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**ECONOMICS**

**9772/02**

Paper 2 Essays

**May/June 2017**

MARK SCHEME

Maximum Mark: 75

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**Published**

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

**Marking criteria for Paper 2**

For each question, marks are awarded in two categories, each with their own levels of assessment. The first mark, called **Theory and Analysis (TAA)**, is for the knowledge and understanding of relevant economics, how this is applied and how the information/issues are analysed. The maximum mark for this on each question is 17.

The second mark, called **Evaluation (E)**, covers the evaluation of the issues involved. Examiners should look to mark the essay holistically and decide into which relevant Levels the answer lies. The Levels will not necessarily be the same for the two categories.

The generic descriptions of the Levels for the two marks are below.

**Theory and Analysis**

**Level 4 (13–17 marks), Mid mark 15:** An excellent answer that shows accurate and comprehensive application of relevant theory. There will be in-depth and coherent analysis. At the top end there will be signs of real insight and/or originality, not normally expected to be seen at this level.

**Level 3 (9–12 marks), Mid mark 11:** An answer that logically addresses the issues involved and generally shows a correct application of the relevant theory. An attempt is made to analyse and there is some depth or coherence but not necessarily both.

**Level 2 (5–8 marks), Mid mark 7:** Some correct application of relevant theory will be shown but there may well be inaccuracies contained within the answer. An appreciation of the need to analyse may be demonstrated, but not much more than this. The answer is likely to lack any real coherence.

**Level 1 (1–4 marks), Mid mark 3:** The answer contains something of relevance to the set question. However, theory may be misunderstood, or incorrectly applied. At this level, any analysis shown will be extremely superficial.

**Level 0 (0 marks):** Nothing of any relevance to the set question is shown within the answer.

**Evaluation**

**Level 3 (6–8 marks), Mid mark 7:** There is in-depth, coherent, comprehensive and well-balanced evaluation. At the top end there will be signs of real insight and/or originality, not normally expected to be seen at this level.

**Level 2 (3–5 marks), Mid mark 4:** There is a definite attempt to consider various points of view or outcomes for different economic agents or distinction between short-run and long-run consequences etc. but the coverage of these is less than comprehensive.

**Level 1 (1–2 marks), Mid mark 2:** There is some attempt at evaluation but issues are more likely to be stated than examined.

**Level 0 (0 marks):** There is no evidence of any evaluation whatsoever.

Question	Answer	Marks
<b>Section A</b>		
<p><b>Using indifference curve analysis, assess the significance of income and substitution effects in determining the quantity demanded of a product when its price increases.</b></p> <p>Candidates will be expected to show a clear understanding of both of these effects. It is expected that answers will use indifference curve analysis to demonstrate this understanding in terms of the link between quantity demanded and price of the good. There should also be consideration of the relative sizes of the two effects when the prices of different types of goods increase.</p>		
1	<p><b>Answers may include:</b></p> <p><b>Knowledge and understanding</b> of the two effects.</p> <p><b>Application</b> – through the use of an example, an will be able to show how a change in price will bring about both effects. At the top end candidates will consider various different scenarios – for example where the income effect works in the opposite direction to the substitution effect.</p> <p><b>Analysis</b> As mentioned above, indifference curves will be used to analyse the two effects. With regard to the income effect, candidates may give a written explanation of how changes in (real) income – or more generally in purchasing power – will affect the demand for different goods. The special case of a Giffen good, as an extreme inferior good, is also of relevance.</p> <p><b>Evaluation</b> of the issues involved might include the following examples</p> <ul style="list-style-type: none"> <li>• Does indifference curve analysis not make too many simplifying assumptions to be of true relevance?</li> <li>• How does the degree of necessity affect the size of the effects?</li> <li>• Assumes that consumers act rationally – is this realistic?</li> <li>• What about the role played by other factors in determining quantity demanded?</li> <li>• What about Veblen goods?</li> </ul> <p><b>Theory and analysis</b></p> <p><b>Level 4 (13–17 marks), Mid mark 15:</b> There is a clear demonstration of an understanding of the importance of the two effects in influencing the demand for a good – at this level by use of indifference curves. At the top of this level (i.e. 15 or above) a candidate will need to look at more than just a ‘standard normal good’ and will need to analyse situations where substitution and income effects work in different directions.</p> <p><b>Level 3 (9–12 marks), Mid mark 11:</b> The candidate is likely to focus on simple indifference curve analysis, but there will be errors or omissions in the explanation. [An answer that only refers to falls in price will also be restricted to a maximum of Level 3.]</p> <p><b>Level 2 (5–8 marks), Mid mark 7:</b> There is a definite appreciation of what the two effects involve but analysis is either extremely thin or riddled with confusions. In addition, candidates may limit their approach to the question to looking at a change in income, failing to consider both effects when the only change to occur is in the price of the good itself.</p>	<b>25</b>

Question	Answer	Marks
1	<p><b>Level 1 (1–4 marks), Mid mark 3:</b> Analysis is either missing or highly inaccurate. The answer is likely to fail to address the set question but instead be a very weak attempt to re-hash a textbook explanation simply of causes of a shift in the demand curve.</p> <p><b>Evaluation</b></p> <p><b>Level 3 (6–8 marks), Mid mark 7:</b> A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> <li>• What other factors affect demand?</li> <li>• Are there time lags between changes in price and consumption decisions?</li> <li>• What is the role here for ‘perfect knowledge’?</li> <li>• Do consumers act rationally?</li> <li>• The issue of significance ‘for whom’ may also be addressed.</li> </ul> <p>It is possible that many candidates will not draw a definitive conclusion. However, at the top end, candidates are likely to consider the relative importance and significance of these two effects and may well draw some conclusions from this in terms of the overall determining factors of the demand for a good or service.</p> <p><b>Level 2 (3–5 marks), Mid mark 4:</b> One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.</p> <p><b>Level 1 (1–2 marks), Mid mark 2:</b> Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: ‘Will people always prefer a relatively cheaper good?’</p>	

Question	Answer	Marks
<p><b><i>‘Government intervention to correct market failure inevitably makes the situation worse.’</i></b></p> <p><b><i>With reference to examples, to what extent do you agree with this statement?</i></b></p> <p>Candidates have the scope here to consider the impact of government intervention on different types of market failure. The use of the word ‘inevitably’ in the question should act as a spur for evaluation from the candidates.</p>		
2	<p><b>Answers may include:</b></p> <p><b>Knowledge and understanding</b> of the relevant theory such as: What forms market failure can take and different approaches to government intervention. What is meant by ‘government intervention’ and why might there be problems with such intervention?</p> <p><b>Application</b> Candidates will provide examples of government intervention from real life to help demonstrate and justify their analysis.</p> <p><b>Analysis</b> There is clearly scope for candidates to discuss issues including those such as welfare losses from the existence of externalities, from merit goods / demerit goods and monopolies, from missing markets in the case of public goods and lack of effective demand from some consumers for ‘essential items’, with income distributional issues. However the answer needs to focus on government intervention. Answers may look at various ways in which this can happen – e.g. taxes, subsidies, regulation, direct provision, behavioural economics – and focus on the problems with such intervention. Some candidates will focus on the idea of ‘imperfect information’ as a main problem, although issues such as the ‘opportunity cost’ or ‘unintended consequences’ of intervention might be included here.</p> <p><b>Evaluation</b> There will need to be some discussion as to what is meant by the phrase ‘makes the situation worse’. Whether under analysis or within a more general discussion under evaluation, better candidates will pick up on the use of the word ‘inevitably’ and consider whether the use of this word is valid. Examples:</p> <ul style="list-style-type: none"> <li>• Market failure takes many different forms and it is not possible to ‘lump together’ all government intervention – the answer to the question depends upon both the type of intervention and the type of the problem.</li> <li>• The use of the word ‘inevitably’ fails to allow for a case-by-case discussion, which is what we need.</li> <li>• Are some issues more ‘deserving’ / ‘needing’ of government intervention, even if there may be ‘problems’ with the intervention?</li> <li>• Are there value judgements to be made in terms of whether we view there to have been a market failure – e.g. is a merit good / demerit good always so, or does it depend upon the society?</li> <li>• Recognition that market failure changes over time.</li> </ul>	25

Question	Answer	Marks
2	<p><b><u>Theory and analysis</u></b></p> <p><b>Level 4 (13–17 marks), Mid mark 15:</b> There is an awareness of the problems caused by market failure and how different forms of government intervention also bring a range of issues. At the top of this level there will be analysis of at least two different forms that government intervention can take, and of whether all forms of intervention ‘make the situation worse’. Examples from real life will be used to back up the analysis.</p> <p><b>Level 3 (9–12 marks), Mid mark 11:</b> The response may have limitations or errors in the analysis, or write superficially on a wider range of forms of government intervention, linked to market failures. Examples from real life will be used. Alternatively, there may be good analysis, but covering only one type of intervention.</p> <p><b>Level 2 (5–8 marks), Mid mark 7:</b> There is likely to be some understanding shown but the answer and examples will be superficial. The answer is likely just to be a superficial explanation of government intervention or of problems with it, or may focus instead on problems of market failure.</p> <p><b>Level 1 (1–4 marks), Mid mark 3:</b> A very weak answer that will merely state a few of the issues involved but with no real analysis and the answer is likely to include a lot of confusion / inaccuracies.</p> <p><b><u>Evaluation</u></b></p> <p><b>Level 3 (6–8 marks), Mid mark 7:</b> A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> <li>• Is it possible to think of all forms of government intervention as being lumped together? The use of the word ‘inevitably’ fails to allow for a case-by-case discussion, which is what we need.</li> <li>• Is it always possible to evaluate whether the situation has been improved or made worse? For example, how can we know whether government provision of some merit goods has made things better or worse?</li> <li>• Does the degree of the problem caused by a market ‘failure’ depend upon how an economy views it? For example, how do we rate how big a problem an uneven distribution of income is, within an economy – isn’t this a value judgement?</li> <li>• What is the relative importance of the problems caused? Are some issues more deserving / needing of government intervention, even if there may be problems with the intervention?</li> <li>• There is likely to be a conclusion drawn at the end to explain the candidate’s overall view – even if this is that there is no clear-cut answer.</li> </ul> <p><b>Level 2 (3–5 marks), Mid mark 4:</b> One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.</p> <p><b>Level 1 (1–2 marks), Mid mark 2:</b> Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: ‘There are different problems associated with different types of government intervention’.</p>	

Question	Answer	Marks
	<p><b><i>‘The threat of competition is now as powerful as actual competition in protecting the interests of consumers.’</i></b></p> <p><b><i>Evaluate this statement.</i></b></p> <p>Candidates should show a good understanding of the theory of contestable markets and be able to discuss how this suggests an outcome for a consumer that is similar to that which would be the case with perfect competition. Clearly there will need to be some consideration of what is meant by ‘the interests of consumers’ and it is likely that candidates may well use a diagram to show how prices will be higher and output lower with a monopolist rather than when the industry is perfectly competitive. Better candidates will be able to show the equilibrium diagram for a firm earning just normal profits due to the threat of entry and be able to compare how this equates with the perfectly competitive outcome. Within evaluation there may well be discussion of the difference between the short-run and the long-run. The use of the word ‘now’ in the question invites candidates to discuss recent developments that may have had an impact on the issue – such as changes in technology.</p>	
3	<p><b>Answers may include:</b></p> <p><b>Knowledge and understanding:</b> What is meant by a contestable market? There is likely to be consideration of the whole idea of lack of barriers to entry AND exit – with probable mention of ‘sunk costs’ – and the idea of ‘hit and run’. The importance of the threat of entry in impacting upon the decisions made by an existing firm will need to be discussed.</p> <p><b>Application</b> Candidates may well give examples from real-life of where the threat of entry is thought to have impacted upon the decisions of an existing firm[s]. There may well be consideration of how changes in technology, and especially with the internet, have made markets more contestable.</p> <p><b>Analysis</b> Examples: Use of a diagram to show the profit maximising price and output outcomes and what will occur if a firm decides just to make normal profit. There might be some discussion of a situation if there are <i>some</i> barriers to entry/exit or if potential firms face higher cost curves than incumbent firm. There may well be consideration of the concept of limit pricing to stop other firms from entering the industry. Possible consideration of how an objective other than profit maximising impacts upon allocative/productive/dynamic efficiency ideas.</p> <p><b>Evaluation</b> of the issues involved Examples:</p> <ul style="list-style-type: none"> <li>• Could it not be argued that short run supernormal profits are better than short run normal profits? Will firms really reduce their potential current profits just to keep out potential competitors in the long run?</li> <li>• Is it necessarily in consumers’ best interests for there to be a lack of actual competition?</li> <li>• Is there a danger that a lack of profits could result in less dynamic efficiency and hence be worse for consumers in the longer term?</li> <li>• How realistic is the concept of no (or at least, very limited) entry and exit barriers?</li> <li>• Have recent changes in technology made markets less contestable?</li> <li>• Does competition always look after the interests of consumers?</li> <li>• What about industries where there isn’t any threat of competition?</li> </ul>	25

Question	Answer	Marks
3	<p><b>Theory and analysis</b></p> <p><b>Level 4 (13–17 marks), Mid mark 15:</b> There will be explanation of the benefits for consumers of high levels of actual competition in an industry, and of possible downsides. There will also be explanation of the barriers to entry / contestability implications of the threat of competition, and of different circumstances in which consumers may and may not benefit from it. Finally, at the top of this level there is likely to be a discussion as to whether markets are becoming more contestable <b>nowadays</b>.</p> <p><b>Level 3 (9–12 marks), Mid mark 11:</b> The candidate is likely to have an understanding of what is meant by a contestable market and to analyse some of the effects, including the likely effects on price. However, there may be errors in the analysis, and the explanation given of the effects of strong actual competition may be very limited or missing. At the bottom of this level there will be limited consideration of how the interests of consumers will be impacted.</p> <p><b>Level 2 (5–8 marks), Mid mark 7:</b> Any analysis is likely to be superficial and to consist of a few statements without explanation of consequences. Any use of diagrams will either be inaccurate or irrelevant. Alternatively, analysis will be restricted to traditional competition v monopoly models, with little consideration of contestability.</p> <p><b>Level 1 (1–4 marks), Mid mark 3:</b> A limited or incorrect appreciation of what we mean by ‘the threat of competition’; any analysis will be full of inaccuracies and there will be a general failure to address the set question.</p> <p><b>Evaluation</b></p> <p><b>Level 3 (6–8 marks), Mid mark 7:</b> A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> <li>• Short run v Long run? Why would a firm make normal profits in the short run to ensure that short run supernormal profits aren’t competed away in the long run?</li> <li>• Are lower prices necessarily in the interests of consumers? What might the impact be on dynamic efficiency?</li> <li>• How realistic is it to assume that ‘hit and run’ tactics are likely to be employed?</li> <li>• Is the degree of contestability increasing with time?</li> </ul> <p>There is likely to be a conclusion drawn at the end to explain the candidate’s overall view – even if this is that there is no clear-cut answer.</p> <p><b>Level 2 (3–5 marks), Mid mark 4:</b> One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.</p> <p><b>Level 1 (1–2 marks), Mid mark 2:</b> Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: ‘Just because there is a threat of entry doesn’t necessarily mean that this is good for a consumer.’</p>	



Question	Answer	Marks
<b>Section B</b>		
<p><b><i>‘Of all macroeconomic objectives, economic growth is the most important.’ Evaluate this statement.</i></b></p> <p>Candidates should show a good understanding of the various macroeconomic objectives that might be set by a government and there should be some clear demonstration of an attempt to compare and rank various objectives – or at least some definite justification as to why the candidate either agrees or disagrees with the statement.</p>		
4	<p><b>Answers may include:</b></p> <p><b>Knowledge and understanding</b> of the various objectives – including:</p> <ul style="list-style-type: none"> <li>• Steady (and sustainable) economic growth</li> <li>• Low and stable inflation</li> <li>• Low unemployment</li> <li>• A satisfactory current account situation</li> <li>• A satisfactory distribution of income</li> <li>• Satisfactory state of public finances</li> <li>• (Perhaps coming under ‘sustainable economic growth’) Protection of the environment</li> <li>• High level of living standards (broadly interpreted)</li> </ul> <p><b>Application</b> of how the different objectives apply in different situations or economies.</p> <p><b>Analysis</b></p> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Benefits of economic growth.</li> <li>• Relationship between achieving economic growth and the other objectives – some can be simultaneously achieved, others cannot. To what extent are they mutually exclusive?</li> <li>• What might be the drawbacks to economic growth? A need to analyse whether growth is sustainable both in terms of causing a ‘boom and bust cycle’ or more generally damaging the environment for future generations / using up too many non-renewable resources.</li> <li>• <b>Evaluation</b> of the issues involved. Examples:</li> <li>• Why is economic growth the principal objective for a government, instead of the others? (this may come early in the answer) / ‘Most important’ objective – for whom?</li> <li>• Do all governments necessarily have the same ultimate objective? / Does the time scale and the economic situation affect the relative importance?</li> <li>• Is economic growth a ‘sufficient’ objective or merely a necessary step towards some other objective, e.g. improved standard of living, improved physical quality of life indicators, happiness?</li> </ul>	25

Question	Answer	Marks
4	<p><b><u>Theory and analysis</u></b></p> <p><b>Level 4 (13–17 marks), Mid mark 15:</b> Economic growth will be explained, with consideration of both benefits and possible downsides. There will be a clear and accurate explanation of other objectives for which a government might strive and of the relationships that exist between them and growth.</p> <p><b>Level 3 (9–12 marks), Mid mark 11:</b> There will be some analysis of economic growth against the other objectives and an appreciation of possible trade-offs but the answer will make little attempt at all to consider its relative importance, and there may be important omissions. At the bottom of this level the answer is either likely to give a detailed account of the various possible objectives or a detailed account of the benefits of growth and will struggle to consider the issue of most importance.</p> <p><b>Level 2 (5–8 marks), Mid mark 7:</b> The candidate will certainly demonstrate some understanding of economic growth and its benefits but there may be errors or inaccuracies involved with the analysis. There may be over-simplification or errors in the discussion of the links between economic growth and the other objectives.</p> <p><b>Level 1 (1–4 marks), Mid mark 3:</b> The answer may talk about economic growth but will demonstrate little comprehension as to why it might be seen as an important objective for which to strive.</p> <p><b><u>Evaluation</u></b></p> <p><b>Level 3 (6–8 marks), Mid mark 7:</b> A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> <li>• Most important – for whom?</li> <li>• Does its importance vary depending upon the type of economy and its situation?</li> <li>• What time scale is important? The key area of ‘sustainable growth’ – in particular with regard to the environment – is likely to feature.</li> <li>• Is economic growth ‘a means to an end’ or ‘an end in itself’?</li> <li>• Is economic growth always positive? – E.g. additional expenditure to clear up after a natural disaster.</li> </ul> <p>There is likely to be a conclusion drawn at the end to explain the candidate’s overall view – even if this is that there is no clear-cut answer.</p> <p><b>Level 2 (3–5 marks), Mid mark 4:</b> One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.</p> <p><b>Level 1 (1–2 marks), Mid mark 2:</b> Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, the point is not developed. For example: ‘It depends whether the growth can be sustained in the long run’.</p>	

Question	Answer	Marks
	<p><b><i>‘Fiscal policies and monetary policies are more effective than supply-side policies in achieving price stability.’</i></b></p> <p><b><i>With reference to recent experiences, to what extent do you agree with this statement?</i></b></p> <p>Candidates should show a good understanding both of the different types of policies that a government can use and also why they are used and their outcomes for an economy particularly in the area of price stability. Candidates are likely to focus on the idea of how fiscal and monetary policy may affect short run aggregate demand and aggregate supply situations within an economy, whereas supply side policies are far more aimed at the long run supply curve for an economy. Candidates may probably wish to discuss how long is the short run? – or indeed the long run – and also to look at whether short run effects cannot also have long(er) term impacts as well. The use of the phrase ‘more effective’ in the statement is aimed to point candidates in the right direction when it comes to evaluation.</p>	
5	<p><b>Answers may include:</b></p> <p><b>Knowledge and understanding of:</b></p> <ul style="list-style-type: none"> <li>The components of fiscal policy – namely G &amp; T - and hence implications for borrowing / Components of monetary policy – theoretically use of interest rates, exchange rates and money supply / What is meant by supply side policies – in terms of something that generates an improvement in the productive potential of an economy? / Meaning of price stability and of inflation targeting</li> </ul> <p><b>Application:</b> in terms of what policies have been used in recent years and why they have been used. It will be expected that candidates will be fully aware of the idea of fiscal austerity and better candidates will be able to explain <i>why</i> such a policy has been adopted and the implications for the long term. Similarly candidates should be able to explain what has been happening to interest rates – and why they have been so historically low in recent years – along with explaining the basics behind QE. Some candidates may decide to look at whether the exchange rate has been manipulated and, even if deciding that it hasn’t, could quite legitimately discuss how it could be used. There will be so much scope for candidates to talk about supply side policies, whether it be with high speed rail or improvements to the road networks, for example, but it must be done in a relevant way that addresses the set question.</p> <p><b>Analysis:</b> candidates may well look at how the different policies affect an economy, probably via AD/AS analysis, and at the time scale of such effects, Clearly there will need to be analysis of how fiscal policy and supply side policies / monetary policies and supply side policies are NOT mutually exclusive and this will be clearly explained by better candidates. Candidates may well wish to discuss how interest rates are meant to be able to control inflation and both explain why this is the case and also why interest rates have been low for so long, despite inflation varying relative to target for a considerable length of time.</p>	25

Question	Answer	Marks
5	<p><b>Evaluation</b> of the issues involved. Examples:</p> <ul style="list-style-type: none"> <li>• What exactly is meant by ‘price stability’? / What do we mean by ‘more effective’?</li> <li>• Doesn’t an effect on short run price stability have implications for the long run?</li> <li>• Does recent experience reflect what must always be the case, and does it actually back up the statement?</li> </ul> <p><b>Theory and analysis</b></p> <p><b>Level 4 (13–17 marks), Mid mark 15:</b> There will be a clear explanation of the concept of price stability and of the three types of policy including, at the top of the Level, an appreciation that they are not all mutually exclusive in achieving price stability. How fiscal, monetary and supply-side policies are used will be considered and how they impact upon price stability will be explained. There will be knowledge displayed of what has happened in the UK (or elsewhere) in recent years to back up the analysis. There may be some consideration of the causes of possible changes in price levels, and different timescales, and how different policies are more effective for these different causes and timescales.</p> <p><b>Level 3 (9–12 marks), Mid mark 11:</b> Candidates will explain what is meant by price stability and the implications of the three types of policies for price stability, though they may be considered as three independent strands. There is limited attempt at comparing their relative contributions to ensuring price stability and the different circumstances in which they should be used. Candidates may make limited reference to recent experience.</p> <p><b>Level 2 (5–8 marks), Mid mark 7:</b> Candidates will explain what is meant by price stability and at the top of this level will be able to apply one policy type to price stability, but not all three. There may be some inaccuracies in the analysis.</p> <p><b>Level 1 (1–4 marks), Mid mark 3:</b> There is very little evidence shown that the candidate understands the difference in the policies and there is likely to be some confusion / inaccuracies displayed. There will be no effective discussion of the issue of the link to price stability.</p> <p><b>Evaluation</b></p> <p><b>Level 3 (6–8 marks), Mid mark 7:</b> A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> <li>• What is meant by ‘price stability’, in theory and in practice?</li> <li>• Is it not the case that short run effects have long term implications? Are the two necessarily ‘mutually exclusive’?</li> <li>• Does recent experience actually back up what theoretically is meant to happen with the various policies? Isn’t recent experience different for different countries?</li> <li>• To what extent is monetary policy in the UK, or elsewhere, actually used to achieve price stability?</li> <li>• What is meant by ‘more effective’?</li> </ul> <p>There is likely to be a conclusion drawn at the end to explain the candidate’s overall view – even if this is that there is no clear-cut answer.</p>	

Question	Answer	Marks
5	<p><b>Level 2 (3–5 marks), Mid mark 4:</b> One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.</p> <p><b>Level 1 (1–2 marks), Mid mark 2:</b> Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: ‘Not all policies have the same impact upon an economy’.</p>	

Question	Answer	Marks
<p><b><i>Evaluate the view that protectionist policies can never be justified on economic grounds.</i></b></p> <p>Answers to this question will need to consider how protectionism can be introduced and to examine whether or not it can be justified, in light of the gains that are generally assumed to be possible from the exploitation of comparative advantage. Although candidates may wish to mention that there are occasional non-economic reasons that can be used to justify such policies, it will be important for candidates to stay focused on the set question and for the essay not to become bogged down with political reasoning.</p>		
6	<p><b>Answers may include:</b></p> <p><b>Knowledge and understanding</b> of the possible rationale behind protectionism, and also the benefits of free trade.</p> <p><b>Application</b> – candidates may well consider some of the following non-exhaustive list of possible justifications:</p> <ul style="list-style-type: none"> <li>• infant industry argument of firms being protected to allow themselves to become established and hence ultimately competitive</li> <li>• anti-dumping legislation, when competition is ‘unfair’</li> <li>• sunset industries being allowed to wind-down gradually</li> <li>• when competition comes from countries advocating child labour / unsafe H &amp; S conditions etc.</li> <li>• when a country wants to influence its level of net exports – and possibly hence its level of aggregate demand</li> <li>• prioritising macroeconomic objectives</li> </ul> <p><b>Analysis</b> Examples:</p> <ul style="list-style-type: none"> <li>• Demonstration of how protectionist policies work and theoretical consideration of deadweight losses etc. to show problems</li> <li>• Analysis to show potential gains from trade / Consideration of how a rise in (X – M) might affect AD and hence, via a multiplier effect, cause a greater final change in National Income</li> </ul>	25

Question	Answer	Marks
6	<p><b>Evaluation</b> of the issues involved. Examples:</p> <ul style="list-style-type: none"> <li>• Use of the word ‘never’ – depends upon whether there is retaliation or not</li> <li>• For whom are we making this statement – an individual country or the world in general? If there are winners and losers, won’t those winning want to be in that position? Even within a country, won’t there be winners and losers? E.g. USA and steel workers.</li> <li>• Short run v long run considerations. / Does Ricardo’s model of comparative advantage have any relevance today?</li> <li>• Idea of ‘theory of second best’ – i.e. if others are practising protectionist policies then shouldn’t all countries adopt such policies?</li> <li>• Are strategic reasons and a desire not to be over-reliant on a single supplier (i.e. by not producing the good or service oneself) economic justifications? / The dangers of being over-reliant on one product.</li> <li>• Has globalisation decreased the role of protectionism?</li> </ul> <p><b>Theory and analysis</b></p> <p><b>Level 4 (13–17 marks), Mid mark 15:</b> There is a clear and accurate explanation of the mechanism of protectionism and also an explanation of what lies behind the fundamental implication that such policies are bad. There will need to be accurate explanation of some of the various justifications that could be used to counter the statement, with candidates ensuring that they stress and analyse the economics behind the justification rather than any political motivation. At the top of the level a rigorous diagrammatic or numerical approach will normally be used.</p> <p><b>Level 3 (9–12 marks), Mid mark 11:</b> It is likely that the candidate will explain how protectionism works. There will be explanations of both the case for free trade and justifications for protectionism at the top of the Level, even though the free trade case might be implied or undeveloped. At the lower end of the Level the explanation of one of these may be missing.</p> <p><b>Level 2 (5–8 marks), Mid mark 7:</b> There will be some understanding of some protectionist policies but any analysis is likely to be superficial and it is likely that there will be far more ‘statements’ rather than explanations. An answer that focuses on political reasons rather than economic reasons would fall into this level.</p> <p><b>Level 1 (1–4 marks), Mid mark 3:</b> There will be little if any relevance. No relevant theoretical analysis will be included and it is likely that the answer merely states terms such as tariffs and quotas without any demonstration of the theory involved with the question.</p>	

Question	Answer	Marks
6	<p><b><u>Evaluation</u></b>  <b>Level 3 (6–8 marks), Mid mark 7:</b> A good answer is likely to discuss issues such as:</p> <ul style="list-style-type: none"> <li>• Is there the same answer at all times, for all countries, for all people within a country? – I.e. is there a ‘one size fits all’ answer?</li> <li>• Does it not depend upon the reactions of one’s trading partners?</li> <li>• How does the timescale involved affect the answer to the question? Can there not be short run economic justifications?</li> <li>• Use of the word ‘never’ is always likely to be able to be argued – what about ‘on balance’?</li> </ul> <p>There is likely to be a conclusion drawn at the end to explain the candidate’s overall view – even if this is that there is no clear-cut answer.</p> <p><b>Level 2 (3–5 marks), Mid mark 4:</b> One of the above will be discussed in detail or a couple of points touched on, but only in a relatively superficial way.</p> <p><b>Level 1 (1–2 marks), Mid mark 2:</b> Whilst there might be some appreciation that evaluation could be carried out and indeed there might be the odd comment that suggests an area for potential evaluation, it stops there at the comment, and the point is not developed. For example: ‘There may well be some who gain and some who lose from protection.’</p>	