult to know whether it will be help unlock the UK or not.</p> <p><b>Level 2 (7–12 marks) Mid mark 10:</b> 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. Conclusions may do little more than sit on the fence.</p> <p><b>Level 1 (1–6 marks) Mid mark 4:</b> 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 UK road transport system is highly congested so needs to be prioritised by the UK government’. There is no attempt to draw together the relevant issues in a conclusion.</p>	

Question	Answer	Marks
<p><b>Question 2 – China and the Global Economy</b></p> <p><b><i>“China’s economic model has been a complete success. Other countries should take a similar approach to economic policymaking.”</i></b>  <b><i>To what extent do you agree with this statement?</i></b></p> <p>Candidates should demonstrate their understanding of China’s economic model, understanding the interplay of the visible and invisible hand – ‘capitalism with Chinese characteristics’. Candidates have the opportunity to grapple with both sentences in the quote, but stronger responses will be differentiated by doing both, and especially the latter. There should be clear evidence of research to support why one could argue that China’s economic policies have been a success. Weak candidates will accept all of China’s successes, whilst stronger candidates will show an understanding of the threats and problems that the economic policies have created. The words ‘complete success’ is strong and allows for an evaluative comment. Weaker candidates will ignore the second specific aspect of the question on whether other countries should adopt similar policies. Stronger candidates however will attempt to weigh this aspect of the question up, making judgements on the nature, similarities and differences that other countries have in replicating China’s experiment. Strong candidates may discuss the desirability of countries copying the Chinese approach. The best candidates will understand the Beijing vs Washington Consensus. The generalisation of ‘other countries’ offers scope for a varied response, for example democracies vs dictatorships, or developed vs developing countries, whilst weaker candidates will aggregate this to one entity or one continent. Some candidates may choose to argue that China’s growth was not due to their economic model but other comparative advantages they had. Given China is changing its growth strategy in the 13<sup>th</sup> Five Year Plan, they too realise it has not been an unmitigated success and perhaps only certain types of economies can copy them, namely those at a certain stage of production, with a particular institutional framework.</p> <p>It is expected that most candidates will consider China’s success in GDP and trade, but stronger candidates will show an understanding of different areas such as debt, the environment, FDI. Strong candidates will look at the quote from different perspectives in terms of calling it a complete success – workers, government, consumers, other countries. They should illustrate their answer with specific examples from China and other selected countries. 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 other countries should adopt similar policies to China. Good candidates are likely to explicitly consider the factors which will determine the outcome for a given economy, for example the quality of its institutions, whilst weaker candidates will generalise the problems ‘other countries’ may face. Analysis may be assisted by the use of diagrams.</p>		
2	<p><b>Answers</b> may include:</p> <p><b>Knowledge and understanding</b> of China’s experiment with Capitalism with Chinese characteristics</p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• The nature of the growth model e.g. yuan manipulation, surplus labour, state owned enterprises, free trade zones, ‘Go Out’ policy.</li> <li>• Changing economic model – Third Plenum reforms; 13<sup>th</sup> 5-yr plan (out in December 2015 – more details to be added in due course).</li> </ul>	40



Question	Answer	Marks
2	<p><b>Application</b> of how China’s experiment is/is not a success Examples:</p> <ul style="list-style-type: none"> <li>• GDP rankings</li> <li>• GDP/capita rankings</li> <li>• Local indebtedness issues</li> <li>• Trade figures and rankings</li> <li>• Poverty reduction</li> <li>• FDI / SWF statistics</li> <li>• Environmental issues</li> <li>• Labour relations</li> </ul> <p><b>Analysis</b> of other countries adopting similar policies Examples:</p> <ul style="list-style-type: none"> <li>• The Beijing Consensus vs. Washington Consensus</li> <li>• China has maintained growth rates of c.10% for 30 years, whilst many economies stagnated</li> <li>• Many European / North American countries have suffered volatility due to financial liberalisation</li> <li>• Differences in the economic and political framework in China vs other countries</li> <li>• Certain African countries moving towards the Beijing approach</li> <li>• Social unrest under the Chinese model</li> <li>• Free trade vs protectionism issues</li> <li>• WTO complaints and issues with China’s experiment</li> </ul> <p>Candidates should be rewarded for supporting their analysis with diagrams. Good candidates will be able to illustrate their points with specific contexts and supporting data.</p> <p>The following bullet points note examples of supporting analysis/application that <i>could</i> be used by candidates. Note this is <b>not</b> an exhaustive list, nor is it what is required to do well, but rather it is an indicative list of the kinds of independent research that candidates could use to support their arguments.</p> <ul style="list-style-type: none"> <li>• China 1978–2015: average GDP growth rate c.9.8% per year, becoming the second largest economy in the world in 2010 and expected to surpass the American economy by 2025.</li> <li>• A combination of pro-development government policies, and learning from the West.</li> <li>• Washington Consensus vs Beijing Consensus</li> <li>• 2014, Alibaba of China created the largest U.S. IPO in the modern history</li> <li>• Professor Danny Quah of the London School of Economics has pointed out, China has lifted more than 620 million people out of internationally defined poverty – accounting for the entire world reduction of the numbers in such poverty. That figure is more than the population of the EU or Latin America; and single handedly helped achieved MDG1 on poverty reduction.</li> <li>• Dambisa Moyo regards China as “new idol for emerging economies.”</li> <li>• The Chinese government has also successfully implemented many pro-development policies such as Special Economic Zones and industrial development guidelines.</li> </ul>	

Question	Answer	Marks
2	<ul style="list-style-type: none"> <li>• Chinese government has also created many problems, such as serious corruptions, pollution and inefficiency in allocating economic resources</li> <li>• China's HDI ranking 100th in the world – since 1980, it has been getting worse.</li> <li>• Emphasis on education: Shanghai, China has consecutively ranked the No.1 in 2009 and 2012 PISA international student assessment. Each year, China educates about 6–7 million college graduates, 40% with engineering and science degrees. Chinese educated scientists and engineers are rapidly driving China's technological advancements and economic growth.</li> <li>• Savings ratio: With a 25% personal saving rate, Chinese people rarely suffer from personal bankruptcies or foreclosures. The huge saving by Chinese people have created financial security for many Chinese families, reduced government spending on social welfares, and helped fund many grand infrastructure projects in China, such as the world's #1 high speed railway system.</li> <li>• China's economic structure differs significantly from most of the world. It has a higher investment level and a much larger state sector than most economies.</li> <li>• Deng Xiaoping's famous remark: "it doesn't matter if a cat is black or white provided it catches mice"</li> <li>• China's economy grew 7 times as fast as America's over the past decade (316% growth vs. 43%)</li> <li>• China's GDP per capita is the 91st-lowest in the world, below Bosnia &amp; Herzegovina</li> <li>• If he spent his annual income on housing, the average Beijing resident could buy 10 square feet of residential property</li> <li>• China's Gobi Desert is expanding 1,400 square miles per year due to water source depletion, over-forestry, and over-grazing</li> <li>• China has 64 million vacant homes, including entire cities that are empty</li> <li>• Eight of Shanghai's top ten stocks are government owned</li> <li>• Middle Income Trap for China – is the model appropriate for all countries to follow?</li> <li>• China in 2030 – World Bank report: Needs structural reforms moving it to a market-based economy, in particular reform to intellectual property regulation</li> <li>• Next 12 Year Plan following on from the Third Plenum Reforms (2014) Market Reforms: The prices of water, oil, natural gas, electricity, transport and telecommunications will become more market-determined, which should open up sectors previously dominated by state-owned enterprises to private and foreign firms. Policymakers will also retreat from micro-level intervention, allowing for freer markets.</li> </ul> <p><b>Evaluation</b> of the extent to China's policies have been a complete success and whether other countries should adopt them too.</p>	

Question	Answer	Marks
2	<p>At the lower end, candidates are likely to conclude that China's policies have been a success and other countries should adopt them without reservation. At this level candidates will show no critical awareness and generalise the term 'other countries'. There is not likely to be any explicit attempt to identify criteria which may help to determine whether a country can or should adopt similar policies.</p> <p>At higher levels candidates will recognise that whether a country adopts China's policies depends on a country by country basis e.g. dictatorships vs democracies, developing countries vs developed countries; commodity-rich vs financial services based, and that generalisation is unlikely to be helpful. This variability is likely to determine the extent to which an individual economy is able to or is willing to adopt China's policies. Evaluation of specific countries/regions, backed up by data, would be awarded the highest evaluation marks. Critical awareness is important here on the viability of this actually happening, perhaps considering the time frame or political will.</p> <p>Good evaluation will involve candidates considering how China's economic policies have created problems and are not a complete success. Alternatively, candidates could question whether China's policies have been a success at all, given the environmental and inequality issues that remain, and indeed have built up as a result of the growth policies. Reference to the Third Plenum reforms may form part of the evaluative judgements.</p> <p>Candidates may challenge the metric used to judge success – from whose perspective, e.g. workers, pensioners, rural migrants, small private firms, state owned firms, foreign firms. Candidates could differentiate between factors which are unique to China and those which are common to the rest of the global economy. This differentiation will allow a discussion of the extent to which other countries can copy policies.</p> <p><b><u>Theory and Analysis:</u></b>  <b>Level 4 (18–22 marks) Mid mark 20:</b>            In this level, the answer shows a thorough understanding of the reasons whether China's model has been a complete success and whether other countries should adopt similar policy making. There will be in-depth analysis which links a range of factors (beyond merely trade, such as poverty, environment, local government debt, sovereign wealth fund) specifically to a range of different economies – from developing to developed; and economies at a different stage of comparative advantage – however such comparisons must be done with appropriate critical awareness. Candidates may think about different economic agents within China for whom it has not been a success. At the top end of this Level, there is likely to be a clear understanding of why certain countries may or may not be likely to adopt the Beijing Consensus – in particular, institutional considerations. There is clear evidence of independent research to support their points.</p>	

Question	Answer	Marks
2	<p><b>Level 3 (12 – 17 marks) Mid mark 15:</b> In this level, a clear attempt is made to answer the specific question set on whether China’s model has been a complete success and whether other countries should adopt similar policy making. Links between the question being asked and the perspective being put forward are clear. The better answers here and into L4 will understand China’s <i>model</i> (e.g. Beijing Consensus), rather than just China’s <i>policies</i>. There is a solid understanding of a range of reasons why it is or is not a success and why other countries should copy it, with relevant supporting data and diagrammatical analysis. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. There is some attempt to use independent research to support their points but at the lower end this may be more superficial and unsubstantiated. GDP may be the major focus of discussion in this level, with other areas lacking development. A range of perspectives is discussed but may lack critical awareness at times. At the lower end of this level, the candidate may lack breadth by adopting generalisations about ‘other economies’ or may choose to focus too much on China’s successes with only superficial reference to whether other countries should copy their policies. Independent research to support their points will be superficial at the lower end. At the lower end candidates will lack nuance and think China’s failures means other countries should not copy its policies e.g. they may not understand that the unintended consequences of China’s policies from 1978–2010 such as the environment, may still be a price worth paying for some countries e.g. Chad.</p> <p><b>Level 2 (6–11 marks) Mid mark 9:</b> In this level, either the response is too theoretical and lacks the specific context of the question, or is focussed almost exclusively on the context of China with empirical evidence but the relevance of the evidence lacks focus and is not coupled with economic analysis relevant to the specific question.</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 answer the specific question set – for example, in this level too much focus is on the experience of China and there is no link to whether other countries should replicate it. Points made may be generalised to all economies whilst simultaneously being narrow in their analysis. Independent research to support their points will be superficial at the lower end.</p> <p><b>Level 1 (1–5 marks) Mid mark 3:</b> There is a lack of understanding of China’s successes.</p>	

Question	Answer	Marks
2	<p><b>Evaluation</b> Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels. Issues include:</p> <ul style="list-style-type: none"> <li>• Are all countries equally able and/or willing to copy China’s approach?</li> <li>• What are the factors that will determine the possibility of doing so?</li> <li>• Has China’s approach been an unmitigated success? By what metrics?</li> <li>• Does it depend on which aspect / which economic agent we are analysing e.g. consumers vs environment vs governments vs firms?</li> <li>• Time frame under consideration?</li> <li>• Was China a unique situation?</li> </ul> <p><b><u>Evaluation:</u></b></p> <p><b>Level 3 (13–18 marks) Mid mark 16:</b> 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 – that is substantiated – at the end that relates specifically to the set question, even if the conclusion is that it is difficult to know whether it will be a concern or not .</p> <p><b>Level 2 (7–12 marks) Mid mark 10:</b> 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. Conclusions may do little more than sit on the fence.</p> <p><b>Level 1 (1–6 marks) Mid mark 4:</b> 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 growth model has not been a complete success so not all countries should copy their model exactly’. There is no attempt to draw together the relevant issues in a conclusion.</p>	

Question	Answer	Marks
<p><b>Question 3 – The Millennium Development Goals and the Post-2015 Development Agenda</b></p> <p><b><i>“The best way to achieve the scope and aims of the Post-2015 Development Agenda is through trade, not aid.”</i></b></p> <p><b><i>To what extent do you agree with this statement?</i></b></p> <p>Candidates should be able to identify the scope and aims of the Post-2015 Development Agenda (PDA). However good answers will clearly go beyond this to address the specific question – looking at the aid vs trade debate. Only the strongest candidates will link the aid vs trade debate back to achieving the PDA. The weakest candidates will ignore the PDA aspect of the question and focus purely on aid vs trade. Whilst a clear focus on aid and trade should be covered, top candidates may go further and there is scope to offer an alternative to both trade and aid, looking at other economic policies too – given the word ‘best’ in the quote – though only the better candidates will be able to offer a comparison back to the context given in the question.</p> <p>A range of aims of the PDA should be looked at, with reference to whether trade or aid is the better way to achieve them. Weaker candidates will look at the over-arching debate between aid and trade, rather than with reference to the PDA. Critical awareness over the PDA will be displayed by stronger candidates, with good contextual awareness of the development needs of LEDCs, whilst weaker candidates will make broad brush generalisations. Good candidates may use examples of policies that have helped achieved the MDGs as evidence of what could work for the SDGs / PDA. Given the changing nature of the PDA debate, candidates who show a good knowledge of the Sustainable Development Goals, and focus their answer specifically on this should be rewarded.</p> <p>They should use appropriate analytical tools and data to support their arguments – use of economic nomenclature and economic theory will be key to differentiate candidates, that is those who are able to elucidate clear arguments and justifications as to why trade and/or aid is better for achieving the PDA. They should be familiar with the progress of the SDGs to date, though a list-like approach to the SDGs with a lack of focus on the specific question set should be treated as a weak L2 response.</p> <p>The best candidates will understand that aid and trade have their role to play in achieving the PDA, though weaker candidates may simply focus on the more general aim of economic development, rather than the specifics of the PDA. Knowledge of the specific aims is expected, as well as experience of specific noteworthy countries. They should reach a clear and well-supported conclusion on the extent to which trade is better than aid to achieving the PDA.</p> <p>Analysis may be assisted by the use of diagrams.</p>		
3	<p>Answers may include:</p> <p><b>Knowledge and understanding</b> of SDGs and PDA</p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• The purpose/nature and details of the SDGs;</li> <li>• The nature of economic development</li> </ul>	<b>40</b>

Question	Answer	Marks
3	<p><b>Application</b> of the role of trade and aid to SDGs Examples:</p> <ul style="list-style-type: none"> <li>• Aid vs trade debate (Sachs/Collier vs Moyo/Easterly)</li> <li>• In the SDGs, trade is treated as an engine for growth which, with flanking policies and an enabling domestic environment, can also contribute to sustainable development. Trade tools and policy aims are then spread across the post-2015's SDGs. For example, SDG 17 outlines designs to help achieve the goals as a whole, and features a trade section composed of three aims.</li> <li>• These are the promotion of a universal, rules-based, open, non-discriminatory, and equitable multilateral trading system including by wrapping up the WTO's Doha Round negotiations; significantly increasing developing country exports and doubling poor countries' share of global exports by 2020; and implementing duty-free and quota-free market access for all least developed countries (LDCs), consistent with WTO decisions in this area, as well as ensuring that preferential rules of origin requirements linked to LDC imports are transparent and simple</li> <li>• Aid helping to coordinate PDA: ODA (Official Development Assistance); Microfinance; NGO aid; remittances</li> </ul> <p><b>Analysis</b> of the link between trade and aid and promoting the aims of the SDGs Examples:</p> <ul style="list-style-type: none"> <li>• Aid</li> <li>• Bilateral (earmarked) and multilateral (unearmarked) ODA</li> <li>• Helps overcome financial constraints</li> <li>• Bridges savings and financing gaps, funds for investment, eases the ability for capital accumulation: Harrod-Domar model</li> <li>• Corruption</li> <li>• Efficacy</li> <li>• Poorly administered; lack of accountability; lac of absorptive capacity</li> <li>• Government failure</li> <li>• Bureaucracy</li> <li>• Dependency on developed world (in time of austerity?)</li> <li>• Can be tied aid or can be fungible</li> <li>• Can be allocated more appropriately than trade e.g. depending on need</li> <li>• Different types of aid (monetary, advice, resources)</li> <li>• Better than loans with high opp cost of interest repayments</li> <li>• Trade</li> <li>• Export led growth</li> </ul>	

Question	Answer	Marks
3	<ul style="list-style-type: none"> <li>• Multipliers</li> <li>• Trickle down economics</li> <li>• Role for protectionism e.g. infant industry</li> <li>• Long-term basis for international cooperation</li> <li>• Can be contingent trade</li> <li>• Can't exist in a vacuum – requires wider infrastructure for trade to occur</li> <li>• Not done via need but via opportunity for profit, so can worsen inequality</li> <li>• Unfair trade practices against LEDC make it an unlevel playing field</li> </ul> <p>Candidates can argue for or against either trade or aid helping achieve the PDA.</p> <p>Candidates should be rewarded for supporting their analysis with <i>relevant</i> diagrams.</p> <p>For the higher empirical marks, candidates should be able to support their answer with relevant data/research as to whether trade or aid is better for achieving the PDA.</p> <p>The following bullet points note examples of supporting analysis/application that <i>could</i> be used by candidates.</p> <p>Note this is <b>not</b> an exhaustive list, nor is it what is required to do well, but rather it is an indicative list of the kinds of independent research that candidates could use to support their arguments.</p> <ul style="list-style-type: none"> <li>• Net ODA figures: e.g. per capita, Sub-Saharan Africa: \$50; Latin America: \$20; South Asia \$8.</li> <li>• Net ODA as % of GNI: Liberia (32%); Malawi (30%); Burundi (20%).</li> <li>• Singh: look at the connection between poverty and trade liberalization in 30 African countries between 1981 and 2000. The results suggest that trade does tend to reduce poverty, but only in specific settings: in countries where financial sectors are deep, education levels high, and governance strong.</li> <li>• Their conclusion: “the benefits of trade are not automatic, but rather depend on good policies, too. Our findings suggest that these policies should encourage the financing of new investment, the effective resolution of conflicts, and the ability to adjust and learn new skills. This accompanying policy agenda should allow resources to be reallocated away from less productive activities to more promising ones. Trade liberalization should therefore not be seen in isolation.”</li> <li>• The WTO; the role of the Doha Development Agenda: 15 years of negotiation without any consensus provides a powerful argument to those who claim that the DDA is doomed;</li> <li>• The UK government made a commitment to invest 0.7 per cent of Gross National Income (GNI) on Official Development Assistance from 2013. The ODA:GNI target of 0.7 per cent was first agreed internationally in 1970 by the United Nations General Assembly. In May 2005, EU member states pledged to meet the 0.7 per cent target by 2015, with a collective EU target milestone of 0.56 per cent by 2010</li> <li>• In 2014 Africa received the largest percentage of DFID bilateral ODA expenditure which was specified to a country or region (60.1 per cent), equating to £2,472 million.</li> </ul>	



Question	Answer	Marks
3	<ul style="list-style-type: none"> <li>• The top three recipients of UK Net Bilateral ODA in 2012 were India (£292m) Afghanistan (£274m), and Ethiopia (£266m).</li> <li>• From 2010 to 2012, China appropriated in total 89.34 billion yuan (14.41 billion U.S. dollars) for foreign assistance in three types: grant (aid gratis), interest-free loan and concessional loan.</li> <li>• Interest-free loan is mainly used to help recipient countries construct public facilities and launch projects to improve people's livelihood. In the three years, China offered 7.26 billion yuan of interest-free loans, taking up 8.1 percent of its foreign assistance volume.</li> <li>• China says it spends more than half of its foreign aid in 51 African countries</li> <li>• Most of that aid went to areas where national leaders were born, indicating a strong political bias, AidData said.</li> <li>• Tit-for-tat: China's aid secures business opportunities for Chinese service contractors, such as construction companies. In exchange for most Chinese financial aid to Africa, Beijing requires that infrastructure construction and other contracts favor Chinese service providers: 70 percent of them go to "approved," mostly state-owned, Chinese companies, and the rest are open to local firms, many of which are also joint ventures with Chinese groups.</li> <li>• The UK's Department for International Development (DFID) has spent more than £20m (\$30m) in the last four years on an earthquake resilience programme.</li> <li>• Tarp et al 2012: When looking for evidence that aid has a positive effect on growth, found that in 27 of the countries studied aid has a positive and significant effect on either GDP, investment or both.</li> <li>• In 7 countries the effect of aid on growth is positive, but not statistically significant. Aid only has a statistically significant negative effect on GDP or investment in two countries, Comoros and Ghana.</li> <li>• The hypothesis that aid increases non-productive consumption, and thus reduces GDP or investment, is found to have no support.</li> <li>• Nearly half the budget revenues for Rwanda come from aid.</li> <li>• Short term aid vs long term growth: US aid to India for increased food production in the 1960s paved the way for India's growth takeoff afterwards.</li> <li>• Moyo vs Sachs debate e.g. Sachs: the reduction of malaria deaths due to the free distribution of bednets. Aid has played a helpful role in reducing child mortality – declined from 229 per 1,000 births in 1970 to 146 per 1,000 births in 2007. Primary school net enrolments have increased from around 53 percent in 1991 to around 70 percent in 2007.</li> <li>• Sachs: the Rockefeller Foundation's financial support of the Green Revolution in Asia; the spread of family planning since the 1950s as supported by the United Nations Population Fund; and the eradication of Polio as supported by organizations such as UNICEF</li> </ul>	

Question	Answer	Marks
3	<ul style="list-style-type: none"> <li>• MVP – Millenium Villages Projects success to achieve MDGs and thus now going forward SDGs</li> <li>• Easterly (who rejects notion of a poverty trap and thus need for aid): Easterly shows that from 1950–2001, the poorest fifth of countries increased their per capita income growth by a factor 2.25, while the richest four-fifths increased by a factor of 2.47</li> <li>• Easterly – it is poor governance and corruption that means countries are in a poverty trap, and aid compounds that – creates a moral hazard. “no evidence that initially poor countries are at a [growth] disadvantage once you control for good government”</li> <li>• Large area of debate and counter-debate: Easterly claims that \$2.3 trillion in aid has been wasted, Sachs’ that an extra \$195 billion will cut poverty by half</li> </ul> <p><b>Evaluation</b> of the extent to which, given the scope and aims of the Post-2015 Development Agenda, trade is better than aid.</p> <p>At the lowest ends, the weakest candidates will, broadly speaking, accept the premise that it is either one or the other. Stronger candidates will show a more nuanced approach, understanding the complementing role both can play. Trade nor aid is the sole or main driver of economic development. Neither is automatically effective. Trade is one development tool among several, for example poor institutions and bad governance limit the effectiveness of both.</p> <p>Whilst the Moyo vs Sachs debate will most likely be covered, good evaluation will come from going further and providing a range of perspectives.</p> <p>Strong candidates will be able to challenge the idea that trade is always key e.g. they will understand the role for protectionism under certain scenarios such as dumping. <i>However in this group of candidates, the focus will not be on whether aid or trade is better for achieving the PDA, but rather a more general overview of the pros and cons of trade vs aid.</i></p> <p>The best candidates will hopefully make a judgement on which aspects of the SDG are relevant for trade or aid; and which are better tackled with both, or an alternative. Weaker candidates will generalise all SDGs in a group, as if it were one policy. LEDCs differ in their characteristics, and strong responses will exhibit this – and as such, they will have different strengths/weaknesses and so what is more critical to one LEDC may be less critical to another. A 'one policy fits all model' will not sufficiently respond to the individual needs / existing infrastructure of LEDCs.</p> <p>Stronger candidates will evaluate the question more explicitly, comparing the importance of the two (and other policies) to achieving the scope of the SDGs. There may even be an attempt, possibly in a conclusion, to go even further and criticise the wide scope of the SDGs and feel that neither aid nor trade is sufficient.</p>	

Question	Answer	Marks
3	<p><b><u>Theory and Analysis</u></b></p> <p><b>Level 4 (18–22 marks) Mid mark 20:</b>            In this level, distinctions are made as to when aid and when trade is better to achieve the PDA. The link from trade and aid to the SDGs and the PDA is well developed and sustained. The candidate may discuss nuances such as when one may be preferred to the other, for different aspects of the PDA or for different countries or under different time frames. 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.            In this level, links between aid and trade and the PDA are thorough and regular. The nuances of issues are understood as well as their implications. In this level, candidates should understand that aid and trade are not mutually exclusive.</p> <p><b>Level 3 (12–17 marks) Mid mark 15:</b>            In this level, a clear attempt is made to answer the specific question set on why both aid and trade are needed to achieve specific goals of the PDA. Links between the question being asked and the perspective being put forward are clear. There is a solid understanding of a range of SDGs, with relevant supporting data. Use of economic theory, terminology and application is correct and regular, though may contain some errors at times. A range of perspectives is discussed but may lack critical awareness at times. The focus of the response may be predominantly on aid vs trade, with linkages to the PDA lacking depth. Evidence of independent research may be lacking in places.</p> <p><b>Level 2 (6–11 marks) Mid mark 9:</b>            In this level, either the response is too theoretical and lacks the specific context of the question, or is focussed almost exclusively on the context of the PDA/MDGs with empirical evidence but the relevance of the evidence lacks focus and is not coupled with economic analysis relevant to the specific question.            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 answer the specific question set – in this case, they may understand the trade vs aid debate, it may feel like a general answer on the Moyo vs Sachs debate. Points made may be generalised to all LEDCs whilst simultaneously being narrow in their analysis, for example by only looking at one of the SDGs in the quote. Independent research may be significantly lacking.</p> <p><b>Level 1 (1–5 marks) Mid mark 3:</b>            There is no understanding of what is meant by the PDA.</p>	

Question	Answer	Marks
3	<p><b>Evaluation</b></p> <p>Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels.</p> <p>Issues include:</p> <ul style="list-style-type: none"> <li>• Difference between reality and theory of achieving the SDGs with aid and trade?</li> <li>• Is it a case of either/or with respect to trade and aid?</li> <li>• Under what circumstances are they both limiting?</li> <li>• Under what time frame is trade better than aid?</li> <li>• Is there a ‘third way’?</li> <li>• Is the SDG / PDA too ambitious?</li> <li>• Do different LEDCs need different policies with respect to trade and aid focus?</li> </ul> <p><b>Level 3 (13–18 marks) Mid mark 16:</b> 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 – even if the conclusion is perhaps arguing that both are as important as each other as the MDGs are a package of policies and cannot be taken in isolation.</p> <p><b>Level 2 (7–12 marks) Mid mark 10:</b> 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. Conclusions may do little more than sit on the fence.</p> <p><b>Level 1 (1–6 marks) Mid mark 4:</b> 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, ‘trade is better than aid because aid can be wasted’. There is no attempt to draw together the relevant issues in a conclusion.</p>	

Question	Answer	Marks
<p><b>Question 4: Behavioural Economics and Government policy</b></p> <p><b>The traditional approach to economics assumes that consumers are rational utility-maximisers and firms are rational profit-maximisers, whereas the behavioural economics approach does not.</b></p> <p><b>Evaluate the extent to which governments should take this into account.</b></p> <p>Candidates should show a good understanding of the behavioural (BE) literature. The stronger candidates will attempt to answer the specific question of whether governments should take the BE approach to rationality into account. Weaker candidates will not complete the link to the specific question set, and either purely discuss the BE literature; or focus purely on whether behavioural economics agrees with traditional microeconomics, with limited link on the implication this has for governments. Better candidates will be able to analyse the consequences of both not taking it into account, and taking it into account e.g. by examining welfare implications, resource allocations, cost, efficiency, effectiveness, etc. A range of areas of government policy may be examined and could differentiate the quality of responses e.g. the creation of BIT and SBST may be used as evidence of governments that have taken it into account. Weaker candidates will accept the statement above as fact. Stronger candidates will show a nuance in their understanding, perhaps discussing the extent to which traditional microeconomics does assume maximising behaviour in all conditions; or the extent to which behavioural economics disagrees with the traditional approach. The quality of the BE literature used to support their arguments will distinguish between stronger and weaker candidates. Strong candidates will understand the place and role for standard economic theory, whilst understanding how behavioural economics augments that sometimes but not always for example some may argue that governments themselves are subject to certain behavioural biases leading to government failure.</p> <p>There are no set examples expected but innovative, original examples and case studies used to support their points will be rewarded well as part of their independent investigation. Use of relevant diagrams are to be rewarded, but is not a pre-requisite to do well on this question. They should reach a clear and well-supported conclusion on the extent to which governments should take into account the B.E approach on rationality.</p>		
4	<p><b>Answers may include:</b></p> <p><b>Knowledge and understanding of B.E</b></p> <p>Examples: B.E concepts such as nudges, libertarian paternalism, time inconsistent preferences, information failures, bounded rationality, endowment effects, Prospect theory</p> <p><b>Application of the assumptions of maximising behaviour</b></p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Utility maximisation</li> <li>• Profit maximisation</li> <li>• Alternative theories of the firm: satisficing</li> <li>• Principal-agent problem</li> <li>• Homo economicus vs boundedly rational</li> <li>• Heuristic rules of thumb</li> <li>• Biases susceptibility</li> </ul>	40

Question	Answer	Marks
4	<p><b>Analysis</b> of the implication for government policy</p> <p>B.E implies</p> <ul style="list-style-type: none"> <li>• that humans are not Econs whilst conventional economics assumes we are infinitely rational</li> <li>• people can be influenced (manipulated – phished), and nudged</li> <li>• limited cognitive capacity</li> <li>• hyperbolic discounting</li> <li>• Endowment effects, Risk aversion, Choice paradox</li> <li>• All of this implies that government policy should become more sophisticated rather than focussing purely on the market mechanism e.g. tax / subsidy; but instead appeal to more sociological policy tools e.g. text messages to encourage merit good behaviour (electricity consumption, blood donations).</li> <li>• Not taking it into account can cause poor policies being implemented:</li> <li>• The absence of taking this into account could mean poor: <ul style="list-style-type: none"> <li>• resource allocations</li> <li>• deadweight loss</li> <li>• value for money issues</li> <li>• ineffective outcomes</li> <li>• equity issues</li> <li>• government failure</li> </ul> </li> </ul> <p>The following bullet points note examples of supporting analysis/application that <i>could</i> be used by candidates. Note this is <b>not</b> an exhaustive list, nor is it what is required to do well, but rather it is an indicative list of the kinds of independent research that candidates could use to support their arguments.</p> <ul style="list-style-type: none"> <li>• President Obama (September 2015) signs Executive Order “Using Behavioral Science Insights to Better Serve the American People”</li> <li>• <a href="http://amsterdamlawforum.org/article/view/96/170">http://amsterdamlawforum.org/article/view/96/170</a></li> <li>• Consequences for tax policy: <a href="http://www.ucl.ac.uk/~uctpimr/research/IFScomm125.pdf">http://www.ucl.ac.uk/~uctpimr/research/IFScomm125.pdf</a></li> <li>• Behavioural insights provide new reasons to intervene – issues of self-control, for example. But they also help shape how we think about traditional rationales for intervention, which typically look at cases of market failure, where outcomes are suboptimal from the perspective of individuals, society or both.</li> <li>• Ogilvy &amp; Mather's behavioural economics unit: 2015 A study has revealed that shoppers who were shown different poster treatments, using different combinations of rational and emotional appeals and behavioural economics concepts, responded best to a poster that used the behavioural principles of loss aversion (fear of missing out) and scarcity (product only available for a limited time),. Their study focussed on persuading people to eat edible insects – which the UN have said could be positive for a number of health and sustainability benefits.</li> <li>• Implications for solving market failures differs e.g. nudges on shape of beer glass for reducing drink problems</li> <li>• Phishing for Phools (Shiller and Akerlof) – this aspect of behavioural economics is in sync with profit maximisation strategies</li> </ul>	

Question	Answer	Marks
4	<ul style="list-style-type: none"> <li>• “Nudge for good” Thaler – nudging can be used to manipulate people to their detriment as well as their benefit. Thus a key implication is that governments need to regulate against it too.</li> <li>• Some people may take account of how their behaviour affects others if social preferences are important. This means that private decisions are closer to the social optimum, reducing the need for corrective taxes or subsidies.</li> <li>• With time inconsistency, externalities can arise not just because of how someone affects the well-being of others, but also through how decisions made today affect the individual in the future. This is known as an internality.</li> <li>• In some situations, the behaviour of others can act as a cue affecting individual choices in ways they may later regret, perhaps increasing the costs of self-control (whether to drink in certain social situations, for example). This suggests new sources of externalities when framing and temptation effects are important.</li> <li>• Different behavioural biases might reduce responsiveness. Some examples are: Bounded rationality People may have difficulty understanding the tax system. A common issue seems to be confusion between average and marginal tax rates; in principle, it is the latter that should guide choices, but evidence suggests that many people respond to average rates instead, which could lead them to work more than standard models would imply.</li> <li>• Framing Some forms of taxation may not be very salient, reducing how responsive people are to them. Salience might be related to how the tax is presented or labelled. Taxes that are paid automatically rather than out of pocket may be less salient.</li> <li>• Time inconsistency Some tax payments may be seen as more distant liabilities. As a result, people could respond less to pre-announced tax changes than would be expected, or more to taxes on income than on consumption.</li> <li>• Social preferences People may have an intrinsic willingness to pay tax or be more willing to pay taxes if they believe the revenues are used for purposes they support. However, in general, the economic case for hypothecated taxes is weak, so caution should be used in justifying them for behavioural reasons.</li> <li>• Implications for financial regulation: Bernie Madoff, Ponzi scheme nudges.</li> <li>• The case for using tax incentives based on bounded rationality is less clear-cut than the case for more targeted interventions such as legal drinking/smoking ages and focused information campaigns.</li> <li>• Vehicle excise duty is an annual tax on those owning road vehicles and is based on carbon emissions. A single up-front purchase tax might be more effective at influencing purchase decisions if people fail to account for future tax liabilities.</li> <li>• Moral dilemmas: Behavioural economics is a way of looking at why people don't make the decisions that would be best for them. There has to be some prior determination that this is the right thing to do. Not widespread agreement e.g. on child vaccinations.</li> </ul>	

Question	Answer	Marks
4	<ul style="list-style-type: none"> <li>• Implication for how governments should raise money for charitable causes. Companies often tell consumers that a proportion of the profits from a specific sale will be donated to a designated charity, but they would get a better consumer reaction if, after the sale, the company gives the purchaser the money to give to their own designated charity. Would this be a better way of allocating tax revenue to charities?</li> <li>• Pensions: the UK workplace pensions scheme, or Nest, which automatically enrolls employees in a workplace pension yet gives them the opportunity to opt out. This results in a greater take-up than if employees were required to opt in, which takes more time and effort.</li> <li>• Littering: Because littering is caused by inattention rather than premeditation, and unlike smoking is not addictive, one approach is to remove the anonymity of it: So getting fast food outlets to write the name of the purchaser on the bag could change behaviour.</li> <li>• WEIRD sample sizes: “A recent analysis of the top journals in six subdisciplines of Psychology from 2003–2007 revealed that 68% of subjects came from the US, and a full 96% of subjects were from Western industrialized countries, specifically North America, Europe, Australia, and Israel. The make-up of these samples appears to largely reflect the country of residence of the authors, as 73% of first authors were at American universities, and 99% were at universities in Western countries. This means that 96% of psychological samples come from countries with only 12% of the world’s population... Furthermore, a randomly selected American undergraduate is more than 4000 times more likely to be a research participant than is a randomly selected person from outside of the West.”</li> <li>• “The assumption that either there is little variation across human populations, or that these “standard subjects” are as representative of the species as any other population is incredibly limiting.</li> <li>• Taking the common Ultimatum game, among subjects from industrialized populations—mostly undergraduates from the U.S., Europe, and Asia—proposers typically offer an amount between 40% and 50% of the total...with offers below about 30% often rejected.</li> <li>• The research presented in this new paper however, shows that “randomly sampled from 23 small-scale human societies, including foragers, horticulturalists, pastoralists, and subsistence farmers, drawn from Africa, Amazonia, Oceania, Siberia and New Guinea...show that the people in industrialized societies consistently occupy the extreme end of the human distribution. Notably, some of the smallest scale societies, where real life is principally face to face, made low offers and did not reject.”</li> </ul>	



Question	Answer	Marks
4	<p><b>Evaluation</b> of the extent to which governments should take into account the different assumptions between the traditional approach to economics and the behavioural economics approach.</p> <p>At the lowest end, the weakest candidates will accept the premise of the question arguing that B.E offers a much better alternative to the neo-classical approach, and thus government policy should simply take on board the alternative approach.</p> <p>Better evaluation will understand that there are grey areas for government policy – in some areas the assumption of traditional economics may be more valid than others (e.g. firm behaviour on profit-maximisation and thus tax avoidance regulations). In certain resource allocation problems this may be a bigger problem than others e.g. obesity vs alcoholism vs congestion vs climate change vs poverty. E.g. B.E suggests that consumers respond in a different way to the word ‘free’ or can be influenced by framing.</p> <p>Some may argue that although there may be market failures if the government does not act, equally there is scope for governments themselves to suffer from the same behavioural biases and thus also lead to government failure, whilst weaker responses may assume that by governments taking B.E into account, outcomes definitely improve.</p> <p>Strong candidates will avoid generalising across both fields. They may see more or less validity in the statement e.g. Standard economics suggests firms are profit maximisers, but there are other theories of the firm that imply not all firms are – these stop short of the behavioural economics field. Or conversely behavioural economics rephrases profit maximising in less technical terms e.g. instead of <math>MC=MR</math> thought processes, it is more about ‘phishing for phools’.</p> <p>The implications for governments may differ with traditional economics in different situations e.g. developed vs developing consumers, or educated vs uneducated, or rich vs poor. Duflo and Banerjee would argue that people in extreme poverty are the best at optimisation problems due to their need. But it is hampered by other things such as their means. A discussion may arise over for whom or what nature the conflict shows itself e.g. consumers, workers, governments.</p> <p>There may be an attempt to challenge the validity of the assumptions / findings from B.E and thus the consequences for government may not be so clear cut.</p>	

Question	Answer	Marks
4	<p><b><u>Theory and Analysis</u></b></p> <p><b>Level 4 (18–22 marks) Mid mark 20:</b>            In this level, it is clear why governments should take into account the findings of B.E – the candidate clearly explains the consequences of governments taking or not taking the B.E approach into account. In this level, nuances surrounding their arguments on where governments should or should not take B.E into account are picked out e.g. certain market failures over others. The quality of supporting evidence may differentiate at the top end e.g. the use of BIT and SBST research may differentiate the quality of responses here. In this level the candidate is likely to disaggregate how a government may take it into account e.g. by looking at a range of policy design areas. Some may differentiate between areas where B.E builds on conventional economic theory vs where it is in direct conflict with it e.g. homo economicus vs boundedly rational and nudges vs legislation. The idea of ‘rationality’ is explored consistently in this level. 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><b>Level 3 (12–17 marks) Mid mark 15:</b>            In this level, a clear attempt is made to answer the specific question set on whether governments should take B.E findings into account. Links between the question being asked and the perspective being put forward are clear. In this level, the focus on rationality may be lacking or there may be a limited link to government policy at the lower end of this level. 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. At the top of this level, the answer looks at a range of issues but it may lack nuances such as making implicit assertions as to why a government should take into account B.E, whereas for L4, the analysis is completed more clearly. At the mid-level, a range of perspectives is discussed but may lack critical awareness at times, for example generalising the findings of B.E. Independent research may be lacking in places at the lower end of this level or may focus on ‘pop-behavioural economics’.</p> <p><b>Level 2 (6–11 marks) Mid mark 9:</b>            In this level, either the response is too theoretical and lacks the specific context of the question, or is focussed almost exclusively on the context of B.E with empirical evidence but the relevance of the evidence lacks focus and is not coupled with economic analysis relevant to the specific question. 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 answer the specific question set, regurgitating many B.E concepts but not going beyond this. At the lower end of this level, the response reads like a pre-rehearsed answer rather than one that is linking to the implication for governments.</p> <p><b>Level 1 (1–5 marks) Mid mark 3:</b>            There is a lack of understanding of what is meant by consumer and firm behaviour.</p>	

Question	Answer	Marks
4	<p><b>Evaluation</b> Here follows a re-cap of some of the areas that might be included and a breakdown of what will be expected at the various Levels.</p> <ul style="list-style-type: none"> <li>• Is there a risk of government failure too?</li> <li>• Does it depend how open governments are to ‘manipulate’ consumers?</li> <li>• Prioritisation of which aspects of government policy are more affected by the discrepancy?</li> <li>• Does B.E have more in conflict with consumer than firm theory?</li> <li>• Which is better in different scenarios – B.E or conventional theory?</li> <li>• Take into account in what respect? Outcome; policy design; assumptions?</li> <li>• A critical awareness over the findings from B.E – are the lessons / findings valid in all scenarios? Any limitations to them e.g. WEIRD samples.</li> <li>• Is there a conflict between the two schools or are there grey areas?</li> </ul> <p><b>Level 3 (13–18 marks) Mid mark 16:</b> 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><b>Level 2 (7–12 marks) Mid mark 10:</b> 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. Any conclusion will do little more than sit on the fence.</p> <p><b>Level 1 (1–6 marks) Mid mark 4:</b> 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 extent to which governments should take it into account is varied because it depends on the accuracy of behavioural economics studies’. There is no attempt to draw together the relevant issues in a conclusion.</p>	