



SUBJECT

9772/01

Paper 1 Multiple Choice, Short Answers and Data Response

May/June 2016

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.

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Section A

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

Section B

- 1 (a) Gini coefficient = $a/(a + b)$
or allow $2a$ (if working in decimals and $a + b = 0.5$ so $a/a + b = a/0.5 = 2a$) [2]

Candidates who correctly identify the right areas and make it clear they understand that the Gini coefficient is calculated with reference to them, without getting the correct formula will get a maximum of 1 mark.

- (b) For definitions of income and wealth, candidates will get a mark. For an answer that accurately explains that wealth is likely to generate income [up to 2 marks] For an answer that explains that the more income one has, the more likely it is that a greater proportion will be unspent and so added to the stock – i.e. wealth [up to 2 marks] Give credit for any other relevant point made, perhaps even a counter-example. Maximum of 2 marks for explanation with final mark [1] reserved for an appropriate example – although example may be included within the explanation e.g. ‘a very wealthy person may.....’
- 2 For an simple explanation that a fall in a country’s exchange rate should make its exports more price competitive and imports less price competitive and hence ‘improve’ the net exports [up to 2 marks]. For a clear distinction between the two time periods and discussion of time lags/contract periods/J curve effects/non-price factors etc. [up to 3 marks]. An accurate definition of the Marshall-Lerner condition will get a mark, but to get 5 marks candidates will need to offer some explanation of why the demand for exports and imports is likely to be more elastic in the long-run.

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- 3 (a) National Income multiplier = $1/(1 - mpc) = 1/(1 - 0.8) = 5$ [2 marks] – award marks if correct answer but no working. Award one mark if working shows that correct formula is known but there are errors in the ‘Maths’
- (b) For an explanation that poorer people will have a higher mpc than richer people [1 mark]
 Explanation that overall, re-distributing money to the poor will therefore cause a net increase in the ‘initial’ level of C [1 mark], which, after the multiplier effect will result in a rise in the equilibrium level of National Income [1 mark]. An implicit awareness of the multiplier will also be credited. Also give credit for any discussion of how it is the apc that affects the total level of spending rather than the mpc and how a re-distribution of income towards those with a higher mpc leads to an increase in the overall apc. Maximum of 3 marks for this part of the question.
- 4 [2 × 2 mark] for a definition and example of each of the two types of unemployment, with demand-deficient unemployment being defined in terms of an economy-wide fall in aggregate demand. Examples might be specific e.g. an unemployed steel worker as an example of structural unemployment or more general, e.g. a decline in manufacturing jobs within the UK. Then up to [3 further marks] for an accurate description of the difference - for example, explaining that structural is more long-term, possibly looking at the causes, perhaps use of a diagram to show demand-deficient, stating that demand-deficient is also sometimes known as Keynesian unemployment etc.
- 5 (a) **Using the information in Table 1, showing your working, calculate the impact on the quantity of vintage wines demanded if there is a 10% increase in the price.** [2]

	Knowledge & Application
2 marks	A fall of 7% and evidence of working – e.g. $x\%/+10\% = -0.7$ therefore $x = -7\%$
1 mark	Either just statement of 7% fall (or allow just 7%) or clear attempt at correct working but error(s) mean answer is incorrect
0 mark	No use of the relevant information is made

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- (b) Explain one reason why, as stated in Extract 2, if duty is increased by 8p, the price of a bottle of wine is expected to remain unchanged? [3]

	Knowledge & Application
3 marks	Good explanation that supermarkets will be able to transfer at least some of the increase onto their suppliers - there may well be mention of 'monopsony power' or at least an explanation of <i>how</i> it may be possible for a supermarket to do this, even if the technical term isn't used. To get this 3 rd mark they will also need to be talk about price competition as to why small retailers have to take the hit themselves, given that the supermarkets won't (probably) be putting up their prices – i.e. a need to look at the situation from the perspective of both large and small retailers.
2 marks	A reasonable answer that certainly goes beyond just a statement but slightly superficial in terms of the explanation, possibly just focussing on either large supermarkets or small retailers
1 mark	Candidates might just state 'menu costs' or 'a desire not to have unusual prices' but if there is no explanation of the statement then candidates should just get one mark.
0 mark	Nothing of relevance

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(c) Using a diagram, explain why the consumption of alcohol leads to market failure. [5]

	Knowledge	Application	Analysis
2 marks	Good demonstration of knowledge of what the market failure is in the context of alcohol.		Accurate use of a diagram probably showing a divergence between mpc and msc - but just as validly could show a divergence between perceived and actual mpc (or even mpb) or combination of both. Only 2 marks so some leniency possible with diagram
1 mark	A superficial display of knowledge of what the market failure might be – e.g. alcohol is over-consumed/produced and nothing extra	Explains how diagram shows that alcohol is over-consumed (produced) and hence how it can be viewed as there being a market failure	An attempt at a diagram with little evidence that the candidate understands that the externality arises because of a divergence between marginal private and marginal social costs and/or benefits.
0 mark	No knowledge displayed in answer – simply a repetition of provided facts	No relevant application of knowledge	No relevant analysis

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- (d) Using the information from Extract 3 and your own knowledge, evaluate the proposition that the best way to solve the problems caused by alcohol is to introduce a minimum price per unit of alcohol. [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 the idea of what the problems caused by alcohol actually are
5 marks		Clear evidence of evaluation and very good awareness of the relative strengths of the arguments given – there is very likely to be a ‘final conclusion’ (although this is not essential to gain this mark) but the reader may be left with a sense of ‘something missing’ in the evaluation
4 marks	Good use of proposals from Extract 3 as a basis of the discussion – and in particular a clear sign that the candidate appreciates that different policies affect different groups of drinkers and in different ways. At this top level the candidate will also draw on points from their own knowledge over and above those provided.	Some clear evidence of evaluation, but limited discussion of the relative strengths of the arguments given.
3 marks	A reasonable attempt to consider the majority of the relevant issues, but some aspects omitted.	Some evidence of evaluation or limited awareness of the relative strengths of the arguments given but not both; at this level there will almost certainly be no final summary and the answer will appear to be rather disjointed.
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 mark	No relevant analysis	No evaluation

Extract 3 provides several proposals that the candidates might consider. What will differentiate the candidates is the way that they analyse HOW the different suggestions might affect drinking. Clearly the emphasis of the articles is on binge drinking but top candidates will realise that the actual question doesn’t say this and will have the opportunity to ‘open up the debate’. For example, habitual long term moderate drinking, causing liver problems, has

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been in the news with suggestions that government advice concerning units per week is wrong/dangerous. Candidates who acknowledge that there are some positive externalities associated with moderate alcohol consumption should be rewarded.

This is a classic *'What is the market failure, what is the possible government intervention, how would this help and are there other more suitable forms of intervention?'* type of question.

- (e) **'The drinks industry in the UK is worth more than £30bn per annum in tax revenue to the government and there are more than one million "drink related" jobs in the UK'.**

Given this information, evaluate the view that the government should be looking to boost the industry rather than adopting measures aimed at limiting consumption. [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; 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

This is a chance for candidates to put the whole issue into a broader context – 'the lesser of two evils' idea will be relevant, particularly with regard to time scale. Candidates are likely to consider the case for promoting the industry, and weighing this against the drawbacks of promoting the industry. At the top level, there should be a clear sense of the 'net' effects of any decision. The information in Extract 1 allows candidates to look at the 'net cost' of the problems associated with the over-consumption of alcohol.

Candidates may wish to agree with the statement and argue that at a time when there is a desire to reduce the budget deficit that it is not the time to look at intervening more in the industry. Similarly, better candidates may well also consider that many of these 'jobs' are not dependent on 'over drinking'/binge drinking. There are no proposals to ban alcohol being put forward. Candidates could also consider, for example, what might happen if people drank

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less, became healthier and took up more leisure activities – creating more demand for jobs in this area.

The best candidates might suggest that the objectives of supporting the industry and simultaneously tackling the negative externalities of over-consumption aren't mutually exclusive. For example, supporting the production of craft beers, and the export of Scotch whisky, might be seen as worthwhile and unlikely to increase the incidence of binge drinking. Evaluation of the impact of any measures to tackle this issue are likely to refer to the different price elasticities of demand of different groups.

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