

**ECO-MS-2**  
**SUMMER SESSION**  
**PAGE No: 002-201**

**CAMBRIDGE**  
INTERNATIONAL EXAMINATIONS

**June 2003**

INTERNATIONAL GCSE

MARK SCHEME

MAXIMUM MARK: 60

SYLLABUS/COMPONENT: 0455/02

ECONOMICS  
Paper 2 (Core)



<b>Page 1</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE EXAMINATIONS – JUNE 2003</b>	<b>0455</b>	<b>2</b>

- 1 (a)** Up to 4 marks for a definition that mentions the roles of price, demand, and supply, a general lack of government intervention. [4]
- (b)** Up to 2 marks each for an explanation of a complement and a substitute together with an example. Complements might be new homes, furniture and appliances. Substitutes might be homes rented from the state or owned by the occupier. [4]
- (c)** Up to 4 marks for any four acceptable factors, which might include income, journey to work, skills required, hours of work, fringe benefits, location of job and career prospects. [4]
- (d)** Up to 3 marks for explaining the likely effect of the change in housing provision on a worker's choice of occupation. Workers are now more able to choose jobs away from the place where they live, they may be prepared to travel to find a more acceptable job in terms of hours, income and location. They also need not to be tied to the job for a long time because of the commitment to the accommodation. Different career options may be open to them. [3]
- (e)** Up to 5 marks for discussing whether those on reasonable incomes are likely to benefit from being able to choose better housing in more pleasant areas by taking advantage of the tax relief and loan offers. Those on lower incomes will not be able to benefit from this. Some groups who were not eligible for their own accommodation in the past will also benefit. Reward answers that contain a good discussion. [5]
- 2 (a)** Up to 5 marks for describing factors such as prices, incomes, tastes, advertising and the prices of complementary/substitute products. [5]
- (b)** Up to 5 marks for a discussion of the likely spending patterns of poorer and richer groups. Also, for a discussion of the proportion of income spent on food, clothing, housing, leisure activities, transport and consumer durables. [5]
- 3 (a)** Up to 3 marks for a definition of the term mentioning the amounts of capital used compared to the amounts of the other factors used. [3]
- (b)** Up to 7 marks for a discussion of types of organisation, the extent of the market, the type of production, the availability of resources, the ease of substituting factors and the relative costs of production. [7]

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- 4 (a)** Up to 4 marks for explaining that more money spent on training might increase productivity, make workers more efficient, make better use of resources and reduce costs. [4]
- (b)** Up to 6 marks for a discussion of the role of the government in providing education and training, the possible area of market failure and the role of the government in providing general education rather than specific education relating to particular businesses. [6]
- 5 (a)** 1 mark each for 'visible' and 'export' or 'trade in goods' and 'current account'. [2]
- (b)** Up to 8 marks for a discussion of the relative merits of specialisation and diversification. Specialisation would give increased efficiency but also greater vulnerability; there would be no chance to protect industries or regions; there would be more likelihood of sudden changes in international prices affecting large areas of the economy. [8]

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	<b>ECONOMICS – JUNE 2004</b>	<b>0455</b>	<b>2</b>

- 1 (a)** 1 mark each for long working hours and physically demanding work. [2]
- (b) Up to 2 marks for an explanation of the amount of labour used compared with the amount of other factors, particularly capital. [2]
- (c) Up to 4 marks for a discussion. The evidence is not extensive. Child mortality, which was ten times the national average, is the only real evidence. One third suffering from disease implies the situation is worse, but there is no comparative figure. Now there are small health centres but it is not known how far the improvement has gone. [4]
- (d) Up to 6 marks for an explanation of why governments provide services. The syllabus does not mention market failure so accept answers that deal with aspects of market failure such as externalities, monopolies or public and merit goods but which are not expressed in these terms.  
Maximum of 3 marks for any one point that is well explained.  
Maximum of 3 marks for a list of points that are not well explained. [6]
- (e)(i)** Up to 3 marks for explaining that a healthy workforce is more productive and has fewer absences from work. e.g. they will be more alert, more efficient, and will produce goods of a better quality. [3]
- (ii)** Up to 3 marks for discussing the benefits to the employer, such as higher profits and greater efficiency as compared to costs of providing the wider benefits of health care for workers' families, the community and vast cost of providing hospital care. [3]
- 2 (a)** 1 mark each for land, labour, capital and enterprise.  
If candidates refer to passage, give 4 for land, labour and enterprise. [4]
- (b)** Up to 6 marks for explaining that the community might benefit from an income from the sale of tea, an increase in jobs created, a rise in the community's standard of living and a more pleasant environment in the area. [6]

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	<b>ECONOMICS – JUNE 2004</b>	<b>0455</b>	<b>2</b>

- 3 (a)** Up to 4 marks for explaining that the increase in profits is large and so should benefit the company. Managers and shareholders may benefit and consumers may get better quality products, while the government may receive increased revenue from taxes.  
Can give 4 for two benefits if they are well explained. [4]
- (b)** Up to 6 marks for a discussion of seeking higher profits through increasing revenue, reducing costs or both. Revenue may be increased by increased sales or changes in prices. Costs may have been decreased by a change in the variable cost. [6]
- 4 (a)** Up to 3 marks for an explanation of an index that measures changes in prices over time for a representative sample of goods. [3]
- (b)** Up to 7 marks for an explanation of how the index is calculated involving sampling of goods, sampling of population, the use of weights based on proportions of expenditure, a base year, an index number and comparisons from base year to another. [7]
- 5 (a)** Up to 2 marks for explaining that imports of goods are greater than exports of goods. Exports / imports (1), goods (1). 1 mark for current account. [3]
- (b)** Up to 7 marks for discussing whether a current account deficit matters as it usually means decreased earnings potential for the economy. It might not matter if there is a surplus on services or if there are earnings on the capital account or if the deficit is only expected to be a short term one or if the deficit is small. However, this is the largest deficit on record. [7]

## UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

### MARK SCHEME for the June 2005 question papers

#### 0455 ECONOMICS

0455/02 Paper 2 (Structured Questions), maximum mark 60

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CIE is publishing the mark schemes for the June 2005 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.





**Grade thresholds** for Syllabus 0455 (Economics) in the June 2005 examination.

	maximum mark available	minimum mark required for grade:			
		A	C	E	F
Component 4	60	n/a	30	17	13

The threshold (minimum mark) for B is set halfway between those for Grades A and C.  
The threshold (minimum mark) for D is set halfway between those for Grades C and E.  
The threshold (minimum mark) for G is set as many marks below the F threshold as the E threshold is above it.

Grade A\* does not exist at the level of an individual component.



June 2005

IGCSE

MARK SCHEME

MAXIMUM MARK: 60

SYLLABUS/COMPONENT: 0455/02

ECONOMICS  
(Structured Questions)



<b>Page 1</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – JUNE 2005</b>	<b>0455</b>	<b>2</b>

- 1 (a)** The Netherlands has 0.5% fall in output between April and June, other countries have 0.1% and 0.2%. The Netherlands has also been contracting for the previous 8 months. (1) **[2]**
- (b)** Identification of the letters and brief explanation of the term. **[3]**
- (c)** Expect one example of each type of tax (2) and a comment on whether the tax is levied on a person at source or on earning or on subsequent expenditure. (2) **[4]**
- (d)** Identification of two aims. Falling taxes might help change income distribution, might help income and spending and thus growth, might help production and thus move towards full employment. **[6]**
- (e)** To make better use of human resources; it will reduce government expenditure on benefit payments; it might result in less crime; it might encourage economic growth; it will increase national income; it may result in political votes. **[5]**
- 2 (a)** A quota is a fixed amount of production which may keep the price on the market high if the quota is below the equilibrium quantity. A subsidy affects production through a reduction in costs which might result in lower prices or higher profits. Diagram not expected, but could be used. **[5]**
- (b)** 1 for DS curves, 1 for shift of the supply curve downwards, 1 for labels, 2 for explanation which need only clearly explain the change in equilibrium position if any discussion on profits has been given in **(a)**. If there is no discussion in **(a)** that discussion could occur here. **[5]**
- 3 (a)** Comment on changes in either revenue or costs or both. Could give an example of why revenue or costs might change. **[5]**
- (b)** Comment on the possibility of mergers; of general growth through increased sales caused by increased demand/advertising; of increased profits caused by either increased demand or different pricing policies; of growth caused by a change in type of stock or image; of expansion into other areas/products; and a comment on the methods used to obtain finance – profits, borrowing, shares. **[5]**

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	<b>IGCSE – JUNE 2005</b>	<b>0455</b>	<b>2</b>

- 4 (a)** Might not be able to get another job, many low paid jobs are unskilled – worker might not be trained to do skilled job: might choose to work part-time and do not mind low pay; might view the job as a supplement to another wage/salary and be prepared to accept low pay; might view the job as a temporary measure until a better job is available; might not know of alternative jobs due to lack of information; might be limited by location of work; might be limited in other jobs by age; might work in the informal economy and does not declare earnings for tax. **[5]**
- (b)** Occupational and geographical factors include better conditions, better prospects, location/shorter journey to work, can live in preferred area, shorter hours, size of company, fringe benefits – subsidised meals, health scheme, leisure activities. **[5]**
- 5 (a)** Explanation in terms of the rate at which one currency is exchanged for another currency and the effect on relative prices of imports and exports or in terms of amount of goods that can be purchased from another country. **[3]**
- (b)** In Egypt, production and employment likely to fall as not so many goods sold, resulting in reduced income and further effects on employment. In importing country production might switch to home produced goods resulting in an increase in production and employment and income. If demand switches to imports from another country the effect in the importing country will be reduced (if the other country's goods are cheaper leaving more disposable income) or result in no change. **[7]**

# UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

## MARK SCHEME for the May/June 2006 question paper

### 0455 ECONOMICS

0455/02

Paper 2, maximum mark 60

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The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the *Report on the Examination* for this session.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the May/June 2006 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



Page 1	Mark Scheme	Syllabus	Paper
	IGCSE – May/June 2006	0455	02

- 1 (a) 1 labels, 1 equilibrium (original and new equilibrium), 1 shift in demand, 2 explanation. [5]
- (b) (i) current account, goods/visibles/balance of trade, imports. [3]
- (ii) Worsen the balance of payments account, possible volatility of prices, possible volatility of supply. 1 for Identification, 1 for explanation. [4]
- (c) (i) Rapid expansion of output. [2]
- (ii) Comment on the benefits for employment, wealth, trade, profits, incomes, exports, choice. Comment on the drawbacks, externalities, environmental impact, cultural disruption, possible inflation. Up to 4 marks for only one side. [6]
- 2 (a) Identify the four factors, 2 marks. Explain the four factors, 2 marks. [4]
- (b) Discussion of reasons for small firms: market, finance, service, recently established, location. [6]
- 3 (a) Explanation in terms of limited resources compared with unlimited wants, choice between resources (2 marks).  
Next best alternative forgone (2 marks). [4]
- (b) Identification of factors: location, pay, working conditions, holidays, career prospects, size of company, type of work (4 marks). With suggested discussion about availability of possible jobs and trade-off of these factors with reference to alternative jobs expressed in terms of next best alternative (2 marks). [6]
- 4 (a) 41 100 (1 mark), decrease (1 mark), (42 600 — 1500), working (1 mark), up to a maximum of 2 marks. [2]
- (b) Preference for part-time employees, more flexibility, lower cost, fewer rights. Decline in agriculture and manufacturing because of changed competitiveness, changing demand patterns, growth of services because of rise in incomes, changing technology. Identification 4 marks; explanation 4 marks. [8]
- 5 (a) Comment on the difference between government control and ownership and private control and ownership, public sector embraces goods/services and the provision of transfer payments, grants, subsidies, sources of finance. The two sectors have different aims and methods of working. [3]
- (b) Discussion of bureaucracy, lack of incentive, inefficiency, lack of choice, lack of competition, possible political intervention. Identification of disadvantages up to 4 marks, discussion up to 2 marks per point. [7]

## MARK SCHEME for the May/June 2007 question paper

### 0455 ECONOMICS

0455/02

Paper 2 (Core), maximum raw mark 60

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Page 2	Mark Scheme	Syllabus	Paper
	IGCSE – May/June 2007	0455	02

- 1 (a)  $36 + 6 = 42 / 5 = 8.4$  [2]  
 Accept  $42/4 = 10.5$   
 If candidates just give a figure of 42, give 1 mark.  
 Candidates do not need to refer to \$ or to billion.
- (b) Labour, high airport taxes, high ticket taxes, competition, higher fuel prices. [2]  
 If candidates give just two or three causes, 1 mark.
- (c) Variable cost change with output/service; fuel is variable cost. Labour is usually regarded as variable in texts but some longer term contracts might be regarded as fixed. [4]
- (d) Four factors; capital will probably increase, labour will probably decrease (but accept greater demand for skilled labour), entrepreneurial skills probably no change, land no change (but allow comment on depletion of resources for paper or less offices). Candidates do not need to mention all four factors to get full marks. A reference to the four factors of production will get one mark. [4]
- (e) It could try to reduce costs, either fixed or variable costs. It could try and increase revenue by promoting demand. It could advertise more, but would have to place adverts carefully as its budget will not be extensive. It could see if another company were willing to buy it, or merge with it. It could close down. It could alter its factors of production using more of those which are more efficient. It could change its product mix. It could change the market it was aiming at. Maximum of six marks for one side of the argument only (reducing costs or increasing revenue). Note that this part of the question makes no reference to the airline industry. [8]
- 2 (a) Incorrect. Partnerships are not necessarily two people, they may consist of all the people working in the organisation. Public companies are not owned by the government. Public companies issue shares and are owned by the private sector. [4]
- (b) Small firms usually have many competitors. Competition may well allow reduced prices and wider choice, competition appears to give consumers more of what they want. As a result consumers go to small firms. Small firms can also give personal service and provide specialist products. Small firms may not advertise much and may not reach a large market. They may prefer to remain small. They may not have profit maximising or growth aims. [6]
- 3 (a) Concentration on a particular part of production, labour divided into separate tasks, product passed along production line or service conducted by specialist teams, particular training required. [4]
- (b) Maybe part-time, unskilled, no other work available, supplement other income, temporary, nearer home, other non-wage benefits compensate. [6]



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- 4 (a) A developed country is likely to have a lower birth rate and a lower death rate and therefore a lower natural rate of increase. Migration is likely to be higher from developing to developed countries. Allow comments on health care, literacy rate, female employment. Candidates do not need to include reference to all three influences (birth rate, death rate, migration). [4]
- (b) Occupationally, the structure in developing countries is likely to be based on the primary sector. Some informal employment is not recorded in official statistics, especially in rural areas. Developed countries are likely first to move to the secondary manufacturing sector and then to the service sector. Types of occupation in the service sector will change as the population becomes richer and has more leisure and more income to spend on leisure activities. Numbers in government service may also decline as switch to more market economies. May get informal sector as well but more in cities than in rural areas and not agricultural based. [6]
- 5 (a) Explanation of the meaning of 'investment' and of 'labour intensive'. [4]
- (b) Discussion of the difference between no limitation on trade and either a restriction or, as in this case, preferential treatment. [6]

## MARK SCHEME for the May/June 2008 question paper

### 0455 ECONOMICS

0455/02

Paper 2 (Core), maximum raw mark 60

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- 1 (a) Alternative products/services (1). Any combination from train, coach, air, car (1). [2]
- (b) For 10% of travellers in real terms it was cheaper, actual cost higher. Explanation of real. For 90% of travellers it was more expensive or the same in real terms. [4]
- (c) Definition (1), examples of fixed cost (1), fixed cost overall higher - 50 fixed, 46 variable, (1) but this overall. Not necessarily true for every journey (1). [4]
- (d) Explanation of subsidy (1). In this case it is a fee taken from GNER but this is not mentioned in the text (1). [2]
- (e) Passengers increased by 40%, but some had reduction in real terms in fares. Do not know what happened to costs, only know that profits are 4% of revenue in 2005, but have no comparable figure for 1996. Has to give subsidies to other companies, do not know comparable figures for 1996. Also told that competition has increased, do not know effect of revenues and costs and profits. Cannot conclude that profits have risen 40%. Maximum of 6 marks if descriptive with no attempt to arrive at a conclusion. [8]
- 2 (a) Group of workers linked together usually by a common occupation with the aim of improving or monitoring the welfare of the group, negotiating working conditions, wages, terms of employment, safety practices. [5]
- (b) Discussion of the factors that influence choice of occupation, with a comment on the relevance and significance of the existence of a union. Conclusion should be given on the relative significance. Maximum of 3 marks for choice of occupation with no reference to trade unions. [5]
- 3 (a) Land, labour – farmer, capital – machines, fertilizers, entrepreneurs – manages enterprise, exporters also takes risks. 2 marks for simple identification of the four factors of production. [4]
- (b) Two diagrams. Labels (1), shift of demand for new pineapple (1), shift of demand for original pineapple (1), explanation including comment on what happens to equilibrium (3). [6]

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- 4 (a) We do not know absolute figures so it does not mean this. Could award some marks for an attempt to discuss the difference between absolute and percentage figures. It is not certain what the absolute figures will be and the difference in the absolute incomes might mean that the absolute expenditure for each group is closer than the percentages would imply. [4]
- (b) Candidates should state the assumption on which they work. The most likely, although not universal, assumption is that the senior post has a higher income. Description of changes in expenditure patterns which might occur as income rises should then be explained – different types/quality of goods, services. Importance of essential, non-essential items. Meaning of what is essential as income increases. Candidates could also describe the need for savings for the future especially in the case of the new job. They could also mention that spending might be based on assumptions about changes in potential earnings, likely changes in employment, tax changes, interest rates. [6]
- 5 (a) Expect one example of each type of tax (2) and a comment on whether the tax is levied on a person at the source of earning or on subsequent expenditure (2). [4]
- (b) Identification of two aims. Falling taxes might help change income distribution, might help income and spending and thus growth, might help production and thus move towards full employment. Maximum of 2 marks if the answer is in terms of an increase in taxation. [6]

**MARK SCHEME for the May/June 2009 question paper  
for the guidance of teachers**

<b>0455/02</b>	<b>0455 ECONOMICS</b> Paper 2 (Structured Questions), maximum raw mark 80
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<b>Page 2</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – May/June 2009</b>	<b>0455</b>	<b>02</b>

- 1 (a) Explanation in terms of output, employment, GDP. [4]
- (b) Discuss the use of resources, the increase in standard of living, the increase in incomes and well-being. [4]
- (c) Identify two aims with a comment on why they are important. 2 marks for identification, 2 marks for comment on each of the aims. [6]
- (d) Candidates could use the information given to discuss whether there will be enough resources to deal with the population, whether increased labour resource will be matched by capital and land resources, whether there will be unemployment or increased use of natural resources. An entirely one-sided answer gets a maximum of 4 marks. [6]
- 2 (a) Explanation in terms of formula, or description (2). Comment on range of elasticity and the meaning of high and low elasticity (2). [4]
- (b) Comment on the ability to predict what would happen to demand and therefore to income and to profits. Might use knowledge of elasticity of different products to decide which to expand. Might use knowledge of elasticity to help form pricing policy. Link between elasticity/price changes/total revenue. Supply elasticity not required but could allow this. [6]
- (c) Smokers derive a private benefit, but may also incur a private cost in buying cigarettes and in health terms. Non-smokers incur an external cost. Candidates could contrast the net private benefit with the overall net social benefit/cost. After the ban, there will be a reduction in external costs and, therefore, social costs. [6]
- (d) Manufacturers might decide that the low elasticity will mean that demand will be unchanged. They may decide that more people will be persuaded not to smoke, so may need to diversify. They may reduce costs by closing some production units, or try to find other markets where smoking is not prohibited. [4]
- 3 (a) Explanation of factors as means of production (2). Those in the extract are labour, capital and enterprise (2). [4]
- (b) Description of union functions, protect working conditions, be concerned about safety issues, negotiate over wages, sometimes provide education, take active role in collective bargaining, negotiate favourable deals for members with retail/service industries. [6]
- (c) Explanation about proportionate use of capital/machines/automation to other factors, rather than higher proportionate use of labour. [3]

<b>Page 3</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>	<b>Paper</b>
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- (d) Need to discuss the relative demand for labour with and without the automation. The value of some labour may increase if they need to operate specialist machines, and the hours and wages of these workers may change as the union would like. However, for most workers, the unions may be able to negotiate about shorter hours, but it is unlikely that they will achieve this together with higher pay. [7]
- 4 (a) Definition of terms (2), explanation and examples (2), or 1 mark each for vertical back, vertical forward and horizontal with 1 mark for application. [4]
- (b) Any two types may be chosen. Candidates should contrast the size in terms of market, employment, output, the organisation, the structure, the method of raising finance. [6]
- (c) Discussion of benefits of size in terms of economies contrasted with possible diseconomies. Also, discussion for consumer on possible effect on prices, choice, limitation of other possible competitors. Up to 6 marks for discussion of either firm or consumer without a comment on the other element. [10]
- 5 (a) Explanation of term (2), application to example (2). [4]
- (b) Market failure is new to the syllabus. Candidates should define the term, give examples and discuss whether it applies in this case. [6]
- (c) Analysis of the use of regulation, taxation, subsidies. [10]
- 6 (a) Definition of inflation – a persistent (1) increase (1) in the general (1) level of prices (1). [4]
- (b) Explanation of calculation of retail price index. [6]
- (c) May consider using 3 marks for each, or mark as a whole. Will depend on person's situation, whether they consider inflation likely to continue and at what rate may affect savings. Unless incomes rise, spending as a proportion of income will increase, borrowing may increase to match spending or because of anticipated changes in future inflation. [10]
- 7 (a) Distinction between different ways of limiting international trade by quota and by tariff. [4]
- (b) Analysis of possible effects on specialisation of tariffs. [4]
- (c) Analysis of effect of free trade on those who export and those who import in terms of quantity, prices, choice, effect on balance of payments. [6]
- (d) Analysis of reasons for protection and support of home industry and employment with possible changes in incomes if tariffs are abolished. [6]

**MARK SCHEME for the May/June 2010 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/21**

Paper 21 (Structured Questions), maximum raw mark 80

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<b>Page 2</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>	<b>Paper</b>
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1 (a) These are recorded in the visible import (1) section of the current account (1). [2]

(b) The imposition of a quota by a government should lead to a decrease in imports which might:

- increase home production
- increased home production could lead to an increase in exports
- increase in domestic employment
- infant industries may have a chance to grow
- sunset industries can decline gradually
- raise incomes/standard of living
- lead to an increase in economic growth
- reduce a balance of payments deficit in the current account
- increase a balance of payments surplus in the current account
- loss of efficiency
- less competition and innovation for home producers
- less choice for consumers
- possible retaliation from overseas.

[4]

(c) The imports of clothing and textiles from China peaked in the last six months of 2006 prior to the introduction of the quota by the South African Government in 2007 as China tried to beat the quota (1), and then declined in 2007 due to the effect of the quota (1). [2]

(d) Possible benefits:

- could help to bring about minimum working standards
- could help to keep pay higher than would otherwise be the case
- could help to maintain employment (the article does refer to one company reducing its workforce by 8%)/enhanced job security
- could lead to an improvement in health and safety.

Possible disadvantages:

- might cause lack of flexibility in working practices
- this could be a major problem as fashions change very quickly
- this could lead to some firms going out of business
- workers made redundant
- workers will need to pay union membership fees.

A maximum of 3 marks for a one-sided answer and/or no mention of the clothing industry. [4]

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(e) A success:

- imports from China fell from about R1400 million to about R400 million in the first quarter of 2007
- this was a significant reduction in a relatively short space of time
- this brought the figure down to what it had been in the first half of 2004.

A failure:

- imports from China were replaced by imports from other countries
- these countries included Malawi and Zimbabwe
- it was thought that China was using these countries to export to South Africa
- overall, imports fell by only 13%
- the impact on the current account was, therefore, less than had been hoped for
- the hope of increased home production was not achieved
- the necessary raw materials could not always be obtained
- many firms did not have the necessary spare capacity and so couldn't increase production.

An entirely one-sided answer can gain no more than 4 marks.

[8]

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- 2 (a) Opportunity cost is defined as the benefit obtained from the next best alternative foregone because of a particular choice (2).

The above decision might be used to illustrate an opportunity cost, either in terms of students deciding to spend their money/use their time in a university rather than something else or in terms of a government deciding what to spend public funds on; as the stem says, this government now had extra funds to spend on other things such as transport or health, for example (2). [4]

- (b) Diagram:

- labels (price, quantity, demand, supply) (1)
- shift of the supply curve to the right (1).

Discussion:

- the effect of a subsidy would be to lower price (1) and raise output (1)
- the actual effect would depend on the differences in the elasticity of demand and/or the elasticity of supply in different markets (2).

A maximum mark of 4 if there is no reference to elasticity. [6]

- (c) A government could change the market price of a good through the imposition of a:

- quota
- tax which would lead to an increase in the price of a good
- minimum price which would be above the equilibrium price
- maximum price which would be below the equilibrium price
- regulation or law which could lead to increased costs and, therefore, a higher price.

If one action is covered well, reward up to a maximum of 3 marks. [4]

- (d) Candidates need to demonstrate a clear knowledge and understanding of these two types of economic system in terms of how they allocate resources differently. There are no explicit references to merit goods, demerit goods, public goods or externalities in the syllabus, but it does refer to the allocation of resources in market and mixed economic systems, the concept of market failure and reasons for its occurrence and an evaluation of the merits of the market system.

A maximum of 3 marks if only one type of economy is considered. [6]

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3 (a) Definition of a non-wage factor – a non remuneration payment (1).

Examples of non-wage factors affecting the choice of a job (3):

- length/number of holidays
- working conditions/environment
- hours of work
- promotion/career prospects
- travelling distance
- size of company
- social/canteen facilities
- provision of insurance scheme
- company car.

[4]

(b) Explanation of such factors as:

- level of income/wealth
- age
- family size and commitments
- rates of interest
- availability of/knowledge about savings schemes
- confidence in banking system
- personal needs/lifestyle
- health care
- education
- future expectations.

A maximum of 3 marks if only one factor is covered.

[6]

(c) Discussion could include such factors as:

- supply and demand
- membership of trade unions
- strength of trade unions
- public/private sector distinction
- training
- skill levels
- productivity (MRP is not on the syllabus)
- proportion of labour costs to total costs
- location
- danger/risk.

An answer which makes no **explicit** reference to the demand for and supply of labour can gain no more than 6 marks.

[10]

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- 4 (a) The type of business (in other words, large and capital-intensive) would suggest that it is most likely to be a multinational public limited company having production units in other countries, such as India, rather than a private limited company or a partnership.

Award up to two marks for describing a multinational and up to 2 marks for describing a public limited company. [4]

- (b) Possible advantages could include:

- lower cost of labour
- less powerful/non-existent trade unions
- availability of skilled workers
- availability of machinery
- availability of raw materials
- tax benefits
- transport benefits
- higher profits.

[6]

- (c) Effect on existing Indian companies:

- a negative effect if they are in competition with the multinational company
- there may be competition for a limited number of skilled workers
- there could be a damaging effect on the profits of the Indian companies
- but a positive effect if the Indian companies are suppliers of components or raw materials
- the Indian companies might be involved in the training of workers required by the multinational company
- there could, therefore, be a positive effect on the profits of the Indian companies.

Effect on the Indian economy:

- a positive effect if employment is increased
- local incomes could be increased
- increase in standard of living/quality of life
- government revenue from taxes could increase
- a negative effect if much of the profit is repatriated to the home country
- senior management may not be from local population
- multinational company may quickly withdraw from the economy if economic conditions worsen.

A maximum of 6 marks for either a one-sided answer or one which deals with only existing Indian companies or the Indian economy.

A maximum of 8 marks if only explains positive effects or only explains negative effects. [10]

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5 (a) Description of what is meant by economic growth: (3)

- increase in real output over a period of time
- improved production possibilities
- increased incomes.

Explanation of how it is measured: (2)

- measured through changes in GDP, GNP or NNP over a period of time in real terms.

A distinction could be made between actual economic growth, in terms of an increase in real GDP, and potential economic growth, in terms of an increase in the productive capacity of the economy (though this distinction is not on the syllabus). [5]

(b) 1 mark for the identification of each type of unemployment and 1 mark for an explanation of how it is caused.

Possible types of unemployment are likely to include:

- structural
- demand-deficient/cyclical
- regional
- seasonal/casual
- residual
- frictional
- technological
- hidden
- search
- natural/NAIRU.

[6]

(c) Consumers might benefit from:

- increased choice
- increased incomes
- higher level of consumption
- increased leisure
- improvement in standard of living/quality of life
- possible lower prices.

Firms might benefit from:

- higher profits
- increased competition contributing to greater efficiency
- increased demand for products.

The government might benefit from:

- increased tax revenue
- money that could be spent on better health facilities
- money that could be spent on better education facilities
- money that could be spent on improved training facilities.

A maximum of 4 marks for covering any one aspect (consumers, firms or government). [9]

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6 (a) 1 mark for an explanation of each factor of production:

- land
- labour
- capital
- enterprise.

If a candidate just lists the four, they can gain 2 marks. If they list three of them, they can gain 1 mark. [4]

(b) Candidates can comment on:

- the size of firms
- the number of sellers
- availability of knowledge
- level of price
- level of output
- type of product
- level of profit
- barriers to entry.

A maximum of 3 marks if only describe the characteristics of a monopoly or perfect competition. [6]

(c) Discussion of how firms might become large.

Internal expansion:

- increased sales
- greater market dominance
- pricing policy
- increased demand for product
- effect of advertising/promotion campaign.

External acquisition:

- horizontal integration
- vertical integration (both backward and forward)
- conglomerate integration
- mergers, takeovers and acquisitions.

Evaluation of whether monopolies are necessarily advantageous:

- economies of scale can exist
- these will lead to lower costs and this could lead to lower prices
- high profits can be used to finance research and development
- but prices are likely to be higher than in perfect competition
- output is likely to be lower than in perfect competition
- abnormal/supernormal profits can exist in the long run
- consumers can be denied choice.

A maximum of 6 marks for an answer that has no evaluation.

[10]

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7 (a) A description of the functions of money:

- a medium of exchange
- a measure of value
- a store of value
- a standard for deferred payments.

A maximum of 2 marks for a list of all four functions.

A maximum of 1 mark for a list of three functions.

1 mark for the development of each function.

[6]

(b) Identification (1) and explanation (1) of three functions of a central bank:

- bankers' bank
- lender of last resort
- government's bank
- note and coin issue
- management of the national debt
- possible determination of interest rates
- possible involvement in the determination of exchange rate.

Candidates can get 3 marks for the identification of 3 functions of a central bank, but no marks for identification of any functions of a commercial bank unless compared with the central bank.

No marks for an answer which relates to the functions of a commercial bank.

[6]

(c) Discussion of the main causes of inflation:

- demand-pull
- cost-push
- monetarist theories
- imported.

Candidates must discuss at least 2 causes to gain all 8 marks.

[8]



**MARK SCHEME for the May/June 2010 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/22**

Paper 22 (Structured Questions), maximum raw mark 80

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Page 2	Mark Scheme: Teachers' version	Syllabus	Paper
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1 (a) Idea of a downswing/downturn in a business or trade cycle.  
Economic growth will be negative.  
Rising unemployment/job losses.  
Idea of a period of time (technically two successive quarters of negative growth, but we shouldn't expect candidates to be this precise). [2]

(b) Productivity refers to output per factor or input, such as output per worker (1), per period of time (1).  
A vague comment on an increase in production/output should get no marks. [2]

(c) They have a separate legal existence from their owners.  
They are owned by shareholders.  
The owners have limited liability.  
They have plc after their names.  
Shares can be traded on a stock exchange.  
The directors must report on the progress of the company to the shareholders at an AGM.  
A maximum of 2 marks if only one feature is described, but it is done very well. [3]

(d) Possible reasons:

- wages/salaries
- other financial factors, e.g. bonus, commission, profit sharing
- hours of work/flexitime
- location (possibly reducing travel time/cost)
- working conditions
- holiday provision
- promotion prospects
- fringe benefits, e.g. company car
- pension arrangements
- social/leisure/canteen facilities.

Up to 3 marks for identification of reasons.  
Up to 3 marks for explanation of these reasons. [6]

(e) General understanding of what a trade union is (2) (this can be implied throughout the answer).

Discussion of role in relation to:

- better pay
- improved working conditions
- putting pressure on individual firms to maintain jobs
- putting pressure on government to maintain jobs
- threat/different types of industrial action (5).

The question does refer to **how** effective trade unions may be in their influence; answers which fail to address this can gain no more than 4 marks.

Answers which only deal with firms or the government can get a maximum of 4 marks. [7]

Page 3	Mark Scheme: Teachers' version	Syllabus	Paper
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- 2 (a) (i) Correctly labelled diagram (price, quantity, demand) (1).  
Shift of demand curve to the right (1). [2]

(ii) Possible causes:

- rise in income
- greater availability of credit to finance borrowing
- fall in interest rate on loans
- price of substitute has gone up
- price of complement has gone down
- effect of advertising campaign
- growth in population
- change in tastes and preferences of consumers in favour of a product.

Note that the question asks candidates to **identify** two causes. [2]

- (b) General idea that PED measures the sensitivity of demand to a change in price (1).  
Precise formula: percentage change in quantity demanded of a product divided by percentage change in price of a product (2).  
Extra comment, e.g. it is usually negative, it can range from perfectly inelastic to perfectly elastic (1). [4]

- (c) If PED is elastic, the business should reduce price (1) to benefit from an increase in revenue (1).  
If PED is inelastic, the business should increase price (1) to benefit from an increase in revenue (1). [4]

- (d) Firms may come to dominate and have monopoly power, leading to higher prices and lower levels of output.  
There may be significant differences in income and wealth, which gives some consumers much more power than others.  
Merit goods, which are socially desirable, may be under-provided and under-consumed.  
Demerit goods, which are socially undesirable, may be over-provided and over-consumed.  
Public goods, which cannot be easily provided through a market system, may not be provided at all.  
Resources cannot always easily move from one use to another, e.g. labour may not have the necessary skills and/or information.  
Externalities may not be taken into account in consumption and production decisions.

Please note that merit, demerit and public goods are not on the syllabus; a maximum mark, therefore, could be obtained without reference to any of these.

A general understanding of what is meant by market failure can gain up to 2 marks.

A narrow focus on one particular area of market failure, that is done well, can gain a maximum of 5 marks. [8]

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- 3 (a)** A fixed or overhead cost is a cost of production which does not vary with changes in output (1), such as the cost of fixed interest payments on loans (1).  
A variable cost is a cost of production which does vary with changes in output (1), such as the cost of raw materials (1). [4]

**(b)** Three from the following:

- land, e.g. where the terminals and runways are constructed
- labour, e.g. the skilled and unskilled labour involved in the various activities
- capital, e.g. the equipment and machinery used at the airport
- enterprise, e.g. the role of the entrepreneur in various airport operations.

Allow construction (as opposed to operation) of an airport.

A list of three factors of production can gain 1 mark.

A good explanation of these three factors, with no application to an airport, can get a maximum of 5 marks. [6]

- (c)** The social cost measures the cost to the whole society of an economic activity; it is equal to the sum of the private cost and the external cost. Examples could include noise and visual pollution (external) and wages paid to building workers (internal).

The social benefit measures the benefit to the whole society of an economic activity; it is equal to the sum of the private benefit and the external benefit. Examples could include extra revenue generated in the area, improvement in transport infrastructure and benefit to trade and tourism (external) and profits earned by airlines (internal).

A maximum of 6 marks if the candidate only discusses social costs or social benefits.

Also, a maximum of 6 marks if no reference to a new runway.

An answer that focuses only on external or private costs and benefits can get a maximum of 6 marks. [10]

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- 4 (a) Sole proprietor:
- a small, one person business
  - the person is his/her own boss
  - the owner is personally liable for any debts and has unlimited liability
  - the person receives all the profits.

Partnership:

- individuals work together and share joint responsibility for any decisions
- the partners usually have unlimited liability
- more people to bring in skills and ideas
- enhances ability to bring in more funds.

A maximum of 2 marks if only one type of business is covered. [4]

- (b) Possible reasons:
- can bring in more money by selling shares to friends and family
  - this will provide necessary finance for a business to expand
  - shareholders have limited liability
  - the company has a separate legal identity. [4]

- (c) Possible reasons:
- amount of capital to finance growth
  - organisation of the business, e.g. sole trader
  - personal choice/preferences of owner(s)
  - government regulation/assistance
  - customer preference for personal service
  - location in particular shopping areas, e.g. villages
  - convenience, e.g. extended opening hours.

Note that the question specifically refers to the **retail** trade; a maximum of 3 marks if no reference to the **retail** trade. [5]

- (d) Economies of scale:
- bulk buying
  - managerial
  - technical, e.g. specialisation, indivisibilities, linked processes
  - financial economies
  - risk bearing economies.

These are all internal economies of scale, but credit should be given to reference to possible external economies, such as availability of skilled labour or existence of ancillary firms.

The question does refer to the **extent** so there could be a reference to possible diseconomies of scale.

The question also refers explicitly to the **television** manufacturing industry; a maximum mark of 5 if a general answer is given with no specific reference to **television** manufacturing. [7]

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- 5 (a) To pay for:
- education
  - health service
  - transport
  - social services/security
  - housing
  - local government
  - law and order
  - defence.

Part of fiscal policy:

- to reduce the level of demand
- to help control inflation
- to discourage imports
- to maintain a balance of payments equilibrium
- to redistribute income.

A maximum mark of 4 if candidate only deals with raising revenue to pay for expenditure. [6]

- (b) Direct taxes:
- these take money directly from people's incomes or from companies' profits
  - they can be progressive in effect
  - examples include income tax, corporation tax, inheritance tax, capital gains tax.

Indirect taxes:

- these are paid when goods and services are bought
- these tend to be regressive in effect
- examples include VAT/GST, excise duties.

[4]

- (c) Direct taxes, such as income tax, are progressive meaning that they take a higher proportion of income from the rich than the poor. They take into account the ability of people to pay and the money obtained can then be used to pay for benefits to the poor, such as housing benefits, unemployment benefits and other types of social security. This wouldn't apply to indirect taxes because these are regressive taxes. In other words, they do not take into account the ability to pay.

The question does refer to **extent**; answers which fail to address this can get no more than 6 marks. [10]

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- 6 (a) Economic advantages:
- large pool of labour
  - large number of consumers.

Economic disadvantages:

- possible burden on limited resources
- high rate of unemployment.

[4]

(b) Possible reasons:

- birth rate
- death rate
- fertility rate
- net migration
- living standards/quality of life
- availability of/knowledge about contraception
- customs and beliefs
- religion
- female employment/career opportunities
- age of marriage
- medical advances and healthcare
- influences on immigration/emigration, e.g. availability of jobs.

Maximum of 3 marks for identification of reasons.

[6]

(c) GDP:

- GDP
- real GDP
- per head/per capita
- a rather narrow measure of economic development/welfare
- doesn't take into account what people can buy with their incomes
- does not take into account the distribution of income, the type of products produced or pollution.

There are other ways of measuring the standard of living, such as the Human Development Index:

- United Nations compilation
- has a maximum possible value of 1
- it does incorporate GDP per capita
- also includes access to education and knowledge, measured by the adult literacy rate and school and college enrolment rates
- also includes health, diet and lifestyle, measured by life expectancy at birth.

The question does refer to **how effectively**, e.g. a comparison of GDP with alternative approaches; answers which fail to address this can gain no more than 6 marks. [10]

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7 (a) An exchange rate is the price of one currency (1) in terms of another (1); it is the external value (as opposed to the internal value) of a currency (1). [2]

(b) Possible determinants:

- impact of demand for a currency on the foreign exchange market
- impact of supply of a currency on a foreign exchange market
- exchange rate is the equilibrium price resulting from these market forces
- level of confidence in a particular currency
- state of economy
- likely future economic state
- political factors
- interest rates
- speculation.

Reward the inclusion of an appropriate diagram.

[6]

(c) Two from the following:

- tariffs
- quotas
- subsidies
- exchange controls
- embargoes/boycotts
- voluntary agreements
- administrative (red tape) restrictions.

1 mark for a brief, limited description and 2 marks for a more thorough description of each method. [4]

(d) Arguments for more protection:

- infant (sunrise) industry argument
- declining (sunset) industry argument
- strategic/key industry argument
- prevent dumping
- raise revenue through imposition of tariffs
- to remove a balance of payments deficit.

Arguments against more protection:

- goes against theory of comparative advantage
- will restrict world output
- will limit consumer choice
- will protect inefficient industries
- limits potential gains from economies of scale.

A maximum of 5 marks for a one-sided answer.

[8]



**MARK SCHEME for the May/June 2011 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/21**

Paper 2 (Structured Questions), maximum raw mark 80

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1 (a) Identification of two from the following:

- taxation – allow a mark each for reference to indirect taxes and direct taxes
- borrowing
- profits of nationalised industries
- privatisation proceeds
- rent from government properties
- tariffs
- aid.

[2]

(b) Explanation in terms of:

- definition of opportunity cost – the next best alternative foregone
- the money could have been spent on other things
- especially given what we are told about the extent of poverty in the city
- and the existence of slum areas.

2 marks for a definition/understanding of opportunity cost and 2 marks for appropriate application from the case study. [4]

(c) Diagram:

- axes (P and Q or W and N) and curves (D and S) correctly drawn and labelled (1)
- shift of demand curve to the right correctly drawn and labelled (1)
- change in equilibrium price and equilibrium quantity (both up) clearly shown (1).

Explanation of what is shown in the diagram (3). If only describes what is in the diagram a maximum of one mark. [6]

(d) Possible economic advantages:

- improvement to roads/railways/bridges will enable the economy to benefit from improved transport links
- a doubling of the number of hotel rooms will enable the city to attract more tourists, increasing aggregate demand
- leading to an improvement in the standard of living
- improved sports facilities will also enable it to attract various sporting events, again increasing demand
- jobs will be created, leading to a reduction in unemployment.

Possible economic disadvantages:

- the city will still be struggling from poverty, crime rate and slums
- this could deter tourists from coming to the area
- it could also deter inward investment
- such as multi-national companies locating there
- any relevant opportunity cost
- benefits might only be temporary
- creates pollution/congestion
- diversion of resources from elsewhere in Brazil
- the future debt/taxation burden.

A one-sided answer can gain no more than 5 marks.

Need two advantages and two disadvantages to get all 8 marks.

[8]

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- 2 (a) Advantages of a market system:
- resources are allocated through the price mechanism ('invisible hand')
  - consumers said to be sovereign
  - economy is very responsive to changes in consumer demand
  - choice is provided for
  - competition and the profit motive promote efficiency
  - incentive for entrepreneurs to produce.

A maximum of 3 marks if only one advantage is described. Need at least two advantages for all 6 marks. [6]

- (b) Causes of market failure:
- merit goods under-consumed (don't need to use that term)
  - demerit goods over-consumed (don't need to use that term)
  - public goods not provided (don't need to use that term)
  - information failure
  - existence of externalities
  - some people have more influence in a market than others
  - existence of monopolies.

[6]

- (c) Advantages of government intervention:
- indirect taxes to discourage consumption of demerit goods (don't need to use that term)
  - subsidies to encourage consumption of merit goods (don't need to use that term)
  - taxation to finance expenditure on public goods (don't need to use that term)
  - regulations to control private producers, e.g. on pollution and monopolies having market dominance.

Limitations of government intervention:

- consumption of demerit goods (don't need to use that term) might be discouraged, but unlikely to end completely given inelastic demand, e.g. for cigarettes and alcohol
- consumption of merit goods (don't need to use that term) might be encouraged, but still a limit to extent of increase in consumption
- available finance to provide public goods (don't need to use that term) might be limited/restricted, especially if a large budget deficit
- regulations may not be adequately policed/enforced.

A one-sided answer can gain no more than 5 marks.

A maximum of 7 marks if no understanding of 'always'.

[8]

- 3 (a) Role of commercial banks:
- accept deposits
  - lend to customers
  - enable customers to make payments
  - travellers cheques/foreign currency
  - deposit important documents
  - source of financial advice.

A list-like answer will gain a maximum of 2 marks.

[4]

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- (b) Functions of money:
- means of exchange
  - unit of account/measure of value
  - standard for deferred payments
  - store of value.

If list all four, allow 2 marks. List three, allow 1 mark. List one or two, 0 marks.

Candidates need to describe all four functions to get the full 4 marks, but an in-depth response on one of the four functions described will be enough to gain all 4 marks. [4]

- (c) Description in terms of:
- low earnings at the start in a job
  - earnings gradually rise with more experience
  - reach a high point before retirement
  - retirement income likely to be lower
  - change in demand for occupation over a lifetime.

[4]

- (d) Wages:
- certainly a very important factor to be taken into account.

Other factors:

- working conditions/health and safety
- promotion prospects
- hours of work
- proximity to home
- canteen/sports facilities
- pension provision
- skills/education
- fringe benefits.

A one-sided answer can gain no more than 5 marks.

A maximum of 7 marks if no understanding of 'most important'.

[8]

- 4 (a) Features of a sole proprietor:
- simple to set up in terms of financial/legal paperwork
  - owner has complete control
  - all profits go to the owner
  - unlimited liability
  - difficulty in obtaining finance to expand.

A maximum of 2 marks if only one feature is described. Can gain all 4 marks if describes any two features. [4]

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(b) Explanation in terms of:

- can be up to 20 partners in a business
- this should enable more finance to be raised
- still no need to disclose the accounts publicly
- business will be able to expand
- could take advantage of economies of scale
- in a legal organisation, this would enable different partners to specialise in certain aspects of the law
- limited liability partnership (LLP).

A list-like answer can gain no more than 2 marks.

The question does explicitly refer to a legal organisation; answers which are not applied to this context can gain no more than 3 marks. [4]

(c) Characteristics of perfect competition:

- there are a large number of sellers
- there are a large number of buyers
- all firms produce an identical or homogeneous product
- there are no barriers to entry or exit
- perfect knowledge
- price taker
- all firms have access to the same information
- abnormal/supernormal/subnormal profits can only be made in the short-run; in the long-run, only normal profits are made.

A list-like answer can gain no more than 2 marks. [4]

(d) In favour of perfect competition:

- price will tend to be lower than in monopoly
- output will tend to be higher than in monopoly
- normal profits only will be made in the long-run.

In favour of monopoly:

- abnormal/supernormal profits can be used to finance research and development
- large size can lead to economies of scale and lower costs and prices.

A one-sided answer can gain no more than 5 marks. [8]

5 (a) A persistent or sustained (1) increase (1) in the general (1) level of prices (1) over a specific period of time (1).

There must be some reference to prices to gain all three marks.

An answer which focuses on the decline in purchasing power can gain no more than 2 marks. [3]

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**(b)** Causes of inflation:

- demand-pull
- cost-push
- monetary causes
- imported inflation.

A maximum of 3 marks if a candidate only explains one cause of inflation.

[5]

**(c)** Identification (1) and description (1) of two (x 2) of the following:

- frictional/transitional
- natural
- demand deficient/cyclical
- residual
- technological
- seasonal
- structural.

[4]

**(d)** Unemployment as a problem:

- loss of output/production
- lower GDP
- lower rate of economic growth
- waste/under-use of resources
- impact of benefits on fiscal policy
- possible increase in crime.

Inflation as a problem:

- money will have less purchasing power
- those on fixed incomes will be particularly hard hit
- real value of savings will be adversely affected
- fall in demand for exports may affect balance of payments.

A one-sided answer, which covers only unemployment or inflation, can gain no more than 5 marks.

A maximum of 7 marks if no understanding of the 'greater problem'.

[8]

**6 (a)** Occupational structure:

- primary sector will continue to fall
- secondary sector will first rise, and then fall
- tertiary sector will continue to rise.

Age structure:

- average age of the population will rise
- there will be an ageing population
- comments on BR and DR implying impact on age structure are worth 1 mark.

Geographical structure:

- there will be a movement out of the rural areas
- and into the urban areas.

There are broadly 2 marks for each section, but mark the answer out of a total of 6 marks, e.g. it is likely that candidates will write more in **(i)** than the other 2 parts. There is, however, a maximum of 4 marks if only two sections are answered.

[6]

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- (b) Explanation in terms of:
- different basis of production, e.g. primary v tertiary
  - costs of living will influence wages; some areas may be more expensive to live in than others, e.g. in the capital city
  - some areas may be less well served by infrastructure, e.g. transport
  - differences in quality of education in different areas
  - trade union membership/power may be greater in some areas, affecting the level of wages
  - multi-national companies may be located in certain areas
  - investment may be concentrated in certain areas.

[6]

- (c) Discussion in terms of:
- government policy to encourage firms to locate in certain areas
  - this could be through grants/subsidies/tax holidays
  - policies to attract multi-nationals in certain areas
  - improvements in education/training in certain areas
  - encouragement given to banks in certain areas to lend to firms
  - investment in certain areas, e.g. to improve transport links.

Answers which focus only on raising living standards nationally are limited to 3 marks.

Answers must address 'most effective' to get more than 5 marks.

[8]

- 7 (a) Causes of a change in a country's exchange rate:
- a change in the demand for a currency on the foreign exchange market
  - a change in the supply of a currency on the foreign exchange market.

Allow factors that would cause a change in demand or supply even if the words demand and supply are not used. [2]

- (b) Explanation in terms of:
- the fall in the value of the exchange rate will have the effect
  - of making exports less expensive
  - and imports more expensive
  - if the demand for both is price elastic, this should increase the demand for exports
  - and decrease the demand for imports
  - this should encourage production of exports and increase employment
  - it will also encourage production of domestic goods to replace the imports
  - the PED, however, may not be elastic.

A maximum of 4 marks if no consideration of PED.

[6]

- (c) Any two from:
- trade in goods (visible account)
  - trade in services (invisible account)
  - income
  - current transfers.

[4]

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(d) Yes, if:

- it is due to an improvement in the visible account, e.g. an increase in exports would most likely lead to an increase in employment
- it is due to an improvement in the invisible account: an increase in tourists coming to this country would most likely lead to an increase in employment.

Not necessarily, if:

- it is due to an increase in wages earned by residents working abroad
- it is due to an increase in investment income, such as dividends
- it is due to a charitable donation received from abroad.

A one-sided answer can gain no more than 5 marks.

An answer which fails to come to an appropriate conclusion can gain no more than 7 marks. [8]



**MARK SCHEME for the May/June 2011 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/22**

Paper 2 (Structured Questions), maximum raw mark 80

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1 (a) An entrepreneur is a person who organises the other three factors of production/takes decisions (1) and, in doing so, takes a risk (1). [2]

(b) Main functions of a stock exchange:

- it helps companies sell their stocks or equities
- this helps them to raise finance
- it helps the public buy such stocks
- this buying and selling of shares through the stock exchange will produce a market price
- it provides an indicator of how generally an economy is doing (e.g. FTSE 100). [4]

(c) Possible reasons:

- an increase in the financial position of a producer so that it could fund development
- the financial incentives offered by the government to multi-national companies
- an increase in supply to match an increase in demand
- a decrease in cost. [2]

(d) Possible financial incentives:

- a tax break/holiday
- a lower rate of tax, e.g. Corporation Tax
- a grant
- provision of infrastructure. [4]

(e) Potential advantages:

- can bring employment to a country
- this will increase incomes
- and the standard of living/quality of life
- if unemployment falls, lower amount spent by government on benefits
- increase in exports with consequent effect on the balance of payments
- possible positive effect on currency.

Potential disadvantages:

- may be taking advantage of lower costs, and therefore seen as exploitative
- senior management often not from local country
- many of the jobs may be low-skilled ('screwdriver' jobs)
- a lot of the profits will return to home country.

A maximum of 5 marks if the answer is one-sided. [8]

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- 2 (a) A subsidy is:
- a payment made to a producer, e.g. by a government
  - to help reduce the costs of production
  - as a result producers will want to increase supply
  - at every given price
  - consumption is therefore encouraged
  - although this could mean supporting an inefficient producer
  - and so distort competition.
- [3]

- (b) Diagram:
- axes are correctly labelled P and Q and curves are correctly labelled D and S (1)
  - supply curve shifts to the right (1)
  - equilibrium price falls and equilibrium quantity increases (1).

Explanation of the effect of a subsidy on equilibrium price and quantity – up to 3 marks. [6]

- (c) • what to produce?  
• how to produce?  
• for whom to produce?
- [3]

- (d) Advantages of a market economy:
- allocation of resources through the price mechanism
  - idea of an 'invisible hand'
  - idea that equilibrium is a market clearing position
  - efficiency is encouraged
  - idea of consumer sovereignty.

Disadvantages of a market economy and therefore a need for government intervention, creating a mixed economy:

- may be high rate of unemployment
- prices may be too high for many people
- distribution of income and wealth very unequal
- merit goods under-consumed (don't need to use that term)
- demerit goods over-consumed (don't need to use that term)
- public goods not produced at all
- issue of externalities
- problem of lack of competition, e.g. as a result of monopoly
- need for consumer protection legislation.

A maximum of 7 marks if no conclusion is given. [8]

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- 3 (a) Factors affecting the demand for a product:
- the price of the product
  - the price of substitute goods/services
  - the price of complementary goods/services
  - changes in income
  - changes in tastes and preferences of consumers
  - the impact of an advertising campaign.

A list-like answer can gain no more than 3 marks.

[6]

- (b) Explanation of PED:

- percentage change in the quantity demanded of a good or service divided by the percentage change in the price of the good or service
- different values from perfectly elastic, through elastic, unitary elastic, inelastic to perfectly inelastic
- explanation of mathematical figures for these from 0 to infinity.

[6]

- (c) Potential usefulness:

- link with revenue
- if PED is elastic, it would be better to reduce price to raise revenue
- if PED is inelastic, it would be better to increase price to raise revenue.

Application:

- the demand for many magazines will be elastic
- the demand for some magazines, however, will be inelastic
- these will be the more specialised magazines, appealing to more of a niche market
- some consumers might take out a regular subscription to a magazine, and here the demand is likely to be more inelastic compared with buying magazines in a shop.

Answers which discuss the potential usefulness of PED to firms in general, making no reference at all to magazines, can gain no more than 5 marks.

[8]

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4 (a) Factors that can affect an individual's choice of occupation:

- wages/salaries
- bonuses/commission
- pension
- holiday entitlement
- proximity to home
- promotion prospects
- working conditions
- canteen/social facilities.

A list-like answer can gain no more than 3 marks.

[6]

(b) This will depend on:

- experience
- skills
- training
- promotion.

A maximum of 3 marks if a candidate states that it is always true.

[4]

(c) Benefits of a trade union to an individual:

- collective bargaining to improve pay
- working on behalf of members in terms of working conditions, pension entitlement
- protecting the rights of members, e.g. in a legal dispute
- acting on behalf of members in discussions with government.

[4]

(d) Potential disadvantages:

- there might be industrial action
- powerful unions/industrial action could lead to disruption of the economy
- this could lead to a firm going out of business, causing an increase in unemployment
- this could affect output and damage reputation of country
- powerful trade unions could lead to higher wages
- making products uncompetitive in world markets.

Potential advantages:

- can work with employers, not always against them
- can work with government, e.g. to support legislation.

A maximum of 4 marks if entirely one-sided.

[6]

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- 5 (a) Sole proprietor:
- unlimited liability
  - may be difficult to raise finance
  - the business is owned by one person only, so decision-making cannot be shared
  - requires a lot of skills from one person.

A list-like answer can gain no more than 2 marks. [4]

- (b) Possible reasons:
- to gain more finance as shares can be issued to more people
  - shares are advertised and sold publicly
  - there is an unlimited number of shareholders
  - they can be quoted on the stock exchange
  - this should enable the business to grow
  - this would enable the firm to benefit from economies of scale.

[6]

- (c) Internal growth:
- increase in sales
  - greater share of market.

External growth:

- horizontal integration
- vertical integration
- conglomerate integration.

An answer which only focuses on internal or external growth can gain no more than 3 marks. [4]

- (d) Economies of scale:
- internal, e.g. technical, marketing, financial, risk-bearing economies
  - external, e.g. available infrastructure, pool of skilled labour, local suppliers.

Diseconomies of scale:

- internal, e.g. poor communications, low morale
- external, e.g. congestion, higher transport costs.

Advantages of small firms:

- cater to tastes and preferences of consumers
- greater flexibility.

A maximum of 4 marks for a one-sided answer.

A maximum of 2 marks for an answer which focuses purely on economies of scale. [6]

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- 6 (a) Inflation can be defined as a persistent/sustained (1) increase (1) in the general/average (1) level of prices (1) over a given period of time (1). An answer which focuses on the decline in the purchasing power of money can gain no more than 2 marks.

There must be some reference to prices to gain all 3 marks. [3]

- (b) Construction of RPI or CPI:

- selection of a representative basket of goods and services
- selection of base year
- this is given a value of 100
- allocation of weights to particular goods and services to reflect relative importance in basket
- idea of changes in the overall weighted average price of basket over a period of time. [7]

- (c) Demand-pull inflation:

- too high a level of demand in the economy
- supply unable to meet demand. [4]

- (d) Credit appropriate comment on a high rate of inflation.

Reasons for concern:

- leads to a fall in the purchasing power of money
- may undermine confidence in the currency
- rise in export prices may make goods uncompetitive abroad
- those on fixed incomes particularly badly affected
- value of savings could be eroded.

Not such a problem:

- could lead to higher profits for firms
- may encourage firms to expand
- borrowers may benefit.

A one-sided answer can gain no more than 4 marks. [6]

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- 7 (a) • changes in real (1) GDP (1) per capita (1)  
 • changes in the Human Development Index which is made up of one-third standard of living (real GDP per capita), one-third longevity (life expectancy) and one-third knowledge (adult literacy and mean years of schooling). [6]

(b) Possible problems:

- hidden/underground economy
- issue of what is being produced (e.g. luxuries versus necessities)
- environmental consequences of production
- distribution of income and wealth
- other possible factors, e.g. class sizes, number of patients per doctor, quality of water. [6]

(c) Possible policies in relation to:

- fiscal policy
- education
- housing
- minimum wage
- health/diet
- increased food production
- irrigation
- sanitation
- birth control
- aid
- change in balance of industrial sectors.

Candidates need to offer a conclusion as to whether such policies are likely to reduce poverty to get a mark above 5. [8]



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- may be taking advantage of lower costs, and therefore seen as exploitative
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- 3 (a) Factors affecting the demand for a product:
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A list-like answer can gain no more than 3 marks.

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- (b) Explanation of PED:
- percentage change in the quantity demanded of a good or service divided by the percentage change in the price of the good or service
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4 (a) Factors that can affect an individual's choice of occupation:

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- bonuses/commission
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- vertical integration
- conglomerate integration.

An answer which only focuses on internal or external growth can gain no more than 3 marks. [4]

- (d) Economies of scale:
- internal, e.g. technical, marketing, financial, risk-bearing economies
  - external, e.g. available infrastructure, pool of skilled labour, local suppliers.

Diseconomies of scale:

- internal, e.g. poor communications, low morale
- external, e.g. congestion, higher transport costs.

Advantages of small firms:

- cater to tastes and preferences of consumers
- greater flexibility.

A maximum of 4 marks for a one-sided answer.

A maximum of 2 marks for an answer which focuses purely on economies of scale. [6]

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- 6 (a) Inflation can be defined as a persistent/sustained (1) increase (1) in the general/average (1) level of prices (1) over a given period of time (1). An answer which focuses on the decline in the purchasing power of money can gain no more than 2 marks.

There must be some reference to prices to gain all 3 marks. [3]

- (b) Construction of RPI or CPI:

- selection of a representative basket of goods and services
- selection of base year
- this is given a value of 100
- allocation of weights to particular goods and services to reflect relative importance in basket
- idea of changes in the overall weighted average price of basket over a period of time. [7]

- (c) Demand-pull inflation:

- too high a level of demand in the economy
- supply unable to meet demand. [4]

- (d) Credit appropriate comment on a high rate of inflation.

Reasons for concern:

- leads to a fall in the purchasing power of money
- may undermine confidence in the currency
- rise in export prices may make goods uncompetitive abroad
- those on fixed incomes particularly badly affected
- value of savings could be eroded.

Not such a problem:

- could lead to higher profits for firms
- may encourage firms to expand
- borrowers may benefit.

A one-sided answer can gain no more than 4 marks. [6]

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- 7 (a) • changes in real (1) GDP (1) per capita (1)  
 • changes in the Human Development Index which is made up of one-third standard of living (real GDP per capita), one-third longevity (life expectancy) and one-third knowledge (adult literacy and mean years of schooling). [6]

(b) Possible problems:

- hidden/underground economy
- issue of what is being produced (e.g. luxuries versus necessities)
- environmental consequences of production
- distribution of income and wealth
- other possible factors, e.g. class sizes, number of patients per doctor, quality of water. [6]

(c) Possible policies in relation to:

- fiscal policy
- education
- housing
- minimum wage
- health/diet
- increased food production
- irrigation
- sanitation
- birth control
- aid
- change in balance of industrial sectors.

Candidates need to offer a conclusion as to whether such policies are likely to reduce poverty to get a mark above 5. [8]



**MARK SCHEME for the May/June 2012 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/21**

Paper 2 (Structured Questions), maximum raw mark 80

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1 (a) Explanation of possible reasons for occupational mobility of labour:

- higher wages
- shorter hours
- better working conditions
- opportunity to learn new skills
- better promotion/career opportunities/employment.

[4]

(b) Possible advantages:

- reduce unemployment
- reduce extent of poverty
- increase incomes
- improve standards of living
- create a multiplier effect in the rural areas (do not expect reference to the term)
- reduce migration to the cities
- reduce disruption to families
- stop slum developments in cities.

[4]

Maximum of 2 marks for a list-like approach.

(c) Analysis could include the following:

- the interest rate would be increased
- this would make borrowing more expensive
- this is likely to reduce the level of demand in the economy
- likely to be particularly effective if inflation is caused by demand-pull factors
- less effective if inflation is caused by cost-push factors.

Candidates do not need to include all of these to gain maximum marks.

[4]

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(d) Discussion could include:

Possible benefits:	Possible disadvantages:
<ul style="list-style-type: none"> <li>• they will provide jobs (especially important in a developing economy)</li> <li>• this will bring down the rate of unemployment</li> <li>• aggregate demand will increase</li> <li>• they will lead to a more skilled workforce</li> <li>• the government will benefit from the taxes the multi-nationals pay</li> </ul>	<ul style="list-style-type: none"> <li>• many of the employees may be from the home country of the multi-national rather than locals</li> <li>• many of the jobs will be only unskilled or semi-skilled (screwdriver jobs)</li> <li>• much of the profits made (after tax) will be repatriated to home country and not necessarily re-invested locally</li> <li>• they may try to exert power over government to receive favourable rights, e.g. by threatening not to locate or, once located, threatening to leave (especially important in a developing economy)</li> <li>• there may be damage to the environment</li> </ul>

A one-sided answer which considers only the benefits or the disadvantages of a multi-national locating in an economy can gain no more than 5 marks.

Also, an answer which fails to focus clearly on a developing economy can gain no more than 6 marks. [8]

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2 (a) Explanation could include:

- there are limited/finite resources (1)
- to satisfy unlimited/infinite wants (1)
- where choices have to be made/there is an opportunity cost (1). [3]

(b) Definition: the (next) best (1) alternative foregone/not taken (1) as a result of taking a decision/making a choice – appropriate example of choice (1). [3]

(c) Factors of production:

1. Land: natural resources available for production, e.g. oil, coal, forests, fish, farming.
2. Labour: human effort available for production/human capital, e.g. skilled/unskilled.
3. Capital: man-made physical goods used in production, e.g. machines, tools, factories (Do NOT accept money).
4. Enterprise: the role of the entrepreneur in terms of organising the other factors of production and in taking a risk in doing so.

1 mark for each correct description (4); up to 2 marks for appropriate use of examples (2). [6]

A list of 4 factors of production – 2 marks.

A list of 3 factors of production – 1 mark.

A list of 2 factors of production – no marks.

(d) Discussion could include:

Conservation of natural resources:	Use of natural resources:
<ul style="list-style-type: none"> <li>• this will avoid too rapid a depletion of resources</li> <li>• this is more sustainable as it takes into account the needs of future generations</li> <li>• a better long-term strategy</li> </ul>	<ul style="list-style-type: none"> <li>• will raise output</li> <li>• will raise income and employment</li> <li>• but resources will be depleted/exhausted more quickly</li> <li>• more of a short-term strategy</li> </ul>

A one-sided answer, which focuses on the conservation or use of resources only, can gain no more than 5 marks. [8]

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3 (a) Explanation of functions of money:

- a medium of exchange
- a store of value
- a measure of value/a unit of account
- a standard for deferred payments.

A maximum of 4 marks for a correct explanation of 3 functions of money.

A maximum of 3 marks for a correct explanation of 2 functions of money.

An answer which focuses on money only as a medium of exchange can gain no more than 2 marks.

An answer which focuses on any other function of money can gain no more than 2 marks.

A list of all four functions can gain 2 marks; a list of three functions can gain 1 mark.

Answers which focus only on the characteristics of money can gain no marks. [6]

(b) Diagram:

- labels (wage/price of labour, quantity, demand, supply) (1)
- shift of the demand curve to the right (1)
- change in equilibrium position (both wage and quantity increase) (1).

Explanation:

- the effect of the increase in demand would shift the demand curve to the right (1)
- raising the equilibrium wage (1)
- and equilibrium quantity (1). [6]

(c) Discussion could include:

- there will be fewer skilled workers relative to demand
- fewer skilled workers will be entering the market because of training/qualifications required
- elasticity of supply for skilled workers will be more inelastic
- skilled workers are likely to be more productive than unskilled workers (candidates may refer to MRP but this is not on the syllabus).

One-sided answers, which fail to address 'always', can gain no more than 5 marks. [8]

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4 (a) Explanation could include:

- be able to sell shares on stock exchange
- without needing permission of existing shareholders
- this would enable it to raise considerably more finance
- which could be used to finance expansion.

[4]

(b) Consideration of profit maximisation:

- it is where the difference between total revenue and total cost is greatest/(MC=MR but this is not in the syllabus)
- profit is necessary for survival
- this is the underlying assumption of firms, although there may be other goals
- used to finance investment/expansion
- used to finance research and development
- used to reward shareholders/senior management.

[6]

(c) Discussion could include:

Advantages of growth:	Disadvantages of growth:
<ul style="list-style-type: none"> <li>• potential for economies of scale, such as financial, administrative/managerial, technical, risk-bearing and marketing</li> <li>• the lower costs will enable the firm to make larger profits</li> <li>• increase market power/become monopolistic/reduce competition</li> </ul>	<ul style="list-style-type: none"> <li>• a firm may become too large and begin to suffer from diseconomies of scale, such as poor management, problems of communication and poor industrial relations</li> </ul>

A one-sided answer, which considers only the benefits of growth, can gain no more than 6 marks. [10]

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5 (a) Possible reasons:

- to enable people to have access to the service, e.g. a merit good such as education or health care (note that merit good is not explicitly on the syllabus)
- sometimes it is most unlikely that a good or service would be provided by the private sector, e.g. a public good such as defence (note that public good is not explicitly on the syllabus)
- sometimes the private sector would not be able to raise the necessary funds and so it is provided by the government, e.g. a road
- sometimes there is a natural monopoly where it is better that there is no competition and so the state provides a nationalised service
- a government may wish to own a key strategic industry, e.g. one producing armaments.

[6]

6 marks can be gained for a thorough explanation of 2 goods and services.

A maximum of 3 marks for an explanation of 1 good or service.

(b) Definition:

- this occurs when all those willing and able to work at the given real wage are working, i.e. all unemployment is voluntary
- it is the level of employment at which those who wish to work have found jobs, with the exception of those who are frictionally unemployed.

Also credit:

- a situation where unemployment is low/employment is high
- reference to full employment as a government objective
- reference to a particular figure e.g. 97% employment/3% unemployment.

[4]

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(c) Discussion could include:

Frictional unemployment:	Structural unemployment:
<ul style="list-style-type: none"> <li>• this refers to those individuals who are in the process of finding a new job; it is also sometimes called search unemployment</li> <li>• it is not particularly serious as it may take a while for an individual to find appropriate employment</li> <li>• it can be regarded as a sign of a healthy economy, indicating that people are moving from one source of employment to another, reflecting changing patterns of demand in the economy</li> </ul>	<ul style="list-style-type: none"> <li>• this refers to those individuals who have lost their jobs as a result of decreasing demand for the products of a particular industry</li> <li>• it is much more of a problem for individuals than frictional unemployment because workers often don't have the skills/experience to change jobs easily</li> <li>• it is also a serious problem for the economy because it is often localised in particular areas of a country</li> </ul>

An answer which deals with only one type of unemployment can gain no more than 6 marks; an answer which does not distinguish between the effects on an individual and the economy can also gain no more than 6 marks.

A maximum of 5 marks for a generic answer on the effects of unemployment for an individual and the economy. [10]



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6 (a) Possible reasons:

- differences in birth rate/fertility rate
- differences in death rate
- differences in net migration.

Up to 2 marks per reason given.

[6]

(b) Explanation could include:

- high real GDP per head
- high level of savings
- developed financial system
- demographic features e.g. high level of life expectancy, low death rate, low infant mortality rate, low birth rate, low rate of population growth
- high level of education/high rate of literacy
- high level of health care
- high level of capital goods
- good quality infrastructure
- good quality housing and sanitation
- tertiary sector the largest sector, followed by secondary and then primary sector.

6 marks can be gained for a thorough explanation of 2 features.  
A maximum of 3 marks for an explanation of one feature.

[6]

(c) Definition of ageing population:

- this occurs where people are living longer and therefore the average age of the population is rising (2).

Possible problems:

- a rise in the dependency ratio, i.e. the ratio of the working population to the dependent population becomes lower
- a change in the labour force; older workers may be less geographically and occupationally mobile (the retirement age is likely to go up)
- older workers may lack the required skills/training
- a higher demand for health services
- a higher demand for welfare services
- a rise in the cost of pensions
- all of this may require taxation to be increased
- a change in the pattern of demand.

Answers which fail to address 'always' can gain no more than 5 marks.

[8]

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7 (a) Description of:

- trade in (visible) goods
- trade in (invisible) services
- income flow
- current transfers.

An answer which deals with only the first two elements (comprising the balance on trade in goods and services) can gain a maximum of 3 marks.

For a list of all 4 – 2 marks.

For a list of 3 – 1 mark.

For a list of 2 – no marks.

If a candidate makes no explicit reference to imports/exports a maximum of 2 marks. [4]

(b) Explanation could include:

- the country is spending more on foreign goods and services than is being spent on that country's goods and services
- a country's goods and services were not very price competitive on world markets/higher domestic inflation relative to other countries
- this is particularly a problem with a fixed exchange rate system
- a decline in the relative quality of domestically produced goods and services. [6]

(c) Possible policies:

- bring about a fall in the exchange rate by devaluation (if a fixed exchange rate system) or by allowing a depreciation (if a floating exchange rate system); this would make exports less expensive and so demand for them would be likely to rise
- this will increase total export revenue if PED is elastic
- provide a subsidy which reduces the production costs of domestic firms, enabling them to reduce prices
- supply-side policies to increase the skills/qualifications of the labour force; this would help to improve the quality of exports
- government support for trade fairs/exhibitions in other countries to make people aware of a country's exports.

An answer which fails to consider which would be the most effective policies to increase a country's exports can gain no more than 6 marks. [10]

**MARK SCHEME for the May/June 2012 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/22**

Paper 2 (Structured Questions), maximum raw mark 80

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1 (a) Evidence could include:

- a spokesperson for the People's Bank of China has said that the bank would begin to allow the market to play a much greater role in determining the exchange rate
- view of economists that an appreciation of currency should help to reduce the size of China's current account surplus
- supportive comment from the President of the US.

Any two comments.

[2]

(b) Possible reason:

- appreciation of the currency will make exports more expensive
- and imports less expensive
- this is likely to decrease the demand for Chinese exports and increase the demand for imports
- this will decrease China's total export revenue and increase total import expenditure if PED is elastic
- this will reduce China's current account surplus.

[6]

(c) Possible problems:

- distinction between short-term and long-term needs to be made clear
- one country's surplus is another country's deficit; the country with the deficit may introduce protectionist measures (as indicated)
- countries with deficits could face exchange rate problem
- countries with deficits could face employment problem.

[4]

(d) Up to 4 marks for description of protection, such as:

- tariffs
- quotas
- subsidies
- exchange controls
- embargoes/bans.

There is a maximum of 2 marks for a basic list of protection methods.

Up to 4 marks for discussion of their effectiveness and the other possible ways to reduce the trade deficit, such as:

- increase in exports
- reduction of exchange rate.

There is a maximum of 6 marks if there is no consideration of other possible ways to reduce the deficit OR where the candidate does not consider the relative effectiveness of different possible methods.

[8]

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2 (a) Explanation could include:

- it refers to all those natural resources used in production (1).

Examples could include:

- coal, oil, gold, fish, forests and the land itself (2).

[3]

(b) Possible reasons:

- labour has become too expensive
- there has been too much disruption e.g. as a result of strike action
- there is not enough labour available
- the labour available does not have the necessary skills/training/qualifications
- the firm wants to take advantage of new capital equipment
- this could increase the efficiency of production and keep costs down
- increased complexity of product being made.

[7]

(c) Possible advantages:

- would be able to benefit from expanded production
- such as through benefiting from economies of scale
- lowering the cost of production
- firm would be able to increase profits.

Possible disadvantages:

- we are told that it is newly established, so would such expansion be unwise/premature?
- it might be better to get itself established in domestic market
- this is especially given the reference to limited resources.

Credit comment on opportunity cost in relation to limited resources and comment on the advantages and disadvantages to a firm, a domestic economy or the international economy.

There is a maximum mark of 8 for an answer which does not address the impact of limited resources.

Allow answers on expanding into foreign markets in terms of either exporting to, or establishing production units in, foreign markets. [10]

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3 (a) Diagram:

- labels (price, quantity, demand, supply) (1)
- shift of the demand curve to the left (1)
- shift of the supply curve to the right (1)
- change in equilibrium position (1).

Explanation:

- explanation of why both demand and supply curves shift (1)
- explanation of the correct eventual equilibrium position in terms of equilibrium price or equilibrium quantity (1).

[6]

(b) Possible factors:

- level of (disposable) income
- price of houses
- condition/size of houses
- location of houses
- knowledge about/advertising of houses available
- associated fees
- taxation to be paid.

A list-like answer can gain no more than 3 marks.

There is a maximum of 3 marks for an explanation of one influence.

6 marks can be gained by a candidate for a thorough explanation of two influences.

[6]

(c) Discussion could include:

Arguments in favour:	Arguments against:
<ul style="list-style-type: none"> <li>• a government should be better able to raise funds to pay for the building of houses</li> <li>• safety standards might be better enforced</li> <li>• a government would be better able to make it affordable for all people</li> <li>• this would help to reduce poverty</li> <li>• this would help to increase the standards of living of the people</li> </ul>	<ul style="list-style-type: none"> <li>• a government might not be able to raise funds</li> <li>• private sector may be in a better position to do this</li> <li>• would depend on fiscal stance of government</li> <li>• a government might have to raise taxation to bring in the necessary revenue to pay for the house building</li> <li>• what of other areas of public expenditure – issue of opportunity cost</li> </ul>

A one-sided answer can gain no more than 5 marks; conclusion likely to be that a mixture of housing provision, involving both sectors, would be the best solution.

[8]

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**4 (a) Explanation:**

- importance of function of money as a medium of exchange
- compared to barter – the direct exchange of goods and services for other goods and services without using money
- the problem with barter was that it relied on a double coincidence of wants
- this wasn't always possible
- the use of money as a means of exchange avoids this
- money is also significantly better as a measure of value, a store of value and a standard for deferred payments. [6]

**(b) Descriptions of functions could include:**

- acceptance of deposits in current accounts/savings accounts
- enable customers to make payments
- can lend money, e.g. through loans, overdrafts and mortgages
- provide travellers cheques/foreign currency
- accept deposits of valuables
- advice on financial matters
- buy/sell shares for customers.

A list-like answer can gain no more than 3 marks.

There is a maximum of 3 marks for a description of one function. [6]

**(c) Possible reasons:**

- some individuals run into financial difficulties
- some individuals are spending 'beyond their means'
- some individuals may be more aware of what is available from financial institutions
- some individuals may be better able to pay the money back
- some individuals may be able to provide more security
- some individuals may have a need of money for a very short period of time, e.g. until the next pay day
- some individuals may have a greater need for something, e.g. a car or a holiday and borrow for the medium term to pay for it
- some individuals may wish to buy a house and may borrow for a long period of time, e.g. a mortgage to purchase a house which is often for 25 years.

Descriptive answers about borrowing which fail to discuss why some people have a greater need to borrow and/or a greater ability to pay back the money can gain no more than 5 marks. [8]

5 (a) Differences:

Partnership:	Company:
<ul style="list-style-type: none"> <li>they have unlimited liability (usually)</li> <li>there are between two and twenty partners</li> <li>they are easy to form (just require a Deed of Partnership)</li> <li>there is no need to publicly disclose the accounts</li> </ul>	<ul style="list-style-type: none"> <li>they have limited liability</li> <li>they have shareholders (up to 50 with a private limited company, but no maximum with a public limited company)</li> <li>they are more complicated to form (require Articles of Association and Memorandum of Association)</li> <li>they are required to publicly disclose the accounts</li> </ul>

Answers which fail to point out that there are two types of company (private limited company and public limited company) can gain no more than 3 marks. [4]

(b) Possible reasons:

- increase in revenue (this could be linked to PED)
- reduction in cost (this could be linked to economies of scale). [4]

(c) Internal economies of scale:

- reductions in long-term average costs as the scale of production and output of the firm increases, e.g. marketing, administrative, technical, risk-bearing and financial economies.

External economies of scale:

- falls in long-run average costs for a firm when the industry in which the firm operates grows in size, e.g. availability of skilled labour, ancillary firms, infrastructure.

An answer which focuses on one type of economy of scale can gain no more than 2 marks. [4]

(d) Discussion could include:

Small firms likely to grow larger:	Reasons why small firms remain small:
<ul style="list-style-type: none"> <li>firms are likely to be small to begin with (acorn idea)</li> <li>market will gradually expand</li> <li>firm becomes a company and so better able to finance expansion</li> <li>possible examples, e.g. Sainsbury's, Tesco</li> </ul>	<ul style="list-style-type: none"> <li>market may be too small/localised</li> <li>may be more flexible/better able to satisfy personal preferences of customers</li> <li>owners may be reluctant to expand</li> <li>small firms can combine to benefit from economies of scale, e.g. in advertising</li> </ul>

Answers which do not address 'all' can gain no more than 5 marks. [8]



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**6 (a)** Possible causes:

- demand-pull
- cost-push
- monetarist
- imported.

Candidates can gain maximum marks for an explanation of just two possible causes.

An answer which explains just one cause of inflation can get no more than 3 marks.

A list of four causes can get 2 marks.

A list of 1, 2 or 3 causes can get 1 mark.

[5]

**(b)** Structural unemployment:

- this occurs when people lose their jobs as a result of a particular industry being in decline, e.g. coal, shipbuilding.

Demand-deficient (cyclical) unemployment:

- this occurs when the level of aggregate demand in the whole economy falls; it is also called cyclical unemployment because it is associated with downturn/slump/recession stages of the trade cycle.

Answers which deal with just one type of unemployment can gain no more than 3 marks. [5]

**(c)** Definition of economic growth – 2 marks.

Possible factors influencing economic growth:

- utilising existing capacity
- pushing out potential capacity by increase in quantity
- or quality of resources
- application of new technology
- fiscal policy
- monetary policy
- supply side policies.

Possible factors inhibiting economic growth:

- a high rate of taxation acting as a disincentive
- discouraging inward foreign investment
- failure to significantly improve level of skills of workforce.

Answers which are one-sided and which fail to address 'always possible' can get no more than 6 marks (inclusive of 2 marks). [10]

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- 7 (a) Definition of death rate:
- the number of people in a country dying per thousand of population (1) over a given period of time (usually a year) (1).

Possible factors which can determine it:

- nutrition/diet
- housing conditions
- medical care
- social attitudes about consumption/fitness
- working conditions (4).

[6]

- (b) Candidates could mention:

- idea of optimum population – this refers to the number of people which, when combined with the other resources in an economy, shows the maximum amount of products that can be produced, i.e. it does not refer to the size of population alone. Candidates do not need to refer specifically to the term 'optimum' as it is not on the syllabus
- overpopulation occurs where the size of population is too large given the availability of resources in that country
- it is not simply a matter of a country having a very large population, e.g. China or India; Singapore, with a population of only 6 million, could be said to be overpopulated. [4]

- (c) Possible problems in relation to differences in:

- birth rate
- death rate
- fertility rate
- contraception/family planning
- size of population
- effect of migration, e.g. existence of shanty towns
- size of families
- size of population in relation to resources (candidates may refer to the idea of an 'optimum' population although this concept is not explicitly referred to in the syllabus).

Answers which fail to discuss both developing and developed countries can get no more than 6 marks. [10]

**MARK SCHEME for the May/June 2012 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/23**

Paper 2 (Structured Questions), maximum raw mark 80

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2012 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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1 (a) Evidence could include:

- a spokesperson for the People's Bank of China has said that the bank would begin to allow the market to play a much greater role in determining the exchange rate
- view of economists that an appreciation of currency should help to reduce the size of China's current account surplus
- supportive comment from the President of the US.

Any two comments.

[2]

(b) Possible reason:

- appreciation of the currency will make exports more expensive
- and imports less expensive
- this is likely to decrease the demand for Chinese exports and increase the demand for imports
- this will decrease China's total export revenue and increase total import expenditure if PED is elastic
- this will reduce China's current account surplus.

[6]

(c) Possible problems:

- distinction between short-term and long-term needs to be made clear
- one country's surplus is another country's deficit; the country with the deficit may introduce protectionist measures (as indicated)
- countries with deficits could face exchange rate problem
- countries with deficits could face employment problem.

[4]

(d) Up to 4 marks for description of protection, such as:

- tariffs
- quotas
- subsidies
- exchange controls
- embargoes/bans.

There is a maximum of 2 marks for a basic list of protection methods.

Up to 4 marks for discussion of their effectiveness and the other possible ways to reduce the trade deficit, such as:

- increase in exports
- reduction of exchange rate.

There is a maximum of 6 marks if there is no consideration of other possible ways to reduce the deficit OR where the candidate does not consider the relative effectiveness of different possible methods.

[8]

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2 (a) Explanation could include:

- it refers to all those natural resources used in production (1).

Examples could include:

- coal, oil, gold, fish, forests and the land itself (2).

[3]

(b) Possible reasons:

- labour has become too expensive
- there has been too much disruption e.g. as a result of strike action
- there is not enough labour available
- the labour available does not have the necessary skills/training/qualifications
- the firm wants to take advantage of new capital equipment
- this could increase the efficiency of production and keep costs down
- increased complexity of product being made.

[7]

(c) Possible advantages:

- would be able to benefit from expanded production
- such as through benefiting from economies of scale
- lowering the cost of production
- firm would be able to increase profits.

Possible disadvantages:

- we are told that it is newly established, so would such expansion be unwise/premature?
- it might be better to get itself established in domestic market
- this is especially given the reference to limited resources.

Credit comment on opportunity cost in relation to limited resources and comment on the advantages and disadvantages to a firm, a domestic economy or the international economy.

There is a maximum mark of 8 for an answer which does not address the impact of limited resources.

Allow answers on expanding into foreign markets in terms of either exporting to, or establishing production units in, foreign markets. [10]

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3 (a) Diagram:

- labels (price, quantity, demand, supply) (1)
- shift of the demand curve to the left (1)
- shift of the supply curve to the right (1)
- change in equilibrium position (1).

Explanation:

- explanation of why both demand and supply curves shift (1)
- explanation of the correct eventual equilibrium position in terms of equilibrium price or equilibrium quantity (1).

[6]

(b) Possible factors:

- level of (disposable) income
- price of houses
- condition/size of houses
- location of houses
- knowledge about/advertising of houses available
- associated fees
- taxation to be paid.

A list-like answer can gain no more than 3 marks.

There is a maximum of 3 marks for an explanation of one influence.

6 marks can be gained by a candidate for a thorough explanation of two influences.

[6]

(c) Discussion could include:

Arguments in favour:	Arguments against:
<ul style="list-style-type: none"> <li>• a government should be better able to raise funds to pay for the building of houses</li> <li>• safety standards might be better enforced</li> <li>• a government would be better able to make it affordable for all people</li> <li>• this would help to reduce poverty</li> <li>• this would help to increase the standards of living of the people</li> </ul>	<ul style="list-style-type: none"> <li>• a government might not be able to raise funds</li> <li>• private sector may be in a better position to do this</li> <li>• would depend on fiscal stance of government</li> <li>• a government might have to raise taxation to bring in the necessary revenue to pay for the house building</li> <li>• what of other areas of public expenditure – issue of opportunity cost</li> </ul>

A one-sided answer can gain no more than 5 marks; conclusion likely to be that a mixture of housing provision, involving both sectors, would be the best solution.

[8]

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**4 (a) Explanation:**

- importance of function of money as a medium of exchange
- compared to barter – the direct exchange of goods and services for other goods and services without using money
- the problem with barter was that it relied on a double coincidence of wants
- this wasn't always possible
- the use of money as a means of exchange avoids this
- money is also significantly better as a measure of value, a store of value and a standard for deferred payments. [6]

**(b) Descriptions of functions could include:**

- acceptance of deposits in current accounts/savings accounts
- enable customers to make payments
- can lend money, e.g. through loans, overdrafts and mortgages
- provide travellers cheques/foreign currency
- accept deposits of valuables
- advice on financial matters
- buy/sell shares for customers.

A list-like answer can gain no more than 3 marks.

There is a maximum of 3 marks for a description of one function. [6]

**(c) Possible reasons:**

- some individuals run into financial difficulties
- some individuals are spending 'beyond their means'
- some individuals may be more aware of what is available from financial institutions
- some individuals may be better able to pay the money back
- some individuals may be able to provide more security
- some individuals may have a need of money for a very short period of time, e.g. until the next pay day
- some individuals may have a greater need for something, e.g. a car or a holiday and borrow for the medium term to pay for it
- some individuals may wish to buy a house and may borrow for a long period of time, e.g. a mortgage to purchase a house which is often for 25 years.

Descriptive answers about borrowing which fail to discuss why some people have a greater need to borrow and/or a greater ability to pay back the money can gain no more than 5 marks. [8]

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5 (a) Differences:

Partnership:	Company:
<ul style="list-style-type: none"> <li>they have unlimited liability (usually)</li> <li>there are between two and twenty partners</li> <li>they are easy to form (just require a Deed of Partnership)</li> <li>there is no need to publicly disclose the accounts</li> </ul>	<ul style="list-style-type: none"> <li>they have limited liability</li> <li>they have shareholders (up to 50 with a private limited company, but no maximum with a public limited company)</li> <li>they are more complicated to form (require Articles of Association and Memorandum of Association)</li> <li>they are required to publicly disclose the accounts</li> </ul>

Answers which fail to point out that there are two types of company (private limited company and public limited company) can gain no more than 3 marks. [4]

(b) Possible reasons:

- increase in revenue (this could be linked to PED)
- reduction in cost (this could be linked to economies of scale). [4]

(c) Internal economies of scale:

- reductions in long-term average costs as the scale of production and output of the firm increases, e.g. marketing, administrative, technical, risk-bearing and financial economies.

External economies of scale:

- falls in long-run average costs for a firm when the industry in which the firm operates grows in size, e.g. availability of skilled labour, ancillary firms, infrastructure.

An answer which focuses on one type of economy of scale can gain no more than 2 marks. [4]

(d) Discussion could include:

Small firms likely to grow larger:	Reasons why small firms remain small:
<ul style="list-style-type: none"> <li>firms are likely to be small to begin with (acorn idea)</li> <li>market will gradually expand</li> <li>firm becomes a company and so better able to finance expansion</li> <li>possible examples, e.g. Sainsbury's, Tesco</li> </ul>	<ul style="list-style-type: none"> <li>market may be too small/localised</li> <li>may be more flexible/better able to satisfy personal preferences of customers</li> <li>owners may be reluctant to expand</li> <li>small firms can combine to benefit from economies of scale, e.g. in advertising</li> </ul>

Answers which do not address 'all' can gain no more than 5 marks. [8]



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**6 (a)** Possible causes:

- demand-pull
- cost-push
- monetarist
- imported.

Candidates can gain maximum marks for an explanation of just two possible causes.

An answer which explains just one cause of inflation can get no more than 3 marks.

A list of four causes can get 2 marks.

A list of 1, 2 or 3 causes can get 1 mark.

[5]

**(b)** Structural unemployment:

- this occurs when people lose their jobs as a result of a particular industry being in decline, e.g. coal, shipbuilding.

Demand-deficient (cyclical) unemployment:

- this occurs when the level of aggregate demand in the whole economy falls; it is also called cyclical unemployment because it is associated with downturn/slump/recession stages of the trade cycle.

Answers which deal with just one type of unemployment can gain no more than 3 marks. [5]

**(c)** Definition of economic growth – 2 marks.

Possible factors influencing economic growth:

- utilising existing capacity
- pushing out potential capacity by increase in quantity
- or quality of resources
- application of new technology
- fiscal policy
- monetary policy
- supply side policies.

Possible factors inhibiting economic growth:

- a high rate of taxation acting as a disincentive
- discouraging inward foreign investment
- failure to significantly improve level of skills of workforce.

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- 7 (a) Definition of death rate:
- the number of people in a country dying per thousand of population (1) over a given period of time (usually a year) (1).

Possible factors which can determine it:

- nutrition/diet
- housing conditions
- medical care
- social attitudes about consumption/fitness
- working conditions (4).

[6]

- (b) Candidates could mention:

- idea of optimum population – this refers to the number of people which, when combined with the other resources in an economy, shows the maximum amount of products that can be produced, i.e. it does not refer to the size of population alone. Candidates do not need to refer specifically to the term 'optimum' as it is not on the syllabus
- overpopulation occurs where the size of population is too large given the availability of resources in that country
- it is not simply a matter of a country having a very large population, e.g. China or India; Singapore, with a population of only 6 million, could be said to be overpopulated. [4]

- (c) Possible problems in relation to differences in:

- birth rate
- death rate
- fertility rate
- contraception/family planning
- size of population
- effect of migration, e.g. existence of shanty towns
- size of families
- size of population in relation to resources (candidates may refer to the idea of an 'optimum' population although this concept is not explicitly referred to in the syllabus).

Answers which fail to discuss both developing and developed countries can get no more than 6 marks. [10]

## **MARK SCHEME for the May/June 2013 series**

### **0455 ECONOMICS**

**0455/21**

Paper 2 (Structured Questions), maximum raw mark 80

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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- 1 (a) Candidates could mention:
- the idea of working together to share profits
  - according to the amount that consumers had spent
  - the co-operative exists for the benefit of its members
  - the owners of a co-operative are the members
  - this gives them voting rights
  - but each member only has one vote
  - many co-operatives stress the importance of social principles
  - usually have limited liability

1 mark for a basic description of each feature and 1 mark for a development of the description of each feature.

Note: allow descriptions of different types of co-operatives.

Note: maximum of 4 marks. [4]

- (b) Candidates could mention:
- price
  - quality of service/opening hours
  - extent of advertising
  - location of store
  - provision of delivery service

A list-like approach, which doesn't really provide very much of an explanation of the possible influences, can gain no more 3 marks.

For 6 marks at least two ways have to be explained.

Note: maximum of 6 marks. [6]

- (c) Productivity measures the efficiency with which resources are used (1). It can be defined as the output per person or per unit of capital employed (1) over a given period of time (1). Any answer which recognises the difference between productivity and production should be awarded at least 1 mark. [2]

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(d)

<p><b>Advantages of small stores:</b></p> <ul style="list-style-type: none"> <li>• personal attention</li> <li>• closer to home</li> <li>• longer opening hours</li> <li>• avoidance of diseconomies of scale</li> </ul>	<p><b>Disadvantages of small stores:</b></p> <ul style="list-style-type: none"> <li>• prices likely to be more expensive (though bulk buying will reduce prices)</li> <li>• limited range of stock</li> </ul>
<p><b>Advantages of large supermarkets:</b></p> <ul style="list-style-type: none"> <li>• lower prices through economies of scale</li> <li>• wider range of stock</li> </ul>	<p><b>Disadvantages of large supermarkets:</b></p> <ul style="list-style-type: none"> <li>• less personal</li> <li>• possibility of long queues</li> <li>• higher costs and prices due to diseconomies of scale</li> </ul>

5 marks maximum if the answer just concentrates on economies and diseconomies of scale.

A one-sided answer, which fails to take into account that some small stores might be able to compete with large supermarkets, can gain no more than 6 marks.

Note: maximum of 8 marks.

[8]

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- 2 (a) Candidates could mention:
- scarcity
  - limited resources
  - unlimited wants of consumers
  - choices will need to be made (idea of opportunity cost)
  - in terms of what to produce, how to produce and for whom to produce

Note: maximum of 4 marks.

[4]

- (b) Candidates could mention:
- goods and services are freely exchanged through a market
  - without the need for government intervention
  - an equilibrium price and quantity will be established in the market
  - through the interaction of the buyers and sellers
  - this will determine the allocation of the scarce resources
  - price mechanism signals preferences
  - profits encourage switching/reallocation of resources

Note: maximum of 6 marks.

[6]

- (c) Candidates could mention:
- some goods and services underprovided (idea of merit goods, but candidates don't need to refer to that term)
  - some goods and services not provided at all (idea of public goods, but candidates don't need to refer to that term)
  - some goods and services overprovided (idea of demerit goods, but candidates don't need to refer to that term)
  - existence of externalities (negative externalities could bring about government intervention)
  - existence of monopolies which are not in the public interest
  - information failure

A maximum of 6 marks for those answers which demonstrate a knowledge and understanding of market failure in general.

A maximum of 8 marks for those answers which relate market failures to a particular country, but which do not discuss which are the most important.

Answers which relate market failures to a particular country and which do discuss which are the most important can get 9 or 10 marks.

[10]

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- 3 (a)** Demand and supply diagram based on restricting supply:
- axes correctly labelled (wage/price and employment/quantity) (1)
  - demand and supply curves correctly labelled (1)
  - shift of supply curve to the left (1)
  - rise in wage/price and fall in employment/quantity (1)

Analysis based on restricting supply:

- by making labour more scarce in the industry (1)
- the wage levels of those still in the industry will increase (1)

Demand and supply diagram based on promoting the training of workers/raising productivity:

- axes correctly labelled (wage/price and employment/quantity) (1)
- demand and supply curves correctly labelled (1)
- shift of the demand curve to the right (1)
- rise in wage/price and rise in employment/quantity (1)

Analysis based on increasing demand:

- by promoting training/raising productivity (1)
- more skilled workers will be in higher demand (1)

Demand and supply diagram based on supporting a minimum wage:

- axes correctly labelled (wage/price and employment/quantity) (1)
- demand and supply curves correctly labelled (1)
- minimum wage set above the equilibrium (1)
- rise in wage/price and fall in employment/quantity (1)

Analysis based on supporting a minimum wage:

- trade unions may support a national minimum wage (1)
- this may push the wage rate above the equilibrium level (1)

Diagram has to match a relevant reason for the analysis marks.

Note: maximum of 6 marks.

[6]

**(b)** Candidates could mention:

- reward for higher level of skill, training and qualifications
- they are likely, therefore, to have a higher level of productivity (they may have some idea of marginal revenue productivity, although it is not on the syllabus)
- such workers are relatively scarce/in shorter supply compared to unskilled workers
- it is less easy to recruit skilled than unskilled workers

A list-like answer, with very little explanation, can gain no more than 3 marks.

[6]

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(c) Candidates could mention:

- size of membership
- proportion of membership in particular industries
- financial strength of unions
- skills of workers
- support from the general public
- degree of influence on employers and on government
- quality of negotiating skills
- macro-economic environment, e.g. extent of unemployment and inflation in the economy

Answers which focus on micro aspects, and fail to take into account the macro-economy, can gain no more than 6 marks.

Largely descriptive answers on trade unions, which do not really focus on the factors that affect their likelihood of success in raising wages, can gain no more than 5 marks.

Note: maximum of 8 marks.

[8]



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4 (a)

Partnership: <ul style="list-style-type: none"> <li>• between 2 and 20 people own and control the business</li> <li>• relatively easy to set up</li> <li>• a deed of partnership is usually written</li> <li>• profits are distributed between partners</li> <li>• unlimited liability (although there are some limited partnerships which do have limited liability)</li> </ul>	Private Limited Company: <ul style="list-style-type: none"> <li>• owned and controlled by the shareholders</li> <li>• more complex to set up; certain legal documents are required</li> <li>• profits distributed to shareholders through a dividend</li> <li>• limited liability</li> </ul>
--	--

Only two differences need to be described.

1 mark for a basic description of each and 1 mark for a development of the description.

Note: maximum of 4 marks.

[4]

- (b)
- seeking to earn as much profit as possible (1)
  - profit is the difference between total revenue and total cost (1)
  - profit maximisation is where there is the greatest difference between total revenue and total cost (2)
  - high profits can be used for reinvestment (1)
  - high profits can be used to pay high dividends (1)
  - may be achieved by lowering costs with an example (1)
  - may be achieved by raising revenue with an example (1) (note reference to increasing price is not sufficient)
  - $MC=MR$  (although this is not explicitly on the syllabus) (2)

Note: maximum of 4 marks.

[4]

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- (c)
- sales revenue maximisation
  - growth of firm/increase in market share
  - satisficing
  - improvement of reputation/brand loyalty
  - ethical/environmental considerations/idea of corporate social responsibility
  - survival

Candidates could gain maximum marks for an explanation of only two other goals; if a candidate only explains one other goal, the maximum mark is 3

A list-like answer, with very little explanation, can gain no more than 3 marks

Note: maximum of 6 marks.

[6]

- (d) Internal diseconomies of scale:

- ineffective management as management becomes more complex
- firm could become slower in responding to changes in market conditions
- communication problems
- poor industrial relations
- motivation problems

External diseconomies of scale:

- congestion/increased journey times
- increased competition for resources, putting up price of labour

Up to 4 marks for a discussion of diseconomies of scale.

Up to 2 marks for discussion of extent e.g. it may be more of a problem with large firms than small firms.

Note: maximum of 6 marks.

[6]

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5 (a)

<p>Inflation:</p> <p>Inflation is a persistent or sustained rise in the general level of prices/fall in the value of money in an economy over a period of time.</p>	<p>Deflation:</p> <p>Deflation is a persistent or sustained fall in the general level of prices/rise in the value of money in an economy over a period of time. It conveys the idea of disinflation or negative inflation.</p>
---	--

A maximum of 2 marks if the distinction is not made clear.

Note: maximum of 4 marks.

[4]

(b) The rate of inflation is measured through a Consumer (or Retail) Prices Index (1) which involves the following features:

- based on a survey of households
- a basket of goods and services
- a base year (100)
- measurement of changes of prices of products in the basket
- products are given weights
- to reflect their importance in buying patterns
- weighted price index is then constructed
- example of how measured e.g. if CPI rises from 100 to 105, the inflation rate is 5%

Note: maximum of 6 marks.

[6]

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(c) Problems of inflation:

- the real value (purchasing power) of money falls
- certain people are badly affected, e.g. those on fixed incomes
- saving is discouraged because the real value of savings can fall
- businesses suffer when the increase in costs is greater than the increase in prices
- exports are discouraged because prices become more expensive in foreign markets

Problems of deflation:

- businesses will not be encouraged to increase production
- workers will lose jobs leading to an increase in unemployment
- this period of reduced economic activity will not only lead to a fall in output and employment but also in incomes
- this can give rise to a slump

Candidates can get no more than 8 marks for explaining the problems of inflation and deflation (no more than 4 marks if they just deal with one).

They need to make an attempt to state why one could be more of a problem than the other (and why) to get 9 or more marks. Inflation is certainly a more frequent problem in recent years than deflation; many countries have suffered from inflation but few from deflation. Inflation, however, may be accompanied by a rise in output.

Note: credit should also be given for a comparison of the relative benefits of inflation and deflation.

Note: maximum of 10 marks.

[10]

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6 (a) Birth rate is the number of births per year (1) per 1000 of the country's population (1).

Death rate is the deaths per year (1) per 1000 of the country's population (1).

Note: maximum of 4 marks.

[4]

(b) Candidates could mention:

- women marrying later
- education of girls is becoming more extensive
- increased employment opportunities for women
- relatively expensive to bring up children
- growing knowledge and awareness of family planning
- fewer government financial incentives to have children

A list-like answer, with no explanation, can get no more than 2 marks.

[4]

Note: maximum of 4 marks.

(c) Net migration is the difference between the number of immigrants coming into a country (1) and the number of emigrants leaving a country (1).

Note: maximum of 2 marks.

[2]

(d)

<p>A problem:</p> <ul style="list-style-type: none"> <li>• population growth puts pressure on resources (idea of population being greater than the optimum population, although candidates don't need to use that term)</li> <li>• can lead to overcrowding</li> <li>• lack of job opportunities can lead to a very high rate of unemployment</li> </ul>	<p>Not a problem:</p> <ul style="list-style-type: none"> <li>• the increase in population leads to an increase in demand and, therefore, supply</li> <li>• jobs can be found for the population</li> <li>• if the extra people are well trained, it could lead to an increase in productivity</li> </ul>
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Up to 7 marks for a one sided approach.

Note: maximum of 10 marks.

[10]

<b>Page 12</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
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- 7 (a)
- trade in goods (visibles)
  - trade in services (invisibles)
  - income flows
  - current transfers

Identification of four sections (2).  
 Identification of two/three sections (1).  
 1 mark for each section described.

Note: maximum of 4 marks.

[4]

- (b) The combined value of the debit items in the four sections of the current account of the balance of payments is greater than the combined value of the credit items in the four sections of the current account. (4)  
 Deficit in relation to three sections (3).  
 Deficit in relation to two sections e.g. trade in goods and services (2).  
 Deficit in relation to one section e.g. trade in goods (1).

Note: maximum of 4 marks.

[4]

- (c)
- it could mean that a country is consuming more than it is producing, i.e. the country is living beyond its means
  - it could mean that if too many goods are being imported from abroad, not enough is being produced in the home country, giving rise to high unemployment
  - it usually means that a country's goods are not competitive enough on world markets
  - a fall in the value of the currency could potentially lead to imported inflation
  - spending/income is leaving the country
  - may put downward pressure on the exchange rate and so raise the price of imports.

Note: maximum of 4 marks.

[4]

- (d) Candidates could focus on reducing imports:
- tariffs
  - quotas
  - subsidies
  - exchange controls
  - government encouraging people to buy home produced products

Candidates could focus on encouraging exports:

- devaluation/depreciation of exchange rate
- subsidies

Descriptive answers which do not really focus on which is the 'best' way to reduce a large current account deficit can gain no more than 6 marks.

Note: Full marks may be gained if two ways are explored in depth and 'best' is addressed.

Note: maximum of 8 marks.

[8]

## **MARK SCHEME for the May/June 2013 series**

### **0455 ECONOMICS**

**0455/22**

Paper 2 (Structured Questions), maximum raw mark 80

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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	<b>IGCSE – May/June 2013</b>	<b>0455</b>	<b>22</b>

- 1 (a) limited liability  
a joint stock company  
name is followed by plc  
a minimum number of shareholders  
no maximum number of shareholders  
shares can be bought and sold on a stock exchange  
operates in the private sector  
often run by a board of directors  
legal requirement to publish financial information  
a separate legal identity

Note: maximum of 4 marks.

[4]

- (b) size of demand/may be a local or niche market  
potential benefits of economies of scale  
potential problems of diseconomies of scale  
extent of capital required  
some firms may only have recently been established  
need for personal services/attention  
differences in firms' objectives/owner choice  
differences in brand loyalty

1 mark for each reason explained and 1 mark each for further development

Note: maximum of 4 marks.

[4]

- (c) impose a maximum price  
provide a subsidy  
encourage new firms to enter the market  
establish a publicly run firm  
reduce taxes affecting firms  
competition policies

Maximum of 2 marks for just identification.

Note: 4 marks may be awarded for one method well explained.

Note: maximum of 4 marks.

[4]



<b>Page 3</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
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(d)

<p>Disadvantages of monopolies:</p> <ul style="list-style-type: none"> <li>• they can be inefficient (either productively or allocatively efficient, but these two terms are not on the syllabus)</li> <li>• price will tend to be higher than in perfect competition</li> <li>• output will tend to be lower than in perfect competition</li> <li>• products may be of poor quality as a result of lack of competition</li> <li>• abnormal profits in the long run</li> </ul>	<p>Advantages of monopolies:</p> <ul style="list-style-type: none"> <li>• large profits can be reinvested to improve the quality of products, such as expenditure on research and development</li> <li>• there may be opportunities for economies of scale</li> <li>• this could lead to a lowering of cost and, possibly, price</li> <li>• avoids wasteful duplication of capital equipment</li> </ul>
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A one-sided answer can gain no more than 6 marks.

Note: maximum mark of 8 marks.

[8]

<b>Page 4</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – May/June 2013</b>	<b>0455</b>	<b>22</b>

- 2 (a) land – natural resources/gifts of nature available for production, e.g. farmland  
labour – all physical and mental effort of workers, e.g. teacher  
capital – all man-made goods used in production, e.g. machinery  
enterprise – the risk bearing and decision making function, e.g. entrepreneur or example of a function

Note: maximum of 6 marks. [6]

- (b) Definition of opportunity cost: the (next) best (1) alternative foregone (1) as a result of making a decision

Diagram of production possibility curve – axes correctly labelled (1) and curve correct shape (bowed out or straight downward sloping) (1)

Explanation – idea of moving along one axis (1) has the effect of a reverse movement along the other axis (1)

Note: maximum of 6 marks. [6]

(c)

Yes	No
<ul style="list-style-type: none"> <li>• more houses would reduce the number of homeless</li> <li>• the increase in supply might reduce the price of houses</li> <li>• making them more affordable</li> <li>• may improve the quality of houses</li> <li>• employment/multiplier effects</li> </ul>	<ul style="list-style-type: none"> <li>• the decision to build more houses will involve an opportunity cost in terms of:</li> <li>• the alternative use of the land</li> <li>• the alternative use of the money required to build the houses</li> <li>• the alternative use of the labour and capital involved in building the houses</li> <li>• may already be a surplus of houses.</li> <li>• some resources may not be suitable for building houses</li> <li>• may generate environmental costs.</li> </ul>

A one-sided answer can gain no more than 6 marks.

Note: maximum of 8 marks. [8]

<b>Page 5</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
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- 3 (a)** price  
price of older television models/substitutes  
price of complements e.g. electricity, consuls, speakers  
quality  
consumer tastes and preferences  
income  
advertising  
indirect taxation, e.g. VAT  
interest rates

A list like approach can gain no more than 2 marks.

4 marks may be awarded for one influence described well.

Note: maximum of 4 marks.

[4]

- (b)** Up to 4 marks for demand and supply diagram:
- axes correctly labelled (price and quantity) (1)
  - demand and supply curves correctly labelled (1)
  - shift of demand curve to the right (1)
  - original and new equilibrium positions identified (1)

Up to 2 marks for analysis:

- increase in income is likely to increase demand (1)
- an increase in demand will lead to a rise in price (1)
- an increase in demand will cause a rise in quantity (1)

Note: maximum of 6 marks.

[6]

- (c)** Up to 2 marks for definition:  
PED is the percentage change in the quantity demanded of a product (1) divided by the percentage change in its price (1)  
Or  
PED is the responsiveness of demand (1) to a change in price (1).

Up to 2 marks for expansion:

Its value can range from perfectly inelastic (1) to perfectly elastic (1) inelastic demand has a value of less than 1 (1) elastic demand has a value of more than 1 (1) and it is usually a minus figure (1) varies along the demand curve (1).

Note: maximum of 4 marks.

[4]

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(d) Useful:

- it will give guidance to the firm if it is thinking about changing the price (1)
- if PED is elastic, a price reduction will increase revenue (1) additional mark for development of this point e.g. as demand will rise by more than price (1)
- if PED is inelastic, a price rise will increase revenue (1) additional mark for development of this point e.g. as demand will fall by less than price (1)

Limitations:

- may be difficult for the manufacturer to calculate accurately (1)
- may be constantly changing (1)

There are likely to be a number of competitors in the industry/the produce might be considered to be a luxury (1) and, therefore, the PED is likely to be elastic (1) unless the manufacturer can build up a strong sense of brand loyalty (1) in which case the PED will be less elastic (1).

Answers which fail to refer to the television manufacturing industry can gain no more than 4 marks.

A maximum of 5 marks for a one-sided approach.

Note: maximum of 6 marks. [6]

4 (a) A medium of exchange:

- money is generally accepted (1) as a means of payment for most goods and services/avoids the need for a double coincidence of wants or barter (1).

A store of value:

- people can save money because it keeps its value (1); savings enable use of money in the future (1) (idea that money will not deteriorate with time and so will be acceptable in the future, though inflation will erode its real value).

Note: maximum of 4 marks. [4]

(b) Candidates could mention:

- acts as a banker to the government
- operates as a banker to the commercial banks
- acts as a lender of last resort
- manages the national debt
- holds a country's reserves of gold and foreign currency
- responsible for issuing bank notes and coins
- implements a government's monetary policy
- controls the banking system
- interest rate manipulation

Note: maximum of 6 marks. [6]

<b>Page 7</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
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(c) Definition of a stock exchange – an organisation for the sale and purchase of shares (1) and other securities (1)

- provides a market for the purchase and sale of shares (1) which helps companies to raise finance (1) from a wider shareholder/investor base (1)
- this can be a very important way of providing the necessary finance for a firm to expand (1) spend on capital goods (1)
- may enable a firm to expand by buying out or merging with another firm (1)
- but not all firms will be a plc (1) for example, a private limited company will not be able to sell shares on a stock exchange (1)
- there may be other forms of gaining the necessary finance for a firm to expand (1) such as through government help and support (1) or retained profits (1) or borrowing from banks (1).

A one-sided answer, which only considers the role of a stock exchange in enabling firms to expand, can gain no more than 7 marks.

Note: maximum of 10 marks.

[10]

<b>Page 8</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
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- 5 (a) rate of growth measured through change in output/real output (1)  
change in GDP/real GDP/GDP per head (1)  
over a period of time (usually one year) (1)  
shift outwards of the production possibility curve (1)  
increase in productive potential (1)

Note: maximum of 4 marks.

[4]

- (b) government spending could be increased, e.g. on infrastructure projects and education  
direct taxation could be lowered, e.g. corporation tax on firms and income tax on workers  
indirect taxation could be lowered, e.g. VAT, to stimulate demand  
tariffs could be placed on imported goods to protect domestic producers

Answers which deal only with the expenditure side or the revenue side can gain no more than 4 marks

Note: maximum of 6 marks.

[6]

- (c) Examples of supply-side policies:

- improvements in education and training
- reforming trade unions to reduce their power and to make labour more productive
- privatisation of industries to increase efficiency
- subsidies could help to reduce supply costs and so encourage production
- cuts in direct taxes to act as an incentive to enterprise and effort
- cuts in welfare payments to increase the incentive to work

Monetary policies:

- price of money, i.e. rate of interest; this could be lowered to stimulate demand
- quantity of money, i.e. money stock; this could be increased to stimulate demand
- exchange rate, reducing value to increase competitiveness

Up to 7 marks for discussing the effectiveness of either supply-side or monetary policies.

To gain 9 or 10 marks, a conclusion has to be reached as to whether supply-side or monetary policies are likely to be more effective.

Note: maximum of 10 marks.

[10]

<b>Page 9</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
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- 6 (a)** the value is determined, like any market price, by the forces of demand for the currency and supply of the currency (candidates may refer to the appreciation or depreciation of the value of the currency)  
the demand for and supply of the currency will reflect the demand for and supply of products in international trade  
the demand for and supply of the currency will also be influenced by its use in investment, remittances of profits, paying interest and dividends, speculation and in terms of reserves

Note: maximum of 4 marks.

[4]

- (b)** if the value is falling, the government will step in to buy more of the currency  
if the value is rising, the government will step in to sell more of the currency  
governments buy foreign currencies using reserves  
the government could also increase interest rates when the value is falling  
and reduce interest rates when the value is rising  
reference to the mechanism by which interest rates changes affect the exchange rate

Note: maximum of 4 marks.

[4]

- (c)** to make its exports relatively cheaper in price in foreign markets and therefore more competitive  
this could lead to an increase in demand (especially if the price elasticity of demand for the goods is elastic)  
to make imports more expensive which should lead to a reduction in the number of imports (assuming the price elasticity of demand is elastic)  
this should lead to an improvement in a country's balance of trade in goods and services  
the government might not have sufficient reserves to keep intervening in the foreign exchange market (where there is persistent downward pressure on the exchange rate)

Note: maximum of 4 marks.

[4]

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(d)

<p>Advantages of a floating exchange rate system:</p> <ul style="list-style-type: none"> <li>• the rate will be determined continually through market forces, so the government doesn't have to intervene</li> <li>• there is no need to hold large amounts of reserves</li> <li>• government is not committed to maintaining a particular external value of the currency and so can focus on other objectives</li> </ul> <p>Disadvantages of a floating exchange rate system:</p> <ul style="list-style-type: none"> <li>• it can fluctuate a great deal and this volatility can make it very difficult for firms to plan ahead</li> <li>• there can be speculative pressures on the currency</li> </ul>	<p>Advantages of a fixed exchange rate system:</p> <ul style="list-style-type: none"> <li>• less volatility in the exchange rate so less instability</li> <li>• makes planning/forecasting easier and so less uncertainty</li> <li>• could encourage investment/trade, having a positive effect on the economy</li> <li>• avoids speculative movements in exchange rate</li> </ul> <p>Disadvantages of a fixed exchange rate system:</p> <ul style="list-style-type: none"> <li>• requires government to hold large reserves</li> <li>• if the rate cannot be maintained, there will be a dramatic change in value through a devaluation</li> </ul>
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Answers which simply describe the features of the two systems can gain no more than 6 marks; to get above that, candidates do need to state to what extent one is preferable to the other.

Note: maximum of 8 marks.

[8]

7 (a) Up to 2 marks on absolute poverty:

Absolute poverty is where people do not have access to basic items (1), such as food, shelter and clothing (1) living on less than e.g. \$1.25 a day

Up to 2 marks for relative poverty:

Relative poverty is where people are poor relative to other people in the economy (1), i.e. they have access to fewer goods and services than others (1) relative poverty always exists (1)

Note: maximum 4 marks.

[4]

(b) Three parts to the Human Development Index, each of which can be awarded up to 2 marks each:

- standard of living (1): GDP/GNI per capita/per head (1)
- longevity (1); life expectancy at birth (1)
- education/knowledge (1): adult literacy/enrolment in education/mean years of education/expected years of schooling (1)

Note: maximum of 6 marks.

[6]



<b>Page 11</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
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- (c) public spending on health  
public spending on education  
subsidies to consumers to help the poor  
subsidies to producers to enable them to lower costs and prices  
greater use of progressive taxation to reduce income inequalities  
greater use of benefits to poor people  
public spending on infrastructure to increase provision of jobs  
lower interest rates to increase demand  
introducing/raising a national minimum wage  
encouraging more multinational companies to locate in a country, e.g. through tax holidays  
government policies to promote growth and employment

Up to 6 marks for exploring how policies may reduce poverty.

Up to 7 marks for assessing policies' advantages/disadvantages.

Two policies assessed in depth could gain 10 marks.

Note: maximum of 10 marks.

[10]

**MARK SCHEME for the May/June 2013 series**

**0455 ECONOMICS**

**0455/23**

Paper 2 (Structured Questions), maximum raw mark 80

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1 (a) Inflation is a persistent/sustained/over a period of time (1) increase in the general level (1) of prices (1) / fall in the value of money (1) [3]

- (b)
- a rise in interest rates (the price of money) will increase the cost of borrowing
  - this is likely to reduce the demand for borrowed funds
  - encourage an increase in saving
  - reduce consumer spending
  - and so aggregate demand is likely to reduce
  - this will help to reduce the upward pressure on prices
  - especially where the inflation is caused by demand-pull factors [5]

- (c)
- government spending was significantly greater than government revenue in 2011; this will lead to a budget deficit, i.e. the government is spending beyond its means
  - the government will, therefore, have to borrow money
  - increased borrowing will lead to higher national debt
  - and will have to pay interest on the money borrowed
  - if government spending is reduced, the government will have to borrow less money
  - and so less amount of interest will need to be paid (reducing the extent to which the national debt is increasing)
  - lower government spending may reduce inflation [5]

(d)

<p>A serious economic problem:</p> <ul style="list-style-type: none"> <li>• this will make Brazilian exports more expensive in foreign markets</li> <li>• and if demand is price elastic, this will reduce the number of exports sold</li> <li>• this could lead to a balance of payments on current account deficit</li> <li>• especially if there is an increase in imports</li> </ul>	<p>Not such a serious economic problem:</p> <ul style="list-style-type: none"> <li>• this will make imports into Brazil relatively cheaper</li> <li>• if demand is price elastic, this will increase the good purchased, which could increase the standard of living</li> <li>• it would also make the cost of imported parts/raw materials cheaper, and this lowering of cost could lead to lower prices</li> </ul>
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A one-sided answer which argues that it is a serious economic problem (or is not a serious economic problem) can gain no more than 4 marks. [7]

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- 2 (a) Land: this refers to any natural resource that is used in production/gift of nature available for production (1), e.g. land, forest, sea and what is found within them (1)

Capital: this refers to the human-made resources that are used in production (1), e.g. machinery, equipment, tools (1) [4]

- (b) An increase in productivity refers to the output produced (1) per labour unit or capital unit (1) over a given period of time, e.g. one hour, day, or week (1)

An increase in production refers to the extra total output (1) that is produced by all the factors of production involved in the production process (1) over a given period of time, e.g. one week, month or year (1) [6]

- (c) Definition of terms:

- labour-intensive production is where a lot of labour is employed compared with the amount of capital (1)
- capital-intensive production is where a lot of capital is employed compared with the amount of labour (1)

Move to being more capital-intensive:

- advances in technology
- should increase productivity

But it will depend on:

- the price of capital in relation to the price of labour
- the price of labour will reflect the supply of labour available in a particular economy (e.g. price of labour in a country with a large population, such as China, compared to price of labour in a country with a small population, such as Singapore)
- profits made by firm to supply funds to buy capital equipment from retained profits
- ability of firm to borrow the required funds
- may generate unemployment in the short run

Ultimately, the decision will depend on the relative productivity and costs of the different factors of production. An answer which offers a one-sided argument, stressing the move from labour-intensive to capital-intensive production, but which does not address 'to what extent', can gain no more than 7 marks (inclusive of the 2 marks for the definitions of 'labour-intensive' and 'capital-intensive'). [10]

Page 4	Mark Scheme	Syllabus	Paper
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- 3 (a)
- there will be elements of a market economy where equilibrium price and quantity are determined by forces of demand and supply without the need for government intervention
  - changes in demand and supply bring about changes in price and quantity
  - the allocation of resources is, therefore, determined by the profit motive
  - bringing together the preferences of the producers and the consumers
  - there will also be elements of government intervention
  - either through direct government control and ownership
  - or through influences on the private sector, such as through laws and regulations [4]

- (b) Demand and supply diagram:
- axes correctly labelled (price and quantity) (1)
  - demand and supply curves correctly labelled (1)
  - shift on the supply curve to the left (1)
  - rise in price and fall in quantity (1)

Analysis:

- a decrease in supply will lead to a rise in the equilibrium price (1) and
- a fall in equilibrium quantity (1)

[6]

(c)

<p>The case for government intervention:</p> <ul style="list-style-type: none"> <li>• to provide public goods (candidates do not need to use that term) if they are not provided</li> <li>• to provide merit goods (candidates do not need to use that term) if they are under-provided in a market system</li> <li>• to reduce the demand for demerit goods (candidates do not need to use that term) if they are over-provided in a market system</li> <li>• to encourage positive externalities and discourage negative externalities</li> <li>• to control/discourage monopolies if these work against the public interest</li> <li>• to overcome information failure</li> </ul>	<p>The case against government intervention:</p> <ul style="list-style-type: none"> <li>• intervention may lead to inefficient firms being supported by the government</li> <li>• finance needed to pay for intervention will need to come from somewhere and there will be an opportunity cost involved in terms of the alternative uses that the money could have been put to</li> <li>• nationalisation may put politicians in charge rather than more experienced/knowledgeable business people</li> </ul>
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One-sided answers which fail to address 'always' can gain no more than 7 marks; to get more than 7 marks, candidates need to consider both sides of the argument. [10]

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- 4 (a)
- this is the process by which individuals, firms and economies concentrate on producing those goods and services in which they have an advantage
  - where it relates to the dividing up of production processes into a sequence of different tasks, it is known as division of labour
  - it can also, however, refer to countries specialising in production where they have a comparative advantage (candidates do not need to use that term)

Answers on the division of labour only can gain no more than 2 marks.

[4]

(b)

<p>Advantages:</p> <ul style="list-style-type: none"> <li>• worker can concentrate on a particular task</li> <li>• becoming very good at it</li> <li>• time can be saved</li> <li>• worker can be more productive</li> <li>• can lead to greater output</li> <li>• could lead to higher wages</li> </ul>	<p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• the task can become very repetitive</li> <li>• the lack of variety can make the job very boring</li> <li>• this can lead to de-motivation and lower productivity</li> <li>• dependency on other people</li> </ul>
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Allow appropriate responses on the advantages and disadvantages of specialisation for a firm.

[4]

- (c)
- more efficient production/increased output
  - where a country specialises in those areas where it can benefit from superior factor endowments
  - consumers all over the world can benefit
  - increasing their standard of living
  - increased size of market can lead to economies of scale
  - builds up a reputation

[4]

<p>Can be justified:</p> <ul style="list-style-type: none"> <li>• declining/sunset industries</li> <li>• infant/sunrise industries</li> <li>• strategic industries</li> <li>• protect employment</li> <li>• prevent current account deficit</li> <li>• prevent dumping</li> </ul>	<p>Cannot be justified:</p> <ul style="list-style-type: none"> <li>• free trade encourages greater efficiency and higher production</li> <li>• greater consumer choice</li> <li>• reduced prices</li> <li>• higher standards of living</li> </ul>
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Answers which offer a one-sided argument can gain no more than 5 marks.

[8]

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- 5 (a)
- idea of an 'emergency fund'/saving for a 'rainy day'/precautionary reason
  - to put money aside in order to make a purchase at a later date
  - this is likely to be a relatively expensive item, such as a house or a car
  - saving for retirement
  - saving school/college/university fees of children
  - to provide an income (from the interest paid on the savings)

1 mark for a basic analysis of each motive and 1 mark for a development of the analysis. [4]

- (b) High income groups are likely to save a higher proportion:
- will have a higher disposable income so will be better able to save
  - will have already purchased many items so have less of a need to spend

Low income groups are likely to save a lower proportion:

- will have a lower disposable income so will be less able to save
- will have more of a need to spend on basic necessities

Also accept answers on differences based on age. [4]

- (c)
- pay a good rate of interest that is higher than the rate of inflation (so that there is a real positive interest rate)
  - offer a variety of different types of savings account in terms of the period of notice required to have access to the funds
  - offer a variety of operating methods, e.g. branch, post, telephone, internet
  - opening an account may involve receiving special offers, e.g. vouchers
  - some accounts may be tax-free (a government will take this decision to give certain types of accounts tax-free status)

A list-like answer can gain no more than 3 marks. [5]

(d)

<p>Should be worried:</p> <ul style="list-style-type: none"> <li>• money that is being saved is money that is not being spent</li> <li>• this could lead to a reduction in the level of demand</li> <li>• and possibly an increase in unemployment</li> </ul>	<p>Should not be worried:</p> <ul style="list-style-type: none"> <li>• money that is being saved will eventually be spent</li> <li>• money that is being saved is available to lend out</li> <li>• this could provide the funds for firms to expand, increasing jobs</li> <li>• may reduce spending on imports</li> <li>• may reduce inflationary pressure</li> </ul>
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A one-sided answer can gain no more than 5 marks. [7]

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6 (a) It is where there is a fall in the output of a country as measured by GDP/economic downturn (1); it is two successive quarters of negative growth (1). [2]

- (b)
- structural
  - cyclical/demand deficient
  - regional
  - technological
  - seasonal/casual
  - residual
  - frictional/search

mark for a basic explanation of each and 1 mark for a development of the explanation of each. [4]

- (c)
- unemployed will experience a fall in income which will lower demand
  - lower level of output in the economy/idea of wasted resources
  - government will receive less tax revenue
  - government may have to pay out on benefits (idea of opportunity cost, i.e. there are alternative uses for this money)
  - taxation may need to be raised to generate the funds for such benefits
  - higher level of crime may mean more money needs to be spent on police/law and order

A list-like answer can gain no more than 3 marks. [6]

- (d) Expansionary policies to stimulate the economy are likely to conflict with the aims of controlling inflation and maintaining balance of payments stability (if some of the extra money is spent on imported goods).

Expansionary policies to stimulate the economy are not likely to conflict with the aim of economic growth.

Expansionary policies to stimulate the economy may bring about a more equitable distribution of income, e.g. if there is a large increase in benefits, but not if the people are worse off than they were before; the effects of any changes in taxation will depend on whether the changes are in direct (progressive) or indirect (regressive) taxation.

A one-sided answer can gain no more than 6 marks. [8]



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- 7 (a)
- primary sector – this is the extractive industry where raw materials are mined/collected/grown (1), e.g. agriculture, coal mining, fishing (1)
  - secondary sector – this is the manufacturing or construction sector where raw materials are turned into goods (1), e.g. car production, motorway construction (1)
  - tertiary sector – this is the service sector of the economy (1), e.g. education, banking, tourism (1) [6]

- (b)
- low income per head
  - high rate of population growth
  - low level of savings
  - low level of education
  - low level of health care
  - low life expectancy
  - high infant mortality rate
  - low level of capital investment
  - poor infrastructure
  - poor housing and sanitation
  - high proportion of workers in the primary sector
  - high proportion of exports are primary products

1 mark for a basic description of each and 1 mark for a development of the description of each. [6]

- (c) For many people, conditions in a developed country will be the opposite of those in a developing country, but for **some** people their standard of living may be lower than **some** people in a developing country, because of:
- high and increasing rate of unemployment
  - many economies only just slowly coming out of recession
  - not everybody receives/aware of benefits
  - high rate of inflation may erode the real value of incomes

At the same time, the standard of living of **some** people in a developing country may be higher than **some** people in a developed country. [8]

**MARK SCHEME for the May/June 2014 series**

**0455 ECONOMICS**

**0455/21**

Paper 2 (Structured Questions), maximum raw mark 90

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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1 (a) Define 'economic growth'. [3]

3 marks for increase in (real) GDP/country's output/national income/productive potential over time.

Or 2 marks for increase in (real) GDP/country's output/productive potential/national income.

Or 1 mark for reference to GDP/output/national income.

(b) Using information from the extract, explain why Mongolia's Human Development Index value is likely to increase in the future. [2]

1 mark for recognising the likelihood that incomes/GDP will rise/economic growth will occur.

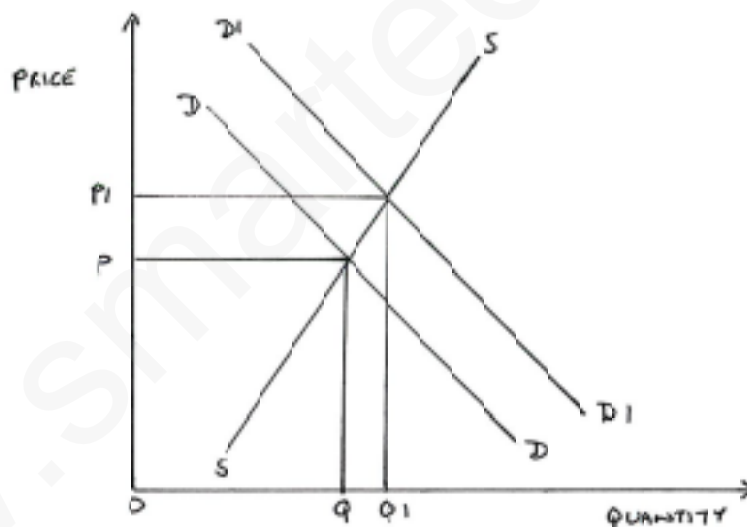
1 mark for recognising the likelihood that years in school will increase/education will improve.

1 mark for explaining the link to the composition of the HDI.

Note: a maximum of 2 marks.

(c) Using information from the extract, draw a demand and supply diagram to show what is likely to have happened to the price of copper in 2011. [4]

Figure 1(c)



1 mark for axes correctly labelled – price and quantity or P and Q.

1 mark for original demand and supply curves correctly labelled.

1 mark for demand curve shifted to the right.

1 mark for correct equilibriums identified – either by lines drawn to both axes or equilibrium points clearly identified, e.g. E1 and E2.

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**(d) Explain why countries with high inflation rates tend to have higher interest rates than those with lower inflation rates. [3]**

- The Central Banks of countries set the interest rate/use monetary policy to control inflation (1).
- Interest rates are set high/contractionary monetary policies may be introduced (1) to reduce spending/borrowing/encourage savings (1).
- Intention is to reduce total (aggregate) demand (1).
- Lower (aggregate) demand may reduce demand-pull inflation (1).

Note: a maximum of 3 marks.

**(e) Analyse whether the information in Table 1 supports the view that countries with high inflation rates have higher interest rates than those with lower inflation rates. [5]**

1 mark for concluding yes it does or for recognising that all the information supports the view/the rank in terms of inflation rates is the same as the rank in terms of interest rates.

Up to 4 marks for supporting evidence/calculations, e.g.:

- Mongolia has the highest inflation rate and the highest interest rate/Mongolia has a high inflation rate and high interest rate (1), inflation calculated as 10.6% (1).
- Japan has the lowest inflation rate and the lowest interest rate/Japan has a low rate of inflation and low rate of interest (1), inflation calculated as -0.3% (1).
- India has the second highest inflation rate and the second highest interest rate/India has a high inflation rate and high interest rate (1), inflation calculated as 9% (1).
- Malaysia has the second lowest inflation rate and the second lowest rate/Malaysia has a low rate of inflation and low interest rate (1) and inflation rate is calculated as 3.3% (1).

Note: a maximum of 3 marks for correct calculations on inflationary rates given above.

Note: a maximum of 5 marks overall.

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- (f) **Discuss whether a rise in a country's exchange rate will reduce its international competitiveness.** [6]

**Up to 4 marks for why it might:**

1 mark for identifying that it will increase export prices.

1 mark for explaining that higher export prices are likely to reduce demand for exports.

1 mark for identifying that it will reduce import prices.

1 mark for explaining that reduced import prices are likely to increase demand for imports.

**Up to 4 marks for why it might not:**

1 mark for identifying that quality of domestically produced products may rise.

1 mark for explaining that a rise in quality of domestically produced products will make them more attractive to foreign buyers.

1 mark for identifying that domestic inflation rate may fall.

Up to 2 marks for explaining that if the domestic inflation rate falls below that of rival countries (1), exports may still be relatively cheaper in the foreign market even though the exchange rate has risen (1).

Up to 2 marks for explaining that a reduction in the price of raw materials or capital goods could reduce domestic firms' costs (1) and so make them more price competitive (1).

1 mark for identifying that labour productivity might rise.

Up to 2 marks for explaining that higher labour productivity will reduce costs of production (1), which may make exports relatively cheaper in the foreign markets even though the exchange rate has risen (1).

Up to 3 marks for explaining that in the case of products where a country has a monopoly (1) with an example of a monopoly (1) demand may not be significantly affected by a rise in price (1).

Reward, but do not expect, answers that discuss that the outcome will depend upon the PED of exports and imports.

Note: a maximum of 6 marks overall.

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- (g) Using information from the extract, explain why the social costs of mining are higher than the private costs of mining in Mongolia. [2]**

1 mark for recognising that it is due to pollution.

1 mark for explaining that pollution is an external cost.

1 mark for recognising that social costs are external costs plus internal costs/the existence of external costs will mean that the social costs are higher than private costs.

- (h) Discuss whether a rise in incomes in a country will always increase tax revenue. [5]**

**Up to 3 marks why it may:**

Up to 2 marks: higher incomes can increase income tax revenue (1), how much tax revenue rises will be influenced by whether it is progressive or regressive (1).

Up to 2 marks: higher incomes can increase spending (1) and so increase sales tax revenue (1).

Up to 2 marks: higher incomes can increase firms' profits (1) and so increase corporation tax revenue (1).

Up to 2 marks: higher incomes can increase spending on imports (1) and so revenue from tariffs increases (1).

**Up to 3 marks for why it might not:**

Up to 2 marks: spending may not rise (1) if the additional income is saved (1).

Up to 2 marks: profits may not increase (1) if the extra spending goes on imports/costs rise as output increases/firms experience diseconomies of scale (1).

Up to 2 marks: tax rates/coverage may be cut (1) and so even with higher incomes tax revenue does not increase (1).

Up to 2 marks: tax avoidance and evasion may increase (1) and so for every 'dollar' earned/spent less revenue is collected (1).

Note: a maximum of 5 marks overall.

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**2 (a) Describe two ways in which land is different from labour. [4]**

Land is a natural resource (1) whilst labour is human resources/workers (1).

The payment for land is rent (1) whilst the payment for labour is wages (1).

Land is geographically immobile (1) whilst there is some limited geographical mobility in the case of labour (1).

Note: a maximum of 4 marks overall.

**(b) Explain the significance of opportunity cost for a government when making its spending decisions. [4]**

Up to 2 marks for defining opportunity cost– best alternative (1) forgone (1).

Up to 2 marks for recognising that if a government changes its spending on one area (1) it will have an impact on how much it can spend on another area/areas (1).

Up to 2 marks for recognising that a government has limited tax revenue (1) and limited ability to borrow (1).

Up to 2 marks for recognising that a country has limited resources (1) and so if more resources are devoted to one area, less can be devoted to other areas (1).

Note: a maximum of 4 marks overall.

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- (c) Using a production possibility curve diagram, analyse the impact of an increase in resources on an economy. [5]

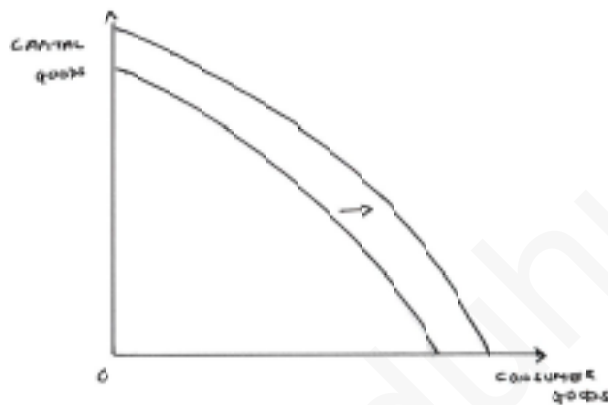
Up to 3 marks for the diagram:

1 mark for the original curve or downward sloping line which must touch the axes.

1 mark for axes correctly labelled in terms of two different products or types of products.

1 mark for showing the curve or line shifted out to the right.

Figure 2 (c)



Up to 2 marks for written analysis:

1 mark for an increase in resources moves the PPC to the right.

1 mark for more resources enables an economy to produce more of both products/increase productive potential/economic growth.

1 mark for whether output increases or not will depend on what happens to the production point.



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**(d) Discuss whether the building of more roads will benefit an economy. [7]**

**Up to 5 marks for why it might:**

Up to 3 marks for: identifying it may create employment (1) in the short term building the roads and in the long term maintaining them (1) and so raise incomes (1).

Up to 4 marks for: may lower congestion (1) and so lower transport costs (1), lower transport costs will reduce inflation (1) and so will increase international competitiveness (1).

Up to 3 marks: may make it more attractive for MNCs to set up in the economy (1) as it will lower transport costs for MNCs (1) and will increase the market in the country that the MNCs can sell to (1).

**Up to 5 marks for why it might not:**

Up to 2 marks: it will involve an opportunity cost (1), could have built more schools, etc. (1).

Up to 2 marks: may generate external costs (1), e.g. noise, air pollution (1).

Up to 2 marks: may lower revenue for train companies (1), as passengers and freight may switch from rail to road (1).

Up to 2 marks: may not be sufficient to keep up with demand for road use (1) as incomes rise, demand for road use may exceed the increase in capacity (1).

Up to 2 marks for: there may not be sufficient demand (1) and so resources will be wasted (1).

Maximum of 4 marks for a list or list-like response.

Note: a maximum of 7 marks overall.

**3 (a) Define 'price elasticity of supply'. [2]**

2 marks for either a measure of the responsiveness of supply to a change in price.

Or 1 mark for price influences supply.

Or 2 marks for the formula: percentage change in quantity supplied ÷ percentage change in price.

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(b) Explain three reasons why the supply of bananas may decrease.

[6]

**Up to 3 marks for identification.**

1 mark for each of any **three** reasons identified, e.g.:

- a period of bad weather/natural disasters
- a rise in the costs of production
- a government tax
- removal of a subsidy
- expectations of a change in the market affecting planting bananas
- change in profitability of other crops
- availability of land

Note: accept any reason which would shift the supply curve for bananas to the left but do not accept a change in price or a change in demand for bananas.

**Up to 3 marks for explanation.**

1 mark for each of three explanations, e.g.:

- a period of bad weather/natural disaster would decrease the crop
- an increase in, for example, wages paid to farm workers which would make it more expensive to produce the product
- a government tax provides a disincentive to firms to produce more
- the removal of a subsidy will result in less being produced
- expectations of a change in the market could encourage an increase or decrease in supply
- change in profitability could either increase supply (if profits rose) or a decrease in supply (if profits fell)
- more land available would increase supply and vice versa

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(c) Analyse what effect a rise in the price of apples, which are a substitute for bananas, will have on the market for bananas. [4]

1 mark for some consumers will switch from buying apples to buying bananas.

1 mark for demand for bananas will increase (this may be shown on a diagram).

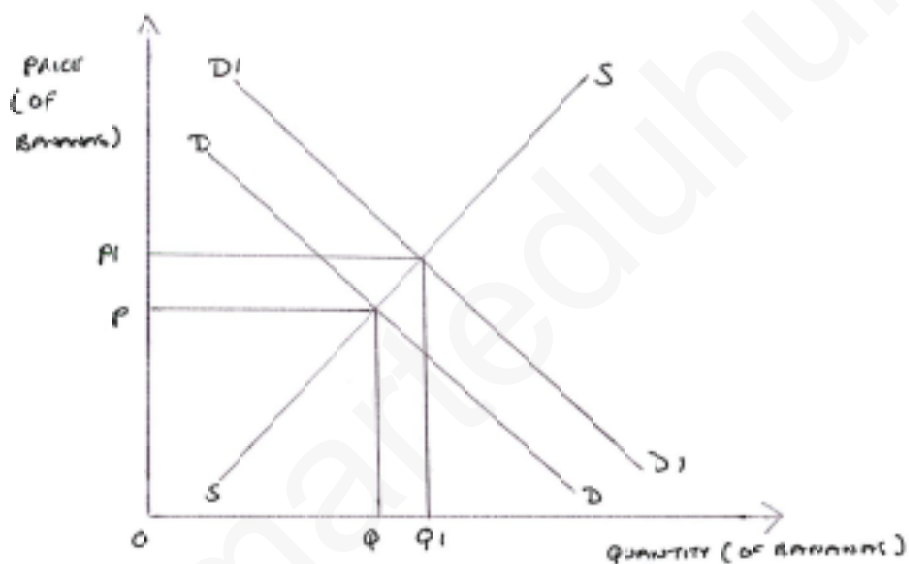
1 mark for the price of bananas will rise (this may be shown on a diagram).

1 mark for the supply of bananas will rise (this may be shown on a diagram).

Note: accept a diagrammatic approach for 3 marks.

Note: accept analysis of supply of bananas decreasing only if the answer makes clear that farmers may be growing both bananas and apples.

Figure 3(c)



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(d) Discuss whether a government should increase the tax on cigarettes. [8]

**Up to 6 marks for why it should:**

Up to 2 marks: the tax may increase government revenue (1), this would enable the government to spend more on (e.g.) education (1).

Up to 6 marks: put up price (1) to discourage smoking (1), smoking damages people's health (1) this is both for smokers and non-smokers/passive smoking (1) and so increases spending on health care (1) and reduces labour productivity (1) and reduces life expectancy (1).

Up to 3 marks: cigarettes may be imported (1), imports of cigarettes count in trade in goods component (1) and may contribute to a current account deficit (1).

Up to 2 marks: smoking causes external costs (1), e.g. air pollution (1).

**Up to 6 marks for why it should not:**

Up to 2 marks: demand may be inelastic (1), and so a rise in price will not have much impact on consumption (1).

Up to 3 marks: cigarettes may represent a higher proportion of spending for people with lower incomes (1) so tax may be regressive (1) and so fall more heavily on the poor (1).

Up to 2 marks: may contribute to inflation (1) as one of the products bought by consumers will rise in price (1).

Up to 3 marks: may encourage smuggling of cigarettes (1) if cigarettes are cheaper/less heavily taxed abroad (1) and reduce tax revenue (1).

Up to 4 marks: may harm domestic cigarette producers (1), if consumers switch from domestic to foreign cigarettes (1), may be an adverse effect on domestic employment (1), may also harm the balance of payments (1).

Maximum of 4 marks for a list or list-like response.

Note: a maximum of 8 marks overall.

4 (a) Describe two characteristics of a co-operative. [4]

1 mark each for two characteristics:

- jointly owned by their members (could be workers or customers)/members are shareholders
- they exist for the mutual benefit of the members
- members share profits
- each member has a vote
- have limited liability

1 mark each of two descriptions:

- co-operatives may be owned by a number of groups, e.g. workers, consumers
- profits can be distributed to consumers on the basis of how much they spend
- farming co-operatives may benefit from buying and selling in bulk
- voting is not based on size of shares held
- members can only lose their investment in the co-operative society

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**(b) Explain three ways in which a monopoly differs from perfect competition. [6]**

1 mark for identifying each of three ways, e.g.:

- the number of buyers and sellers in the market/industry
- whether there is free entry or exit into the market
- amount of information firms and consumers possess
- influence on price
- products are homogeneous in perfect competition and may not be in monopoly
- level of profit earned in the long-run

1 mark for each of three explanations:

- many buyers and sellers in perfect competition but only one seller in monopoly
- barriers to entry and exit in a monopoly but free entry and exit in perfect competition
- perfect information in perfect competition but not monopoly
- firms in perfect competition are price takers and monopolies are price makers
- in perfect competition the products made by the firms are exactly the same
- monopolies make abnormal profits whereas firms in perfect competition only make abnormal profits in the short run

**(c) Analyse the advantages of vertical integration. [4]**

1 mark for a definition of vertical integration/for a distinction between backwards integration and forwards integration.

Up to 2 marks: ensures supply of raw materials at a reasonable price/reduces the chain of production “cuts out the middle man” (1) as the firm can directly provide raw materials for manufacture (1).

Up to 2 marks: may restrict access of competitors to raw materials (1) which may make their prices higher or restrict their output (1).

Up to 2 marks: ensures outlets for products (1), which ensures products get to market (1).

Up to 2 marks: ensures products are well displayed and promoted (1) which can increase demand (1).

Up to 2 marks: may enable economies of scale to be gained (1), relevant example, e.g. financial economies.

Note: a maximum of 4 marks overall.

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(d) Discuss what impact a rise in output is likely to have on a farmer's profit. [6]

**Up to 4 marks for why it might increase:**

Up to 2 marks: if demand has increased at the same time (1), revenue may rise (1).

Up to 2 marks: if price has been lowered to sell more (1), revenue will rise if demand is elastic (1).

Up to 2 marks: higher output may reduce average costs (1) as greater advantage may be taken of economies of scale (1).

1 mark for profit will rise if revenue increases by more than costs.

**Up to 4 marks for why it might not increase:**

Up to 2 marks: there may be no demand for the extra output (1) and so revenue may not change (1).

Up to 2 marks: if price has been lowered and demand is inelastic (1), revenue will fall (1).

Up to 2 marks: higher output may increase average costs (1), diseconomies of scale may be experienced (1).

1 mark for profit may fall if costs rise by more than revenue.

Note: a maximum of 6 marks overall.

5 (a) Describe two influences on the amount people spend. [4]

1 mark for each of two influences identified, e.g.:

- income
- confidence
- wealth
- interest rate
- accept influences on the amount people spend on a particular product, e.g. price, age, tastes, taxes, etc.

1 mark for each of two explanations, e.g.:

- people with higher income have a greater ability to spend
- people are likely to spend more if they are confident about the future
- an increase in the value of people's wealth increases the ability to spend
- a rise in the rate of interest is likely to reduce spending as borrowing will be more expensive and borrowing will be cheaper.
- an explanation of how a change in the price of a good or related good, age, tastes or taxes will affect spending on a good

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**(b) Explain why an item has to be generally acceptable and divisible for it to carry out the functions of money. [4]**

Up to 2 marks: to act as a medium of exchange or carry out any other functions of money (1), people have to be willing to accept the item as payment (1).

Up to 2 marks: to be able to make payments of differing amounts and to be able to give change (1), it must be possible for this to be divided into different values (1).

**(c) Explain two advantages of working for a large company. [4]**

1 mark for each of two advantages identified:

- better staff facilities/working conditions
- greater chance of promotion
- higher wages
- better training
- job security
- opportunity to join a union
- opportunity to work abroad
- greater status

1 mark for each of two explanations:

- a larger company may be able to afford, e.g. staff canteen
- a larger company will have layers of staff/management
- if a company is more profitable, may be able to pay higher wages
- a bigger company can afford to offer training to its staff
- bigger companies are normally more financially stable and therefore offer more job security
- larger companies are more likely to allow unionisation
- a larger company is more likely to be a multinational
- other people are more likely to have heard of the name of a larger company

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**(d) Discuss whether a firm will benefit from encouraging its workers to join a trade union. [8]**

**Up to 6 marks for possible benefits:**

Up to 2 marks: may encourage more workers to apply for jobs (1), as they may expect better working conditions/job security (1).

Up to 2 marks: reduces costs of negotiating with workers (1) as negotiations can take place with one organisation rather than possibly many individual workers (1).

Up to 2 marks: provides a channel of communication (1), so information on, e.g. new working practices can be spread more quickly (1).

Up to 3 marks: may promote training (1), increasing labour productivity (1) and so lower costs of production (1).

Up to 2 marks: may reduce conflict (1) as workers' discontents can be taken to management and possibly resolved (1).

**Up to 6 marks for why it may not benefit:**

Up to 4 marks: may push up wages (1), as the union can use its power to bid up wage rates for its members (1). This will increase the firm's costs of production (1) and reduce the firm's competitiveness.

Up to 3 marks: may reduce flexibility (1) as a union may insist that its members only undertake the tasks in their job descriptions (1) and are not to work outside the standard hours (1).

Up to 3 marks: may take industrial action (1), e.g. a strike will disrupt production (1) and lose customers/reduce revenue/profits (1).

Maximum of 4 marks for a list or list-like response.

Note: a maximum of 8 marks overall.

**6 (a) Describe how the birth rate differs from the fertility rate. [4]**

Birth rate is the number of births per thousand of the population (1) in a year (1) whilst the fertility rate is the number of children a woman has (1) on average/over her life time (1).



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**(b) Analyse how an increase in average incomes may influence a country's population size. [6]**

Up to 2 marks: there will be more income/resources to support people in old age (1) so there may be less need to have a high number of children (1).

Up to 2 marks: there may be greater availability of contraception (1) and greater spending power to buy contraception.

Up to 2 marks: people may stay in education longer which may increase the cost of having children (1) and may delay the age at which people have children (1).

Up to 2 marks: higher income is linked to better health care/nutrition (1) so there may be a fall in infant mortality (1).

Up to 2 marks: due to better health care and nutrition (1), the death rate may fall (1).

Up to 2 marks: may encourage immigration (1), due to expectation of higher pay/greater job opportunities/higher living standards (1).

Up to 2 marks: higher incomes may encourage some families to have more children (1) as now they can afford it (1).

Note: a maximum of 6 marks overall.

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- (c) Discuss whether a government should be concerned about a fall in the country's population size. [10]

**Up to 7 marks for why it should:**

Up to 3 marks: may result in a less efficient use of resources (below the optimum population) (1), as there may not be enough workers to make full use of the other factors of production (1), and so output per head will fall (1).

Up to 3 marks: will experience a fall in total (aggregate) demand (1), as there will be fewer consumers (1) and lower demand may reduce employment (1).

Up to 3 marks: labour force may be reduced (1). If the fall in population size is due to emigration, there may be fewer workers to dependents (1) and this will increase the dependency ratio (1).

Up to 3 marks: may reduce factor mobility (1), if there are fewer young workers, there may be less occupational mobility (1) and geographical mobility (1).

Up to 2 marks: a rise in the death rate may indicate serious health problems/a natural disaster (1). This would indicate a need for greater government spending on health care/better disaster response (1).

**Up to 7 marks for why it should not:**

Up to 3 marks: may result in a more efficient use of resources (towards the optimum population) (1), as there will now be more workers to make full use of the other factors of production (1), and so output per head will rise (1).

Up to 3 marks: may reduce overcrowding (1), giving people more living space (1) and reducing stress/ill health (1).

Up to 3 marks: labour force may still be increasing (1). If the fall in population size is due to a fall in the birth rate (1) this will mean a reduction in the dependency ratio (1).

Up to 2 marks: may reduce environmental problems (1), e.g. traffic congestion/pollution (1).

Up to 2 marks: may reduce the need for social capital (1), e.g. hospitals/schools (1).

Maximum of 5 marks for a list or list-like response.

Note: a maximum of 10 marks overall.

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7 (a) Describe two reasons why a country's exports may increase. [4]

1 mark for each of two reasons identified, e.g.:

- fall in the exchange rate
- fall in the inflation rate
- rise in productivity
- rise in income abroad
- higher quality of goods produced
- improved marketing of exports
- provision of subsidies to domestic producers
- growth in tourism
- removal of trade restrictions by foreign governments

1 mark for each of two descriptions, e.g.:

- a fall in the exchange rate will reduce the price of exports and so should raise demand
- a fall in inflation/rise in productivity/rise in the quality of products produced will make domestic products more internationally competitive
- rise in incomes abroad may result in more exports being demanded
- removal of trade restrictions will make it easier to sell exports abroad
- improvement in quality of goods produced will increase demand
- better marketing of exports will increase awareness of goods and services available
- subsidies will reduce costs of production/exporting and will therefore increase exports
- growth of the tourist industry in a country increases invisible exports

(b) Explain why governments aim for low unemployment. [6]

Up to 2 marks: to ensure high output (1), which should mean higher living standards (1).

Up to 2 marks: to avoid poverty (1) and so reduce poor health/nutrition/low labour productivity (1).

Up to 2 marks: to avoid a waste of resources (1) as output could potentially be higher (1).

Up to 2 marks: to keep government spending on unemployment benefit low (1) as spending on benefits incurs an opportunity cost (1).

Up to 2 marks: to ensure high tax revenue (1) as employed people earn and spend more than unemployed people in general (1).

Note: accept answers which explain the government aim for low unemployment because of the cost of unemployment.

Note: a maximum of 6 marks overall.

<b>Page 19</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
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**(c) Discuss whether a government should increase or decrease taxes to reduce inflation. [10]**

**Up to 8 marks for why it should increase taxes:**

Up to 7 marks: higher (income) taxes will reduce the amount people have to spend (1), and this is likely to lead to lower spending (1). Higher indirect taxes may also reduce spending (1). Higher taxes on firms' profits may reduce firms' investment (1) and this will lower the demand for capital goods (1). Lower overall spending will reduce total (aggregate) demand (1). With less pressure from demand, prices may rise more slowly/fall (1). This may reduce demand-pull inflation (1).

Up to 4 marks: lower inflation may make a country's products more internationally competitive (1) and so may raise employment (1) and economic growth (1) and improve the balance of payments (1).

Up to 5 marks: may be adverse side effects of increasing taxes – lower demand may cause unemployment (1), lower demand may reduce economic growth (1), higher taxes may increase firms' costs (1), may encourage workers to ask for pay rises (1) and so may cause cost-push inflation (1).

**Up to 8 marks for why it should reduce taxes:**

Up to 5 marks: will increase disposable income/amount of money people have to spend from working (1) and the profit firms can keep (1). This may act as an incentive to effort (1), which may increase output (1) and so reduce cost-push inflation (1).

Up to 3 marks: lower taxes on firms will reduce their costs of production (1), this can increase total (aggregate) supply (1) and so reduce cost-push inflation (1).

Up to 6 marks: may encourage MNCs to set up in the country (1) as their profits may rise (1) due to higher consumer spending (1) and possibly lower corporate tax (1). MNCs may use more advanced technology (1) and this can reduce cost-push inflation (1).

Up to 3 marks: lower income tax may reduce wage claims (1); this will reduce the increase in firms' costs of production (1) and so lower cost-push inflation (1).

Up to 2 marks: lower taxes on firms' profits, which increase investment, will in the long run increase productive capacity (1), which should lower cost-push inflation (1).

Up to 4 marks: may be adverse side effects of decreasing taxes – higher demand (1) may cause demand-pull inflation (1), may increase imports (1) and cause a current account deficit (1).

Up to 2 marks for lower indirect taxes (e.g. sales tax) will reduce prices (1) in the short run (1).

Maximum of 5 marks for a list or list-like response.

Note: a maximum of 10 marks overall.

**ECONOMICS**

Paper 2 Structured Questions

**0455/22**

**May/June 2014**

**2 hours 15 minutes**

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

**Section A**

Answer Question 1.

**Section B**

Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.



This document consists of **5** printed pages, **3** blank pages and **1** insert.

## Section A

Answer this question.

### 1 The challenges facing Angola

Angola is one of the fastest growing economies in the world and also one of the most specialised. It had an average annual growth rate of 11% between 2002 and 2012. In 2010, the country's capital city, Luanda, was the most expensive capital city in the world. The average fare charged by the only taxi (cab) firm in the city was high at US\$50, and a standard house cost more than US\$1m to buy.

Oil production plays a key role in the economy. The country produces 1.9m barrels of oil a day and this is expected to double by 2020. There is the possibility that Angola could overtake Nigeria to become Africa's largest oil producer. The oil industry accounts for most of the country's output, provides 97% of its export revenue and 75% of government tax revenue.

Economists have expressed concern that the country is too dependent on oil. Sonangol, the state-owned oil enterprise, is seeking to diversify. It is already involved in banking and it also owns an airline and a football team. The government is trying to develop other industries. One of these is the diamond industry. World demand for diamonds increased in 2012.

The Angolan Government faces a number of challenges in promoting other industries. One of these is a lack of capital equipment in its manufacturing industries, and another is that much of its agriculture is in the form of subsistence farming.

The economy faces other problems and three of these are connected. They are a widening gap between the rich and the poor, a lack of education, and a rapidly growing population. Some people in the country are very rich but 35% of the population live in poverty. Half of the population have no access to health care, the infant mortality rate is one of the highest in the world, and life expectancy is one of the lowest. Most of the population only experience five years of education and a third of adults are illiterate. Between 2005 and 2010, the country had the eighteenth fastest growing population which might have influenced its level of average income – see Table 1.

**Table 1: Population growth, Gross Domestic Product (GDP) and GDP per head in selected African countries in 2011**

Country	Population growth (annual % change)	GDP (US\$bn)	GDP per head (US\$)
Angola	2.92	120	6000
Kenya	2.58	72	1800
Nigeria	2.50	420	2600
South Africa	0.96	562	11 100
Uganda	3.24	47	1300

In 2012, Angola was experiencing an overall unemployment rate of 26% and an unemployment rate of 50% among the young. The Angolan Government was considering cutting taxes to reduce unemployment.

- (a) Why is the Angolan economy considered to be 'specialised'? [2]
- (b) Using information from the extract, explain why taxi (cab) fares were high in Luanda in 2010. [2]
- (c) Using information from the extract, draw a demand and supply diagram to show what is likely to have happened to the price of diamonds in 2012. [4]
- (d) Explain why countries with a high population growth rate may have a lower average income than countries with a lower population growth rate. [3]
- (e) Analyse whether the information in Table 1 supports the view that countries with a high population growth rate have a lower average income than countries with a lower population growth rate. [4]
- (f) Discuss whether an increase in a country's GDP will reduce poverty in that country. [5]
- (g) Using information from the extract, explain **two** reasons why labour productivity is low in Angola. [4]
- (h) Discuss whether a cut in taxes will reduce unemployment. [6]

## Section B

Answer any **three** questions from this section.

- 2 A number of economies are devoting more of their resources to the provision of health care. Due to the economic problem, this involves them having to make difficult choices.
- (a) What is meant by the 'economic problem'? [2]
  - (b) Using a production possibility curve diagram, explain why choices have to be made as to how to allocate resources. [6]
  - (c) Explain how resources are allocated differently in market and mixed economic systems. [4]
  - (d) Discuss whether an economy would benefit from an increase in the provision of health care. [8]
- 3 Despite more cars being sold, world demand for bicycles is increasing. It has been estimated that the world price elasticity of demand for bicycles is  $-0.18$  but this does vary between countries. The indirect taxes imposed on bicycles also differ between countries.
- (a) Define 'demand'. [2]
  - (b) Explain **three** likely causes of an increase in demand for bicycles. [6]
  - (c) Analyse why the demand for a product may be more price elastic in one country than in another country. [6]
  - (d) Discuss whether a government should impose indirect taxes only on products with inelastic demand. [6]
- 4 The number of people employed in the banking sector in Turkey is increasing. The sector consists of a number of commercial banks, some of which are growing in size, and the Central Bank of the Republic of Turkey.
- (a) Describe **two** functions of a central bank. [4]
  - (b) Explain **two** types of internal economy of scale that a growing bank can enjoy. [4]
  - (c) Analyse how the spending pattern of high paid workers is likely to differ from the spending pattern of low paid workers. [4]
  - (d) Discuss whether workers employed in banking are likely to earn more than workers employed in agriculture. [8]



- 5 A Zambian copper mine is operated by a foreign multinational company. The company's main goal is profit maximisation. Its mine creates pollution in the area, which causes diseases and damages crops. Some economists have suggested that the economy would benefit from the mine being operated by the Zambian Government.
- (a) Define a 'multinational company'. [2]
- (b) Explain **one** goal a multinational company may have other than profit maximisation. [3]
- (c) Explain why pollution is an example of market failure. [5]
- (d) Discuss whether a mine operated by the government would be more likely to benefit an economy than one operated by a foreign multinational company. [10]
- 6 In 2012, Mexico's monetary policy was successful in keeping the country's inflation rate low and stable. Fiscal policy measures, including a rise in government spending, contributed to a relatively high economic growth rate of 3.5% and a reduction in the country's unemployment rate.
- (a) What is meant by 'monetary policy'? [2]
- (b) Explain **two** reasons why governments aim for low and stable inflation. [4]
- (c) Analyse how an increase in government spending may cause economic growth. [6]
- (d) Discuss whether a reduction in a country's unemployment rate will always benefit an economy. [8]
- 7 In March 2012, the Indian Government increased the tariff on imports of gold. It did this to reduce the country's growing deficit on the current account of its balance of payments.
- (a) Describe how a tariff could reduce imports. [4]
- (b) Analyse **three** causes of a current account deficit. [6]
- (c) Discuss whether a government should always be concerned about a growing current account deficit. [10]

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**ECONOMICS**

**0455/23**

Paper 2 Structured Questions

**May/June 2014**

**2 hours 15 minutes**

No Additional Materials are required.

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**Section A**

Answer Question 1.

**Section B**

Answer any **three** questions.

The number of marks is given in brackets [ ] at the end of each question or part question.



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This document consists of **5** printed pages, **3** blank pages and **1** insert.

## Section A

Answer this question.

### 1 Challenges facing the Bahamas

The Bahamas is a relatively rich country in the West Indies, consisting of more than 700 islands. The country has a population of 350 000 and is experiencing a fall in its birth rate. The country has a high average income but in recent years it has experienced fluctuations in its Gross Domestic Product (GDP). These fluctuations have affected its employment rate (see Table 1).

**Table 1: The economic growth rate and employment rate of the Bahamas 2007–2011**

Year	Economic growth rate (annual % change in GDP)	Employment rate (% of the labour force in employment)
2007	2.8	92.1
2008	–1.5	91.3
2009	–5.4	85.8
2010	0.5	85.8
2011	2.0	86.3

A major reason why the economy experienced a recession in 2008 and 2009 was the downturn in the world economy. The Bahamas is very dependent on tourism. It accounts for 50% of the country's output and employment. It is very reliant on one country: nearly 80% of the tourists coming into the country come from the United States (US).

The second most important industry in the Bahamas is financial services, particularly commercial banking and insurance. This industry accounts for 36% of the country's output. In contrast to the tertiary sector, the primary and secondary sectors are less significant, contributing only 10% to the country's output.

The government is keen to make the economy less specialised. It is seeking to increase the output of a number of other industries, including shipping and fishing. There is the potential for the shipping industry to grow. The country is already a popular destination for cruise ships and currently provides training for sailors. Fishing may be more challenging as fish stocks throughout the world were declining in 2012. The government is also exploring for oil but some economists have argued against exploiting any oil reserves it may find.

To ensure inflation remains low, and to reduce unemployment, the government has introduced a number of supply-side policy measures in recent years. These include privatisation. In 2011, in order to increase competition, the government started to sell Bahamas Telecommunications, a state-owned monopoly.

The government is also seeking to reduce the budget deficit, that is the gap between government spending and tax revenue. It is considering introducing new taxes, whilst possibly cutting unemployment benefit.

- (a) Name **two** types of tax. [2]
- (b) Using information from the extract, explain why the Bahamas would benefit from an increase in household incomes in the US. [2]
- (c) Using information from the extract, draw a demand and supply diagram to show what is likely to have happened to the price of fish in 2012. [4]
- (d) Explain why an increase in a country's GDP is likely to reduce unemployment. [3]
- (e) Analyse whether the information in Table 1 supports the view that an increase in GDP reduces unemployment and a decrease in GDP raises unemployment. [4]
- (f) Discuss whether a fall in the birth rate will benefit an economy. [5]
- (g) Explain how the two supply-side policy measures mentioned in the extract may reduce unemployment. [4]
- (h) Discuss whether the Bahamas should exploit any oil reserves it may find. [6]

## Section B

Answer any **three** questions from this section.

- 2** In 2012, a few countries experienced a decrease in their factors of production, including labour and enterprise. New Zealand, however, experienced an increase in both the quantity and quality of its factors of production. In the same year, the country exported more agricultural and manufactured goods.
- (a) What is the difference between labour and enterprise? [4]
- (b) Explain why farmers should consider opportunity cost when deciding how to use their factors of production. [4]
- (c) Using a production possibility curve diagram, analyse the effect of a decrease in the supply of labour and enterprise on an economy. [5]
- (d) Discuss whether an increase in the quality of a country's factors of production will always increase its exports. [7]
- 3** The equilibrium price of food has changed considerably in recent years. Whilst food in general has an inelastic demand, some types of food have elastic demand. To try to reduce food prices, some governments have introduced measures designed to shift the supply curve to the right.
- (a) Describe what determines 'equilibrium price'. [2]
- (b) Explain **two** reasons why the supply curve of a product may shift to the right. [4]
- (c) Analyse what effect a fall in price may have on a farmer's profit. [6]
- (d) Discuss whether the price of food is likely to increase in the future. [8]
- 4** Nollywood, the Nigerian film (movie) industry, is growing in size. More actors are being employed but their wages are currently still low. Wages and other costs of production may alter as the firms in the industry increase further in size. Consumers may also be affected by the growth in the size of the firms.
- (a) Describe how fixed costs and variable costs are influenced by a rise in output. [2]
- (b) Explain **two** reasons why someone may be prepared to work for a low wage. [4]
- (c) Analyse **two** ways a bank can help a firm increase in size. [4]
- (d) Discuss, using the Nigerian film (movie) industry as an example, whether consumers will benefit from larger firms. [10]



- 5 In 2012, India's price level was still rising, largely because of increases in the costs of production. However, there was a fall in the country's rate of inflation. This reduction in the inflation rate led some economists to suggest that the rate of interest should be reduced. Other economists opposed this, arguing that inflation causes considerable problems for people.
- (a) Explain what is meant by a fall in the rate of inflation. [2]
- (b) Explain what can cause an increase in the costs of production. [3]
- (c) Analyse why a reduction in the rate of interest may cause inflation. [6]
- (d) Discuss whether inflation harms everyone in an economy. [9]
- 6 Living standards vary between countries. This is due, in part, to differences in productivity and the amount of foreign investment the countries can attract.
- (a) Identify **four** characteristics of a developed country. [4]
- (b) Explain **two** measures of living standards. [4]
- (c) Analyse how a rise in productivity may increase living standards. [4]
- (d) Discuss whether developed countries are likely to attract more foreign investment than developing countries. [8]
- 7 Between 2011 and 2012 Russia's exchange rate was relatively constant. The country continued to have a surplus on the current account of its balance of payments. The main change in its international trade position arose from it joining the World Trade Organisation. In order to do this, the government agreed to move towards free trade.
- (a) Describe what is meant by a current account surplus. [4]
- (b) Analyse why a country's exchange rate may rise in value. [6]
- (c) Discuss whether engaging in free trade will always benefit an economy. [10]

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**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

**MARK SCHEME for the May/June 2015 series**

**0455 ECONOMICS**

**0455/21**

Paper 2 (Structured Questions), maximum raw mark 90

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Page 2	Mark Scheme	Syllabus	Paper
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- 1 (a) Using information from the extract, identify two reasons why Sweden is considered to be a highly developed country. [2]

One mark each for **two** of the following:

- high standard of living
- high average income
- skilled labour force
- high proportion of children going to university
- high level of investment

- (b) Explain how a rise in the retirement age may increase a country's economic growth rate. [4]

- more people will be in the labour force (1) this will increase potential/long run economic growth (1)
- if the people are employed (1) output will rise (1)
- more people will be earning an income (1) this will increase demand (1) higher demand will encourage firms to increase their output (1)
- it will reduce the cost of pensions (1) enabling the government to spend more on e.g. education which can promote growth (1)
- there will be more older workers (1) who may be more experienced/skilled and so more productive (1)

- (c) Using information in Table 1, describe what happened to:

- (i) Sweden's current account position over the period shown [2]

- for recognition of surplus e.g. it was in surplus throughout the period / fell at the start and then rose / fluctuated (1)
- for a description of how the figures changed between 2008 and 2013 e.g. increases from US\$38bn to US\$40bn / shows an increase of US\$2bn (1)

- (ii) Sweden's GDP between 2009 and 2010. [2]

- it increased (1) although current account balance remained unchanged as a percentage of GDP it fell (1)
- it changed from \$442.86bn (\$443bn) to \$455.89bn (\$456bn) (2)

- (d) Explain why a country may both export and import cars. [2]

- home produced cars may be in demand abroad because of competitive prices/high quality (1)
- may import cars to obtain a greater variety / are cheaper (1)
- may export luxury cars and import basic cars or vice versa (2)
- certain models may be exported e.g. family cars whilst other models are imported e.g. sports cars (2)

Note: reward relevant reference to comparative advantage but do not expect it.

Note: candidates must refer to cars to gain any marks.

Page 3	Mark Scheme	Syllabus	Paper
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**(e) Using information from the extract, analyse how a rise in the rate of interest can reduce inflation.** [5]

- a rise in the rate of interest may reduce consumer expenditure (1) may reduce investment (1) because the cost of borrowing will be higher (1) increase saving (1) the return from saving will be greater (1) people/firms who have borrowed in the past will have less to spend (1) lower demand will put downward pressure on the price level (1) reduce demand-pull inflation (1)
- a rise in the rate of interest may attract hot money flows/financial investment into the country (1) this will raise demand for the currency (1) higher demand for the currency will raise the exchange rate (1) a higher exchange rate will raise export prices and lower import prices (1) changes in the price of exports and imports will put pressure on domestic producers to keep prices low (1) a reduction in the price of imported raw materials will lower costs of production (1) lower costs will reduce cost-push inflation (1)

**(f) Discuss whether a fall in a country's inflation rate will increase the international competitiveness of its products.** [5]

Up to 3 marks for why it might:

- the fall in the inflation rate may mean the price of the country's exports may be lower (1) than the price of its rivals' products (1) this will increase international price competitiveness (1) this may increase demand for its products (1)

Up to 3 marks for why it might not:

- quality may be lower (1) rival countries' inflation rates may be lower (1) inflation rates may be lower but the initial price level may have been higher (1) a rise in the country's exchange rate may offset the effect of the fall in the inflation rate (1) trade protection measures may offset the effect of the fall in the inflation rate (1)

**(g) Using information from the extract, explain whether demand for IKEA's products is price elastic or price inelastic.** [2]

- price elastic (1)
- reduction in price increased revenue (1)

Page 4	Mark Scheme	Syllabus	Paper
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**(h) Discuss whether growth is the main goal of most firms.**

**[6]**

Up to 4 marks for why it might be:

- growth may increase revenue (1) enabling a firm to expand overseas and become a multinational company (1) example(s) of benefits of being an MNC (1)
- growth may reduce competition (1) a firm may grow by merging or taking over another firm (1) will increase its market power/power to raise price (1)
- growth may reduce a firm's costs of production (1) as it may enable advantage to be taken of economies of scale (1) example(s) (1)
- growth can lead to higher profits in the long run (1) as it may lower costs and raise revenue (1) this can keep shareholders happy (1)
- growth can increase the reward to directors and managers (1) who are key decision makers in the firm's business strategy (1)

Up to 4 marks for why it might not be:

- usually assumed profit maximisation is the main goal (1)
- firms may engage in other objectives e.g. profit satisficing (1)
- at difficult times e.g. during a recession (1) survival may be the main goal (1)
- different types of business organisation may have different goals (1) e.g. a public corporation may seek to provide a public service (1)
- may want to avoid diseconomies of scale (1) example(s) (1)
- there are benefits of staying small (1) example(s) (1)



Page 5	Mark Scheme	Syllabus	Paper
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2 (a) Define 'opportunity cost'. [2]

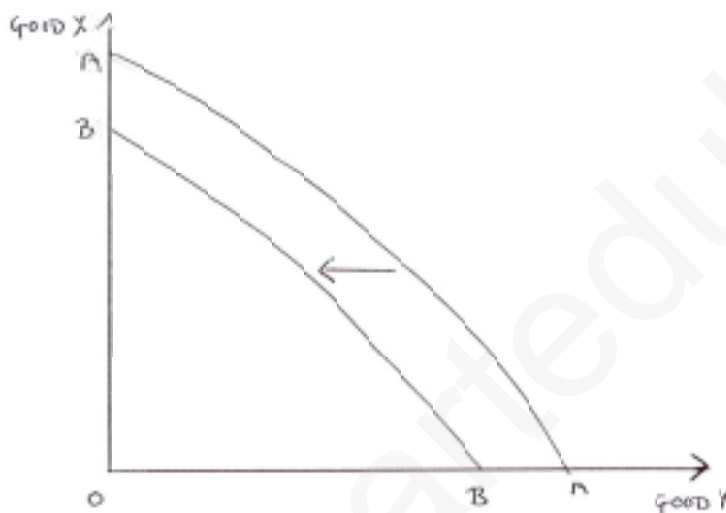
- (next) best alternative (1) forgone (1)

(b) Explain why the economic problem can never be solved. [4]

- the economic problem is scarcity (1)
- infinite wants (1) finite resources (1)
- wants exceed resources (1) as wants grow faster than resources/growth of resources will not exceed growth of wants (1)

(c) Using a production possibility curve diagram, analyse the effect of the destruction of some of its resources on an economy. [6]

Up to 4 marks for the diagram:



- axes correctly labelled (1)
- original curve/downward sloping line to axes (1)
- new curve present (1)
- shift to the left clearly indicated either by an arrow or by labelling (1)

Up to 2 marks for written explanation:

- the destruction of resources will reduce the maximum output a country can produce (1)
- this will move the production possibility curve to the left/closer to the origin (1)

Page 6	Mark Scheme	Syllabus	Paper
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**(d) Discuss whether a country will benefit from the emigration of some of its people. [8]**

Up to 5 marks for why it might:

- emigration of dependents (1) would reduce the burden on the working population (1) reduce government spending on benefits/pensions (1) which means government spending on other items can increase (1)
- if there is overpopulation/population above the optimum level (1) output per head should rise/more efficient use can be made of resources (1)
- workers who emigrate may send money back to relatives (1) this may increase living standards (1)
- emigrants may later return to the country bringing new skills with them (1) this may raise the productivity of the labour force (1)

Up to 5 marks for why it might not:

- skilled workers may emigrate (1) this will reduce the quality of the labour force (1) lowering productivity (1) discouraging multinational companies setting up in the country (1)
- if people of working age emigrate (1) the dependency ratio will increase (1)
- if there is under-population/population below the optimum level (1) output per head would fall/less efficient use can be made of resources (1)
- with lower output less advantage can be taken of economies of scale (1)

Page 7	Mark Scheme	Syllabus	Paper
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3 (a) Define 'equilibrium price'. [2]

- the price which equates demand and supply (2)
- market clearing price (1) which ensures no surplus or shortage (1)
- the price which will not change (1) unless market conditions change (1)

Note: award 2 marks if they show a correct diagram showing demand = supply

(b) Explain two reasons why borrowing may decrease. [4]

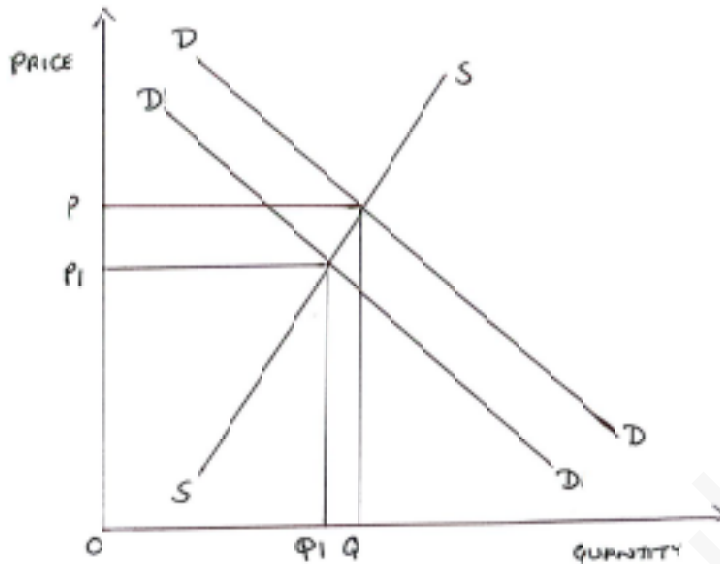
1 mark for identification and 1 mark for explanation:

- a rise in the rate of interest (1) will increase the cost of borrowing (1)
- a reduction in the availability of loans (1) will make it more difficult to borrow (1)
- a rise in income (1) may reduce the need to borrow (1)
- an increase in the state provision of health care/education (1) may mean that people do not have to borrow to cover health care/education expenses (1)
- a reduction in the price of expensive items e.g. houses, cars (1) may mean that people can buy the items without borrowing (1)
- a reduction in confidence about the future (1) may mean that people will be afraid they will not be able to repay loans (1)
- a change in age structure (1) the young may borrow more than those of middle age (1)
- a change in social attitudes (1) it may become less acceptable to borrow (1)
- an increase in government subsidies to firms (1) may reduce the need for firms to borrow from banks (1)

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(c) Using a demand and supply diagram, analyse why a fall in incomes may reduce the market price of houses. [6]

Up to 4 marks for the diagram:



- axes accurately labelled (1)
- demand and supply curves accurately labelled (1)
- the shift of the demand curve to the left (1)
- original and new equilibriums indicated either by lines to the axes or equilibrium prices clearly highlighted (1)

Up to 2 marks for written analysis:

- a fall in income reduces purchasing power/ability to spend (1)
- due to lower demand, producers lower price (1)

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(d) Discuss whether the building of houses should be subsidised.

[8]

Up to 5 marks for why they should be:

- subsidising houses will provide an incentive to build houses (1) increase the supply of houses (1) reduce the price of houses (1) this may make it easier for the poor to buy houses (1) increase the quality of the lives of the poor (1)
- subsidising houses will increase economic activity (1) to produce more houses would require more labour (1) this would reduce unemployment (1)
- housing is a necessity (1) so building more houses may reduce poverty/homelessness (1)

Up to 5 marks for why they should not be:

- would involve an opportunity cost (1) government spending could be used on other areas e.g. education/health care (1)
- may generate external costs (1) for example, pollution and destruction of the natural environment (1)
- there may be no demand for extra houses (1) in this case there will be an oversupply of houses/inefficient use of resources (1)
- building firms may become reliant on subsidies (1) and this increase inefficiency (1)

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**4 (a) Define ‘multinational company’.** [2]

- a company that has its headquarters/is based in a country (1) but produces in a number of countries (1)

**(b) Explain why governments may discourage strikes.** [4]

- strikes disrupt output/service provision (1) this may result in customers being lost (1)
- increase firms’ costs of production (1) and lose international competitiveness (1)
- lower output/incomes/GDP (1) and therefore lower living standards (1)
- may reduce exports (1) and so harm the balance of payments position (1)
- may cause unemployment (1) leading to higher spending on welfare benefits (1)
- may discourage FDI (1) and job opportunities (1)
- lower output will reduce tax revenue (1) and so reduce the government’s ability to spend (1)

**(c) Analyse three reasons why trade union membership may decrease in a country.** [6]

- trade union subscriptions may increase (1) making it more expensive for people to join a trade union (1)
- legislation may reduce the power of trade unions (1) this would make membership less valuable (1)
- employers may not recognise trade unions/be reluctant to employ members of trade unions (1) this may make people reluctant to join as it would reduce their employment opportunities
- unemployment may mean that there are fewer people in employment to belong to trade unions (1) it will weaken the power of trade unions (1)
- in a boom period/high level of economic activity (1) workers may gain wage rises/better working conditions without belonging to a trade union (1)
- workers may be satisfied with pay and conditions (1) may not agree with actions of trade union (1)
- government action to improve the pay and/or conditions of workers e.g. introduction of national minimum wage (1) reduces the need for collective bargaining (1)

**(d) Discuss whether a rise in the wages a firm pays would reduce its profits.** [8]

Up to 5 marks for why it might:

- higher wages will mean a higher wage bill (1) if output does not increase by more than wages, labour costs per unit will increase (1) costs of production will increase (1) profit is revenue minus costs (1) with higher costs and the same revenue, profit will fall (1)

Up to 5 marks for why it might not:

- paying higher wages may prevent strikes (1) this can reduce costs of production (1)
- higher wages may motivate workers (1) this can increase productivity (1) reduce costs of production (1)
- higher wages may make it easier to recruit workers (1) this can reduce costs of production (1)
- higher wages may make it easier to recruit skilled workers (1) this will raise productivity (1) reduce costs of production (1)
- other costs may be falling (1) e.g. rent, corporation tax (1)
- demand for the firm’s products may be increasing (1) this will raise revenue (1)
- higher wages may be paid to a smaller labour force (1) reducing the wage bill (1)

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5 (a) What is meant by ‘tax’? [2]

- a payment/finance (1) to the government/local authority (1) example e.g. sales tax/ income tax (1)

(b) Explain two reasons why an increase in unemployment may reduce tax revenue. [4]

- higher unemployment will reduce people’s incomes (1) this will reduce the amount of income tax paid (1)
- higher unemployment will reduce the amount people spend/reduce demand for goods and services (1) this will reduce indirect tax revenue (1)
- higher unemployment will reduce firms’ revenue (1) this will reduce corporation tax revenue (1)
- the existence of unemployment may encourage government to cut tax rates (1) in an attempt to reduce unemployment (1)

(c) Analyse two reasons why unemployment may increase. [6]

Up to 4 marks for one reason analysed.

- a fall in total (aggregate demand) (1) will cause firms to reduce their output (1) lower their need for labour (1) increase cyclical unemployment (1)
- a reduction in the skills/mobility of workers (1) may result in firms being unable or unwilling to employ workers (1) leading to structural unemployment (1)
- a rise in unemployment benefits (1) may lead to workers taking longer moving between jobs/less willing to search for work (1) causing an increase in frictional/voluntary unemployment (1)
- an increase in a country’s exchange rate (1) will make exports more expensive and imports cheaper (1) this will reduce international competitiveness (1) reduce demand for labour in affected industries (1) cause international/structural unemployment (1)
- a rise in wages above the equilibrium level (1) this may be the result of industrial action/ imposition of a national minimum wage (1) workers may be replaced by machines (1) firms may reduce the size of their labour forces in order to cut costs of production (1)
- advances in technology (1) may make certain skills redundant (1) leading to structural unemployment (1)

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**(d) Discuss whether a reduction in government spending on education will reduce living standards.** [8]

Up to 5 marks for why it might:

- it may reduce the quality/availability of education (1) this could reduce the skills of workers (1) lower their chances of getting a job (1) getting a well-paid job (1) reduce income (1) reduce goods and services people can enjoy (1)
- it may reduce people's access to knowledge about good nutrition/health care (1) this could increase illness (1) lower life expectancy (1)
- a less skilled labour force (1) may discourage multinational companies setting up in the country (1) this could reduce employment opportunities/reduce wages (1) reduce incomes (1) reduce goods and services people can buy (1)
- a reduction in government spending e.g. education may reduce aggregate demand (1) lower aggregate demand may reduce output and incomes (1)
- it will reduce the country's HDI value (1) which is an indicator of living standards

Up to 5 marks for why it might not:

- instead of spending money on education, the government might spend money on e.g. health care (1) a healthier population can enjoy life more and live longer (1) a healthier labour force may raise productivity (1) increase wages (1) increase the goods and services people can buy (1) this could increase the HDI value (1)
- instead of spending money on education, the government might spend money on e.g. infrastructure (1) better infrastructure can reduce firms' costs of production (1) make domestic firms more internationally competitive (1) encourage firms to expand (1) raise employment (1) increase incomes (1) increase the goods and services people can buy (1)
- a country's birth rate may be falling (1) so there may be fewer children in education (1) the amount spent per child may still be rising (1) improving productivity (1) raising wages (1) increasing consumption (1)
- less may be spent but it might be spent more effectively (1) this will raise the quality of education (1) raise productivity (1) raising employment (1) increasing consumption (1)



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6 (a) Define 'birth rate'. [2]

- the number of births per 1,000 of the country's population per year (2)
- the number of births per 1,000 of the country's population (1)

(b) Explain two causes of a high birth rate. [4]

- a high infant mortality rate (1) people having a high number of children not expecting all of them to live (1)
- a lack of financial support for the elderly (1) people having children to support them in old age (1)
- women marrying at a young age (1) giving them longer time in which to have children (1)
- a young population (1) with a high proportion of people of child bearing age (1)
- a lack of availability/willingness to use contraception (1) resulting in more births than planned (1)
- not many women working (1) not restricting the number of children they have in order to follow a career (1)
- a lack of education (1) reduces knowledge of contraception/cost of bringing up children/ proportion of women working (1)
- government incentives to have children (1) high state benefits would increase willingness and ability of people to have children

(c) Analyse how an increase in the size of farms may affect the cost of producing food. [6]

- larger farms may produce higher output (1) this will increase total cost (1)
- larger farms may be able to take advantage of economies of scale (1) examples of economies of scale available to farmers e.g. buying (purchasing seed in bulk), technical (using e.g. combine harvesters), managerial (specialist workers e.g. shepherds) up to (2) will lower average costs (1)
- larger farms may experience diseconomies of scale (1) examples e.g. worse labour relations (1) will increase average costs (1)
- larger farms are likely to have higher fixed and variable costs (1) but their average fixed costs are likely to be lower (1) as these costs will be spread over a higher output (1) their average variable costs may be lower due to economies of scale/or higher due to diseconomies of scale (1)

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**(d) Discuss whether a reduction in its imports will always benefit an economy. [8]**

Up to 5 marks for why it might:

- a reduction in imports may improve the trade in goods/trade in goods and services balance (1) this will improve the current account position/reduce a current account deficit (1) this may reduce a country's debts (1) avoid downward pressure on the exchange rate (1)
- spending on imports may be replaced by spending on domestically produced products (1) this would increase the country's output/cause economic growth (1) this would increase demand for labour (1) raise employment/reduce unemployment (1) increase incomes and living standards (1)
- fewer imports may enable infant industries to grow (1) may protect declining strategic industries (1)
- may prevent dumping (1) explanation of what is meant by dumping (1)

Up to 5 marks for why it might not:

- imports of capital goods/raw materials may decline (1) these might be cheaper/lower quality than domestically produced capital goods and/or raw materials (1) this will raise costs of production (1) make the country's products less internationally competitive (1) lower output/reduce economic growth (1) worsen the current account position (1) raise unemployment (1)
- fewer imports may reduce choice (1) reduce competition (1) may raise prices (1) lower quality of people's lives (1)
- exports may be falling by more than imports (1) so current account position may be worsening (1)
- quantity of imports may be falling but value of imports may be rising (1)
- if the reduction is caused by protectionist measures (1) this would reduce benefits of free trade (1)

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7 (a) Define 'recession'. [2]

- fall in a country's output/GDP (1) over a period of six months/two successive quarters (1)

(b) Explain two reasons why an economy may have a high foreign exchange rate. [4]

- a high demand for the currency (1) this may arise from e.g. good quality/lower price of exports/speculation that the currency will rise in the future (1)
- a low supply of the currency (1) due to, for instance, a low demand for imports/a low level of investment abroad (1)
- government setting a high exchange rate (1) by buying the currency/raising the exchange rate (1)

(c) Analyse how supply-side policy measures could increase productivity. [6]

Up to 4 marks for any one policy measure analysed:

- improved education/training (1) may raise workers' skills (1) increase output per worker hour (1)
- privatisation (1) may increase competitive pressure on firms to keep costs low (1) encourage more investment (1) increase output per factor hour (1)
- reforming trade unions (1) may reduce restrictive practices (1) this may allow firms to use their workers more efficiently (1) increase output per worker hour (1)
- cutting corporation tax (1) may increase profit (1) increase investment (1) increase output per factor hour (1)
- giving subsidies (1) to encourage firms to invest in advanced technology, engage in research and development and/or train workers (1)

(d) Discuss whether a fall in the international value of its currency will always benefit an economy. [8]

Up to 5 marks for why it might:

- it will lower export prices (1) and raise import prices (1) make domestic products more internationally competitive (1) this may raise export revenue and lower import expenditure (1) if demand for exports and imports is elastic (1) this may improve the current account position/reduce a current account deficit (1)
- producing more domestic products (1) may raise output/GDP (1) cause economic growth (1) raise employment/reduce unemployment (1) increase income (1) and living standards (1)
- if the value was being maintained by the government above the equilibrium level (1) reserves of foreign currency may not now have to be used (1) these could be used for another purpose (1) interest rate may not have to be as high (1) a lower interest rate may stimulate economic activity (1)

Up to 5 marks for why it might not:

- higher import prices may cause inflation (1) raise costs of raw materials (1) increase costs of production (1) put less downward pressure on domestic firms to be price competitive (1)
- lower prices of exports may be offset by low quality of exports (1) fall in incomes abroad (1) increase in trade restrictions imposed by foreign governments (1)
- demand for exports and imports may be price inelastic (1) in this case export revenue may fall (1) and import expenditure may rise (1)

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

**MARK SCHEME for the May/June 2015 series**

**0455 ECONOMICS**

**0455/22**

Paper 2 (Structured Questions), maximum raw mark 90

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1 (a) Using information from the extract, identify two reasons why Panama had a higher Human Development Index (HDI) value than Peru in 2013. [2]

- higher GDP per head/average income (1)
- higher life expectancy (1)

(b) (i) Using information in Fig. 1, describe what happened to the price level in Panama between 2008 and 2009. [2]

The price level rose (1) at a lower rate in 2009/at a higher rate in 2008 (1).

(ii) Using information in Fig. 1, explain in which year the price level was highest in Panama. [2]

2013 (1) as price level rose every year/there was inflation throughout the period (1)

(c) Using information from the extract and in Fig. 1, explain the likely effects of Peru and Panama having different average annual inflation rates between 2008 and 2013. [4]

- the average inflation rate was higher in Panama (1) it was approximately 5% in Panama (1)
- the implication is that Panama's inflation rate is less stable than Peru's (1) an unstable inflation rate can make planning more difficult/may discourage investment and saving (1)
- a higher inflation rate may make a country's products less internationally competitive (1) worsening the trade position (1)
- a higher inflation rate may discourage MNCs setting up in the country/discourage investment (1) reducing potential output/employment (1)
- a higher inflation rate may result in greater costs to consumers (1) lower purchasing power (1)
- a higher inflation rate may create costs for firms (1), e.g. administrative costs (1)
- a higher inflation rate may disadvantage savers (1) but reward borrowers (1)
- a higher inflation rate may increase unemployment (1) increasing costs of unemployment/result of lower demand for products (1)
- a higher inflation rate may reduce unemployment (1) if it is the result of increased total demand (1)
- a higher inflation rate may indicate a less successful monetary policy (1), e.g. not good use of interest rate/exchange rate/money supply changes (1)

Note: candidates may answer the question by explaining the benefits to Peru of having a lower inflation rate.

Note: 1 mark is reserved for recognising higher inflation in Panama/lower inflation rate in Peru.

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**(d) Discuss whether a fall in the unemployment rate will reduce poverty. [5]**

Up to 3 marks for why it might:

- a lower unemployment rate may mean that more people are in work (1)
- more employment may mean higher incomes (1) more people earning may reduce relative poverty (1)
- more people will have access to basic necessities/enjoying more goods and services (1) being able to enjoy more products may increase living standards (1) access to more goods and services should reduce absolute poverty (1)
- more people will be able to afford education/health care (1) increasing their earning potential and the earning potential of their children (1)
- lower unemployment can increase tax revenue/reduce spending on welfare benefits (1) government may be able to spend more on, e.g. education and health care, which can reduce poverty (1)

Up to 3 marks for why it might not:

- a fall in unemployment may not increase the number of people employed (1) the rate may have fallen because some of those who were previously unemployed may have retired/emigrated/entered education (1)
- a reduction in unemployment may raise the wages of skilled workers more than unskilled workers (1) increasing relative poverty (1)
- the resulting higher demand may result in inflation (1) wages may rise by less than prices (1) leading to a fall in real incomes (1) which may increase poverty (1)
- other causes of poverty may increase (1), e.g. increase in sickness/increase in the number of dependants/reduction in skills (1)
- some people may earn very low wages (1) which may be less than they received in benefits (1)

**(e) Analyse why countries specialise and trade. [5]**

- specialising allows countries to concentrate on what they are best at (1) influenced by factor endowment (1)
- specialisation can reduce the (average) costs of production (1) raise productivity (1) efficiency (1) enabling lower prices to be charged (1)
- specialisation could increase export revenue/improve trade position (1)
- specialisation can increase output/income/GDP (1)
- specialisation can improve the quality of output (1)
- higher output/income/GDP may raise living standards (1)
- increasing the size of the market (1) can lead to economies of scale (1)
- countries may import products from countries that can produce them more efficiently (1)
- countries may import products to gain a greater variety of goods and services (1)
- countries may import products they cannot produce themselves (1)

Note: reward reference to comparative advantage and/or absolute advantage (max 2 marks) but do not expect it.

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**(f) Using information from the extract, describe two functions of a central bank. [4]**

One mark for each of two relevant identifications and one mark for each of two explanations:

- may set interest rates/operates monetary policy (1) to influence the level of demand in the economy/keep inflation rate within target (1)
- may influence the exchange rate (1) by buying and selling the currency/using reserves/ changing the interest rate (1)
- regulates the banking system (1) it will try to ensure banks follow sound policies (1)

**(g) Discuss whether the growth of a commercial bank will benefit its customers. [6]**

Up to 4 marks for why it might:

- a larger commercial bank may be more financially sound (1) less likely to go out of business (1)
- a larger bank may have more funds available (1) this may enable customers to borrow more (1)
- a larger commercial bank may be able to take advantage of economies of scale (1) example (1) this will reduce costs of production (1) with lower costs, the bank may lower the interest it charges borrowers/reduce prices to customers (1) increase interest rate it pays savers (1)
- a larger bank may open more branches (1) have longer opening hours (1)
- a larger bank may be more able to invest in new technology (1), e.g. online banking (1)
- a larger commercial bank may offer a greater range of services (1) a better quality of services (1) take greater advantage of risk bearing economies of scale (1)

Up to 4 marks for why it might not:

- a larger commercial bank may have more market power/may have become a monopoly (1) it may have grown by eliminating competition (1) this may result in it charging higher interest to borrowers/increase price (1) lower interest rate it pays to savers (1) lower the quality of its services (1)
- a larger commercial bank may experience diseconomies of scale (1) example (1) this will raise costs of production (1) this may lead the bank to increase interest rate charged to borrowers/price (1) lower the interest rate it pays savers (1) reduce quality of services (1)

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2 (a) Describe a possible opportunity cost of a student going to university. [2]

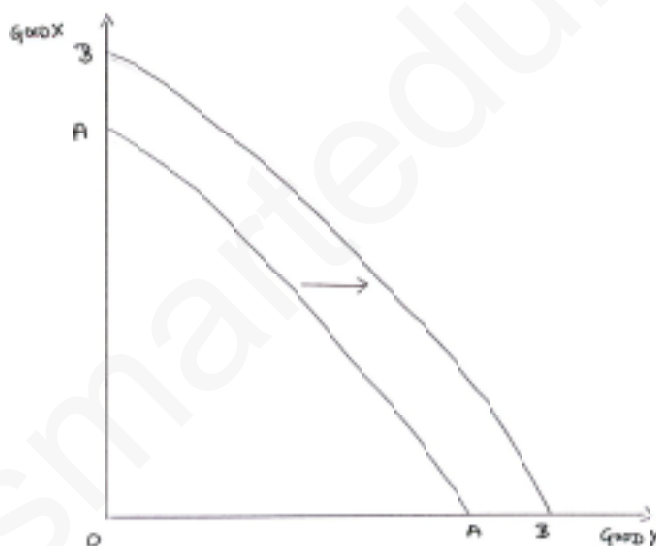
- opportunity cost is the (next) best alternative forgone (1)
- getting a job/earning a living/lower output in the short run (1)

(b) Explain why university graduates usually earn more than people who have not gone to university. [4]

- graduates are more likely to be skilled (1) this makes them more productive (1)
- graduates are likely to be more highly qualified (1)
- graduates are likely to be in higher demand (1) demand for services more inelastic (1)
- graduates are likely to be in shorter supply (1) supply more inelastic (1)
- graduates may belong to stronger professional bodies/trade unions (1) which have greater bargaining power (1)

(c) Using a production possibility curve diagram, analyse what effect an increase in the number of graduates will have on an economy. [6]

Up to 4 marks for the diagram:



- axes correctly labelled (1)
- original curve/downward sloping to the axes and touching the axes (1)
- new curve present (1)
- shift to the right indicated either by an arrow or labelling (1)

Up to 2 marks for the written analysis:

- more graduates will increase the skills/productivity of workers (1)
- with a higher quality of labour, a country will be capable of producing more/there will be economic growth (1)



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**(d) Discuss whether graduates should pay the full cost of their university education. [8]**

Up to 5 marks for why they should:

- graduates will learn new skills/gain qualifications (1) their employment opportunities are likely to increase (1) they are likely to earn a high wage (1) the private benefits of education are likely to be high (1)
- subsidising graduates involves an opportunity cost (1) requiring students to pay the full cost may enable more to be spent on, e.g. health care (1) government has limited finance (1)
- subsidising graduates may result in a budget deficit (1) or high taxes (1)
- charging the full cost may ensure prospective students consider the opportunity cost to themselves carefully (1)
- some graduates may come from relatively rich families (1) and so may not need to be helped (1)
- some graduates may emigrate (1) and so other countries may receive the benefit (1)

Up to 5 marks for why they should not:

- more educated labour force (1) leading to higher output (1) reduced unemployment (1) increased living standards (1) generating external benefits (1) increasing tax revenue in the long run (1)
- people from poor families may not be able to afford the cost (1) this could reduce the number of graduates (1) lowering potential output (1) increasing income inequality (1)
- there is an argument for the government paying part of the cost (1), e.g. based on the ability to pay (1)

**3 (a) What is meant by an industry being ‘capital-intensive’? [2]**

An industry which has a high amount of capital/machinery compared with the amount of other factors, e.g. labour employed (2)

An industry which uses a large amount of capital/uses capital instead of labour (1)

**(b) Explain two reasons why the supply of a product may be price inelastic. [4]**

- long production period (1) this will make it difficult to adjust supply quickly (1)
- inability to store the product (1) this means goods cannot be taken out of storage to meet higher demand (1)
- time period under consideration (1) supply is more inelastic in the short run (1)
- if there is a shortage of the raw material (1) it will be difficult to supply more in response to a rise in demand/price (1)

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**(c) Analyse what effect an increase in output will have on fixed, variable and average costs.** [6]

- fixed costs will remain unchanged (1) these costs do not change with output (in the short run) (1) example of a fixed cost (1) costs which are still present when output is zero (1) up to 2 marks
- variable costs will rise (1) vary with output (1) example of a short run variable cost (1) all costs are variable in the long run (1) up to 2 marks
- effect on average cost is uncertain (1) average cost may fall if economies of scale are experienced (1) average cost may rise if diseconomies of scale are experienced (1) up to 2 marks

Note: maximum of 2 marks for each type of cost.

**(d) Discuss whether a rise in the wages paid by an industry will encourage more people to work in that industry.** [8]

Up to 5 marks for why more people may be encouraged:

- higher wages enable workers to enjoy more goods and services (1) increase living standards (1)
- higher wages enable people to borrow more (1) banks are more likely to lend to high earners (1)
- higher wages will enable workers to save more (1) increase ability to, e.g. finance children's education/provide for retirement (1)
- higher wages may motivate some workers to work in the industry/wages are a key influence (1) increase workers' self esteem (1)
- workers will be encouraged to switch from other industries (1) to undertake training to work in the industry (1) to gain the necessary qualifications to work in the industry (1)

Up to 5 marks for why people may not be encouraged:

- wages may still be below those in other industries (1)
- earnings may be higher in other industries (1) because of, e.g. higher bonuses or overtime payments (1)
- workers may not be aware of the wage rise (1)
- workers may lack the appropriate skills/qualifications (1)
- workers take into account other factors/non-pecuniary factors (1)
- may not work in that industry in that industry if, e.g. working hours are longer, holidays are shorter, worse working conditions, less chance of promotion, lower pensions, fewer fringe benefits, less job security, less job satisfaction, industry is based some distance away (maximum of 3 marks for reasons identified).

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4 (a) Define 'Gross Domestic Product'. [2]

Output/total output (1) produced in a country (1)

(b) Explain two benefits of an increase in Gross Domestic Product. [4]

One mark each for each of two benefits:

- higher living standards
- higher employment
- more tax revenue
- less government spending on benefits
- more exports
- reduced poverty

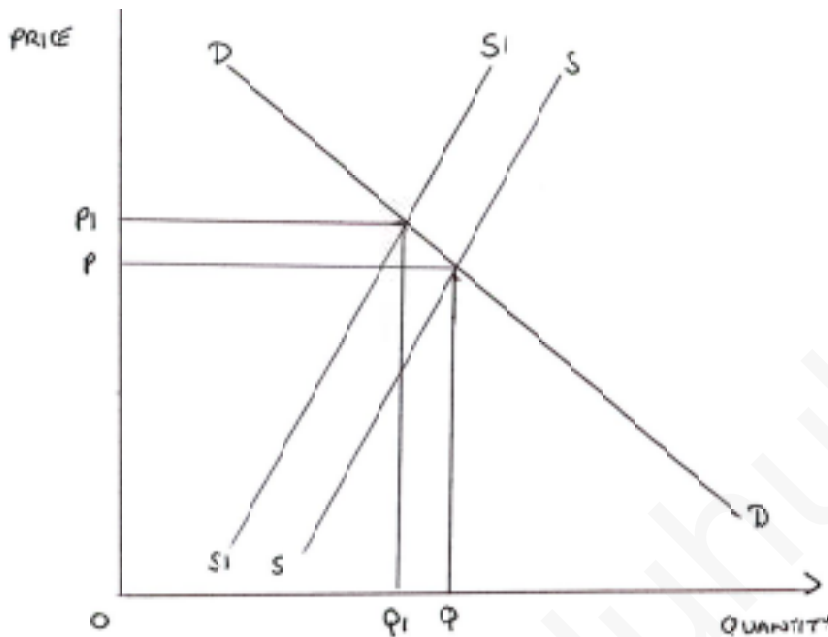
One mark each for each explanation:

- higher living standards as people can consume more goods and services (1) reduces poverty (1)
- higher employment as more workers will be needed to produce the higher output (1)
- more tax revenue as higher incomes will generate more direct tax revenue (1) higher spending will generate more indirect tax (1) more tax revenue can increase government spending on, e.g. health care and education (1)
- less government spending on unemployment benefit would enable the government to spend more on other items (1)
- higher exports if demand is present in other countries (1)
- reduced poverty as incomes will rise (1)

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- (c) Using a demand and supply diagram, analyse the effect of an increase in the costs of producing copper on the market for copper. [6]

Up to 4 marks for the diagram:



- axes accurately labelled, e.g. price and quantity/P and Q (1)
- demand and supply curves labelled accurately (1)
- shift of supply curve to the left (1)
- original and new equilibrium points clearly indicated (1)

Up to 2 marks for written explanation:

- higher costs will cause a decrease in supply (1)
- price will be expected to rise and quantity (traded) fall (1)

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(d) Discuss whether a rise in demand for copper would cause Chile to experience a current account surplus. [8]

Up to 5 marks for why it might:

- buyers may choose to buy copper from Chile (1) if Chilean copper is price competitive (1), e.g. due to low exchange rate (1) quality competitive (1) higher demand may increase exports (1) this may increase export revenue (1) higher export revenue may improve the trade in goods position (1) an improved trade position may turn a deficit into a surplus (1) or increase a surplus (1)

Up to 5 marks for why it might not:

- the demand for copper may be the result of a fall in the price of copper (1) more may be purchased but export revenue may fall (1)
- the demand for copper may rise but it may not be possible to supply more (1) as, e.g. mines may be working at full capacity/there may be a lack of skilled workers (1)
- other countries may have become more price (1) or quality competitive (1) so the rise in demand may affect other countries' current account positions (1)
- Chile may have a large current account deficit (1) so even with higher export revenue, a surplus may not be generated (1)
- a trade in goods surplus may be offset by an increasing deficit/lower surplus on another part of the current account (1), e.g. trade in services position may deteriorate (1) or by a rise in imports (1)
- higher demand for copper may increase demand for labour (1) this could push up wages (1) increasing costs (1) making Chilean copper less competitive in the longer run (1)
- higher demand for copper may push up the exchange rate (1) and so may, in the longer run, reduce a surplus (1)

5 (a) Define 'unemployment'. [2]

People without jobs (1) who are willing/able to work/who are members of the labour force/economically active (1)

(b) Explain two causes of economic growth. [4]

- improvements in education or other supply-side policy (1) may raise the quality of resources/this will increase productive capacity (1)
- advances in technology (1) will increase total demand/productive capacity (1)
- net investment/MNCs entering the country (1) will increase total demand/productive capacity (1)
- increase in net exports (1) will increase total demand (1)
- a consumer boom (1) will increase total demand/which will encourage firms to produce more (1)
- expansionary fiscal or monetary policy (1) may increase total demand/which may make use of previously unused resources (1)
- increase in size of labour force/employment rate (1) will increase total demand/productive capacity (1)
- fall in unemployment (1) will increase total demand (1)
- discovery of minerals (1) more raw materials will enable firms to produce more (1)

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**(c) Analyse why a fall in the inflation rate may reduce a country's unemployment rate. [6]**

- a fall in the inflation rate may make the country's products more internationally competitive (1)
- purchasing power will be higher than in the case of a higher inflation rate (1)
- demand for the country's products may increase (1)
- to produce more, a higher number of workers will be employed (1)
- cyclical unemployment may fall (1)
- a lower inflation rate may reduce the growth in wage rates (1) this may encourage firms to take on more workers (1)
- a lower inflation rate may attract multinational companies to set up in the country (1) this may create new jobs (1)
- a lower inflation rate may enable a country to have a lower interest rate (1) this would reduce the cost of borrowing/may encourage investment/encourage more total demand (1)

**(d) Discuss whether a decrease in government spending will reduce inflation. [8]**

Up to 5 marks for why it might:

- lower government spending is contractionary fiscal policy (1) it will reduce demand for goods and services (aggregate demand) (1)
- lower demand may discourage firms from raising prices (1) reduce demand-pull inflation (1)
- lower government spending may increase unemployment (1) this could put downward pressure on wages (1) lower cost-push inflation (1)

Up to 5 marks for why it might not:

- lower government spending on education and health care (1) may reduce the quality of the labour force (1) this could lower productivity (1) raise wage costs (1) cause cost-push inflation (1)
- lower government spending on infrastructure (1) will increase firms' transport costs (1) causing cost-push inflation (1)
- lower government spending may be offset by other causes of inflation (1), e.g. a lower exchange rate/consumer boom (1)
- reduction in government subsidies to firms (1) will raise costs of production (1) causing cost-push inflation (1)
- inflation may be caused by other factors (1) identification of another cause (1) policy measure to correct other cause (1) explanation of how policy measure would work (1)

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6 (a) Define 'death rate'. [2]

The number of deaths per 1,000 of the country's population per year (2)

The number of deaths per 1,000 of the country's population (1)

(b) Explain two causes of a fall in a country's death rate. [4]

- improvements in nutrition (1) will improve the health of the population (1)
- improvements in medical care (1) will enable people to live longer/due to, e.g. better hospitals (1)
- improvements in education (1) may result in more informed choices on, e.g. diet and exercise (1)
- improvements in housing (1) will reduce number of people suffering from a range of illnesses (1)
- improvements in working conditions (1) reduce accidents at work/improve health of workers (1)
- reduction in/end of military conflicts (1) reduce number of casualties (1)
- improvements in sanitation (1) reduce the risk of disease (1)
- improvements in water quality (1) reduce the risk of disease (1)
- people following a healthier lifestyle (1), e.g. giving up smoking (1)
- increase in income (1) people may be able to afford a healthier lifestyle/better living standard (1)

(c) Analyse why people may migrate to a country with a high unemployment rate. [6]

- the unemployment rate may still be below that in the countries they are migrating from (1)
- the unemployment rate may be falling whilst it may be rising in their own countries (1)
- there may still be job vacancies in areas that they have skills in (1)
- people may move to set up a firm (1) as wage cost may be lower (1)
- living conditions (1), e.g. health care/education may be better in the country (1)
- people may be escaping persecution/wars/famines or moving due to family ties (1)
- people may not be aware of the high unemployment rate (1)
- there may be fewer restrictions on migrating to the country than to other countries (1)
- unemployment benefits may be higher in the country (1)
- the people may be rich and not have to work (1) and may be attracted by lower prices in the country (1)

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(d) Discuss whether the advantages of a market economy are greater than its disadvantages.

[8]

Up to 5 marks for the advantages:

- consumer sovereignty (1) consumers determine the goods and services produced (1) producers make what consumers want (1)
- may be more choice (1) people can decide who to work for (1) may be choice of suppliers (1)
- may be efficient (1) due to competition (1) drive down costs (1) lower prices (1) profit incentive (1) ability to earn high wages (1)

Up to 5 marks for the disadvantages:

- may be inequality of income (1) the rich can increase their earning potential through saving/receiving a better education (1) some vulnerable groups, e.g. the sick may find it difficult to earn an income (1)
- private sector monopolies may develop (1) these may charge high prices (1) reduce quality (1) restrict choice (1)
- decisions will be based on private costs and benefits (1) existence of external costs and benefits (1) can cause inefficient choices (1)
- certain beneficial products (merit goods) (1) may be under-consumed and so under-produced (1)
- certain harmful products (demerit goods) (1) may be over-consumed (1) and so over-produced (1)
- some products (public goods) (1) may not be produced (1) difficult to stop non-buyers consuming the product (1)
- advertising can distort choice (1) producers can influence what consumers want to buy (1)



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7 (a) Define 'monetary policy'. [2]

Decisions on interest rates (1) the money supply (1) the exchange rate (1)

(b) Explain two functions of money. [4]

- medium of exchange (1) money can be used to trade products/generally acceptable in buying and selling (1)
- store of value (1) money can be saved/used in the future (1)
- unit of account/measure of value (1) money can be used to compare the value of different products (1)
- standard for deferred payments (1) money can allow people to borrow and lend (1)

(c) Analyse why engaging in division of labour may increase a firm's costs of production. [6]

- division of labour involves workers specialising in particular tasks (1)
- workers may become bored (1) they may make mistakes (1) products may have to be rejected (1) productivity may fall (1)
- there may be a high turnover of workers (1) this will increase the cost of hiring workers (1)
- workers may not be employed on tasks they are best at (1) this will mean productivity will be below potential (1)
- if key workers are sick or leave (1) it may be difficult to cover for their absence (1) this can disrupt the production process (1)
- more specialised workers may demand higher wages (1) increasing labour costs (1)

(d) Discuss whether a reduction in a country's trade protection will improve its economic performance. [8]

Up to 5 marks for why it might:

- may increase competition (1) this may put pressure on domestic firms to keep prices low (1) reduce inflation (1)
- price of imported raw materials may fall (1) this may lower costs of production (1) reduce cost-push inflation (1)
- finished imports may be cheaper (1) more imports can increase choice for consumers (1)
- other countries may reciprocate (1) lower trade protection measures (1) enable the country to export more (1) raise output (1) increase employment (1)

Up to 5 marks for why it might not:

- may drive infant industries out of business (1) reduce output and employment in the long run (1) may harm the current account position (1)
- may cause declining industries to go out of business more quickly (1) causing unemployment (1)
- may increase dumping (1) foreign firms may be selling below cost price (1) unfair competition that may drive domestic firms out of business (1)
- may lower government tax revenue (1) reduce expenditure on, e.g. health care, education (1)
- may become dependent on other countries (1) risk of a supply-side shock (1)

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

**MARK SCHEME for the May/June 2015 series**

**0455 ECONOMICS**

**0455/23**

Paper 2 (Structured Questions), maximum raw mark 90

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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Page 2	Mark Scheme	Syllabus	Paper
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- 1 (a) Using information from the extract, identify three reasons why Lesotho is considered to be a developing country. [3]

One mark each for **three** of the following:

- low GDP per head
- number of people living on less than US\$2 a day
- children experiencing malnutrition
- subsistence farming
- large primary sector
- large number of workers working abroad
- lack of investment

- (b) (i) Using information from Fig. 1, describe what happened to output in Lesotho between 2008 and 2009. [2]

Output increased (1) more slowly. (1)

- (ii) Using information from Fig. 1, explain in which year output was highest in Lesotho. [2]

2013 (1) as output increased each year. (1)

- (c) Using information from the extract, explain why the supply of diamonds is price inelastic. [3]

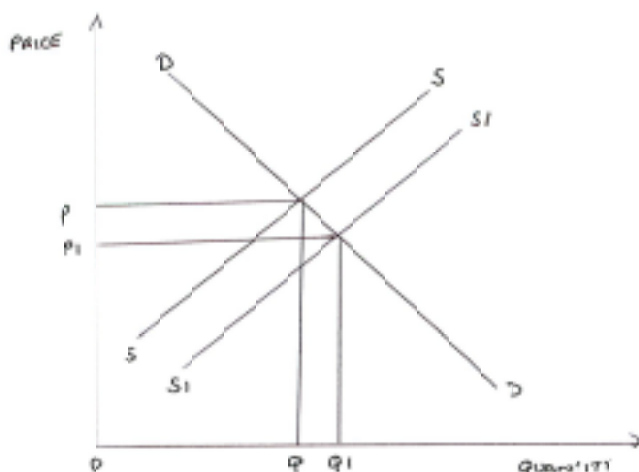
- deposits of diamonds have to be located (1)
- it takes time to open new mines (1)
- it takes time to extract diamonds (1)
- this means that supply cannot be adjusted quickly (1) due to a change in price (1)

- (d) Analyse how a subsidy to farmers may affect the market for food [5]

- a subsidy is a payment/government help to encourage production (1)
- a subsidy is similar to a reduction in costs of production/makes production less expensive (1)
- it allows investment in capital (1)
- it will cause an increase in supply (1)
- supplying more food will reduce price (1)
- a lower price will cause demand to rise/an extension in demand (1)

Although a diagram is not required, award 3 marks for an accurately drawn diagram.

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- axes and curves accurately labelled (1)
- shift of the supply curve to the right (1)
- original and new equilibriums identified (1)

**(e) Discuss whether Lesotho would benefit from more of its people working abroad. [5]**

Up to 3 marks for why it might:

- wages are higher abroad (1) they may send more income home (1) Lesotho residents will be able to spend more on goods and services (1) may help to reduce poverty in the country (1)
- it will make a positive contribution to the current account/reduce the country's current account deficit (1)
- it may reduce unemployment in the short run (1) if emigrants had been unemployed before leaving (1) reduce costs of unemployment benefits (1)
- more workers may later return to the country bringing more skills with them (1) thus reducing training costs for firms in Lesotho (1) bring more ideas about production methods and products (1) this could increase productivity (1)

Up to 3 marks for why it might not:

- more skilled workers may emigrate (1) this will reduce productivity (1) raise firms' costs (1) reduce international competitiveness (1) lower output/economic growth (1) cause unemployment (1)
- fewer people working in Lesotho would reduce output/spending (1) reduce tax revenues (1) less available for government spending on e.g. hospitals (1)
- the absence of skilled workers may discourage multinational companies setting up in the country (1) this would reduce potential output (1)
- the absence of skilled workers may make it difficult to open new mines/increase the size of the tourist industry (1)
- more workers may leave dependants behind (1) this will increase the dependency ratio (1) tax revenue will fall (1) government spending on support of dependants may rise (1) this will involve an opportunity cost (1)
- workers may spend (all) of their income whilst abroad (1)
- Lesotho may become too dependant on other countries for employment (1)

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(f) Explain two reasons why governments impose tariffs. [4]

- to improve the current account position (1) a tariff would raise the price of imports/make imports less price competitive (1)
- to raise revenue (1) the revenue could be used to finance e.g. education (1)
- retaliation (1) other countries may also be imposing tariffs (1)
- to stop the import of harmful products (demerit goods) (1) prevent external costs to country (1)
- protect sunrise/sunset industries (1) prevent (short term) unemployment (1)

(g) Discuss whether a rise in China's Gross Domestic Product is likely to reduce Lesotho's current account deficit. [6]

Up to 4 marks for why it might:

- a higher Chinese GDP may mean that more Chinese tourists will go to Lesotho (1) this will contribute to Lesotho's trade in services (1) which is part of the country's current account position (1)
- a higher Chinese GDP may also result in China buying other goods and services from Lesotho (1)
- a higher Chinese GDP may increase the profits of Chinese firms (1) this may provide them with the finance to invest in Lesotho (1) Chinese multinationals in Lesotho may contribute to its exports (1)

Up to 4 marks for why it might not:

- a higher Chinese GDP may have resulted from China selling more exports to South Africa (1) may reduce Lesotho's exports to South Africa (1)
- a higher Chinese GDP will mean Chinese tourists would have more money to spend (1) this may encourage Chinese tourists to take more luxury holidays in other countries (1)
- if China's population rises (at the same rate) (1) then GDP per head will be unchanged (1)
- Chinese people may choose to save their extra income rather than spend it (1) and so not spend any more on imports from Lesotho (1)

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2 (a) Define 'inflation'. [2]

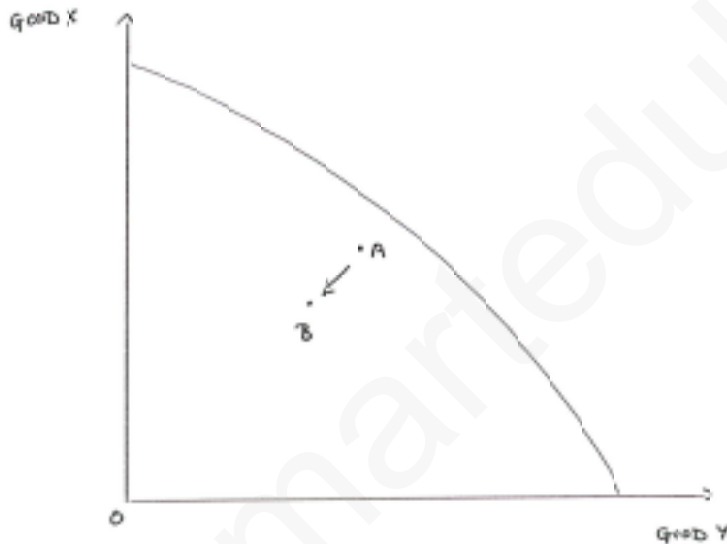
A sustained /over time (1) rise in the price level (prices). (1)

(b) Explain why government spending on unemployment benefits involves an opportunity cost. [4]

- opportunity cost is the (next) best alternative (1) forgone. (1)
- spending on unemployment benefit will reduce a government's ability to spend on another item/the tax revenue used to spend on unemployment benefit cannot be spent on another item (1) for instance, health care (1)

(c) Using a production possibility curve diagram, analyse the effect of an increase in unemployment on a country's output. [6]

Up to 4 marks for the diagram:



- axes correctly labelled (1)
- original curve/downward sloping line to axes (1)
- production point moved nearer to the origin (1)
- direction of change in the production point indicated (1)

Up to 2 marks for written explanation:

- unemployment means resources are unused / the economy is not at full capacity (1)
- with unemployed resources, a country will be producing further inside/moving inside its production possibility curve (1)

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(d) Discuss whether a rise in unemployment will cause a fall in inflation. [8]

Up to 5 marks for why it might:

- a rise in unemployment will reduce incomes (1) with lower incomes, people will spend less (1) lower demand will reduce demand-pull inflation (1)
- with a rise in unemployment workers are easily replaced/there is now a large pool of workers (1) the increased supply of labour (1) will force down wage rates (1)
- a rise in unemployment may discourage workers from asking for wage rises (1) weaken the power of trade unions (1) lower wage rises will mean that firms' costs of production will increase more slowly (1) this may reduce cost-push inflation (1)

Up to 5 marks for why it might not:

- demand may still rise despite an increase in unemployment (1) government spending or exports may be increasing (1)
- a rise in unemployment reduces national output (AS) (1) increasing inflationary pressures (1)
- other costs of production could be rising (1) for instance, raw material costs (1) for instance, a fall in the exchange rate may increase the price of imported raw materials (1)
- a rise in unemployment could mean fewer skilled workers (1) this lowers productivity (1) causing average costs to rise for firms (1)
- trade unions may still press for wage rises despite an increase in unemployment (1)
- inflation can lead to people expecting prices to rise faster in the future (1) this can lead them to act in ways that cause inflation (1) they may buy more products now (1) ask for wage rises (1)
- people may receive an income in unemployment benefits (1) and still spend the same amount as before

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3 (a) Define 'regulation'. [2]

Rules/laws/controls (1) which are designed to influence the behaviour of firms/people. (1)

(b) Explain how resources are allocated in a market system. [4]

- market forces (supply and demand) influence the allocation of resources (1) through the price mechanism (1)
- resources are privately owned in a market system (1) with little/no government influence (1)
- the profit incentive (1) encourages firms to produce what consumers demand (1)
- a rise in demand for a good or service (1) will increase price (1) encouraging more resources to be allocated to producing it (1)

(c) Analyse the causes of market failure. [6]

- market failure arises when markets are inefficient/right products are not produced in the right quantities (1)
- abuse of market power (1) monopoly (1) may result in output being restricted (1) high price charged (1) low quality (1)
- decisions based on private costs and benefits/failure to take into account external costs (negative externalities) and benefits (1) results in under-consumption and over-consumption of some products (1) leading to inefficient over-production and under-production (1)
- lack of information (1) causes consumers and producers to make inefficient choices (1) harmful products may be over-consumed (1) beneficial products may be under-consumed (1)

Note: reward (3 marks maximum) references to merit, demerit and public goods but the terms are not required.



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(d) Discuss whether an economy will benefit from its forests being cut down. [8]

Up to 5 marks for why it might:

- generate income/raise GDP (1) raise living standards (1)
- increase production of e.g. paper (1) increase employment (1)
- increase exports (1) improving the current account position (1)
- the price of wood may fall in the future (1) so advantage of the wood might need to be taken advantage of now (1)
- government tax revenue will increase (1) which could be used to e.g. subsidise new industries (1)
- the land could be used for other purposes e.g. housing (1)
- clearing forests for roads/rail could make transportation of goods easier (1) reducing the average costs of firms (1)

Up to 5 marks for why it might not:

- will exhaust the supply of wood and other products from the forest (1)
- conserving the forests will enable future generations to benefit from the income (1)
- cutting down forests could cause external costs/negative externalities (1) e.g. noise pollution/environmental damage (1)
- the price of wood may be higher in the future (1) if demand for the product increases (1)
- conflict between different groups/stakeholders (1) could lead to increased police costs (1)
- will damage (eco) tourism (1) reducing export of services (1)

Note: do not expect but reward discussion of the use of cost-benefit analysis for up to 2 marks.

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4 (a) Identify two influences on the amount people save. [2]

One mark each for **two** influences:

- (disposable) income
- wealth
- rate of interest
- expectations of future price rises/falls
- proportion of household income spent
- confidence
- tax incentives
- strength of financial institutions
- age structure of the population
- extent of social provision e.g. state pensions
- social attitudes

(b) Explain why cash (notes and coins) is money. [4]

- cash is money as it carries out the functions of money (1)
- cash acts as a medium of exchange (1) generally accepted as payment for products (1)
- cash acts as a store of value (1) people can save their cash in order to use it in the future (1)
- cash acts as a unit of account/measure of value (1) price of products is expressed in terms of the cash needed to purchase them (1)

(c) Analyse the possible effects of an increase in bank lending on economic growth. [6]

- increase in bank lending may increase spending by households (1) the higher demand may encourage firms to produce more (1) economic growth arises when output increases (1)
- more loans may be given to firms e.g. to start new businesses (1) the bank loans may be used to finance expenditure on capital goods/more resources(1)
- more investment will raise productive capacity/potential economic growth (1) this will increase total output/GDP
- more lending can lead to inflation (1) this could damage economic growth (1)
- consumers could borrow to buy more imports (1) reducing economic growth (1)

Note: do not expect, but reward explanation of multiplier effects for up to 2 marks

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**(d) Discuss whether the poor are more likely to borrow than the rich.**

**[8]**

Up to 5 marks for why they might:

- lower income (1) may mean the poor have to borrow to buy basic necessities (1)
- the poor may be more inclined to get into debt (1) so may borrow to cover debt repayments (1)
- the poor may have to borrow to cover medical costs (1)
- the poor may have to borrow to educate their children (1)
- the poor are more likely to need to borrow for large purchases e.g. furniture (1)
- the poor are less likely to have savings to enable purchases (1)
- as a proportion of income the poor may borrow more (even if they do not in absolute terms) (1)

Up to 5 marks for why they might not:

- banks may be reluctant to lend to them (1) because they are worried they will not be repaid (1)
- banks may charge a higher interest rate (1) to those who they think may be a high risk (1)
- the poor may lack the ability/confidence they will be able to repay loans (1) as they may not expect their incomes to rise (1)
- the poor may be reluctant to borrow because of previous bad experience of being in debt (1)
- it depends on whether the poverty is absolute or relative (1)
- the poor are less likely to have a bank account / access to borrowing (1)

Note: accept an answer based on why the rich may borrow more, but not if the same points are also covered in reverse.

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5 (a) Define 'private limited company'. [2]

- in the private sector (1)
- sells shares/is a joint stock company (1)
- the shares are not (usually) traded on a stock exchange (1) only sold to known individuals (1)
- has limited liability (1)
- the owners/shareholders vote for a board of directors (1)

(b) Explain two influences on what factors of production a firm uses. [4]

- the type of product produced/size of the firm (1) for instance, producing nuclear power is capital-intensive (1)
- the productivity of factors of production (1) if, for instance, labour becomes more skilled, a firm might become more labour-intensive (1)
- the availability of factors of production (1) in some countries there may be a shortage of oil or people of working age (1)
- the relative cost of factors of production (1) if capital is relatively expensive, labour-intensive methods of production may be used (1)

(c) Analyse how an increase in the size of a firm can increase its profit. [6]

- the increase in size may have resulted from the firm selling more products/increasing output (1) if revenue rises by more than costs, profit will increase (1)
- a larger firm may be able to take greater advantage of economies of scale (1)
- fall in average costs (1) e.g. buying, managerial, technical, risk bearing (2)
- a firm may have grown in size by merging/taking over rival firms (1) this will give it greater market power (1) allowing it to push up price (1)

Note: a maximum of 4 marks for only discussing economies of scale.

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(d) Discuss whether an economy would benefit from a foreign producer setting up in the country. [8]

Up to 5 marks for why it might:

- increase GDP (1) raise living standards (1)
- create new jobs (1) lower unemployment (1) less spent on benefits (1)
- pay higher than local wages (1)
- bring new knowledge and skills (1) boosting productivity (1)
- pay (corporation) taxes (1) increasing government revenue (1)
- increased (inward) investment (1)
- creates competition for domestic firms (1) making them cut costs/become more efficient (1)
- contribute to the country's exports (1) improve the current account position (1)
- sell more cheaply in the country (1) as lower transport costs (1)
- country benefits from improved infrastructure (e.g. roads) built by foreign producer (1)
- creates demand for products of local firms e.g. components (1)

Up to 5 marks for why it might not:

- may drive local producers out of business (1) so not adding to GDP, employment, etc. (1)
- may create external costs (1) e.g. pollution (1) may set up in the country to get round regulations at home (1)
- top jobs may be taken by workers from the MNC's home country (1) jobs created for locals may be unskilled (1)
- profits earned from the firm may be sent home (1) so not benefiting the home economy (1)
- it may have powerful influence on the government (1) reducing budget revenues by demanding tax relief/subsidies (1)

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6 (a) Define 'horizontal integration'. [2]

A merger/takeover between firms (1) producing the same product at the same stage of production. (1)

(b) Explain two characteristics of perfect competition. [4]

- many buyers and sellers (1) so no one buyer or seller can influence price (1)
- no barriers to entry and exit (1) so any new firm can start producing the product/nothing which makes it difficult for a firm not currently making the product from starting to make it/no restrictions on firms in the industry stopping producing the products (1)
- firms are price takers (1) their supply is such a tiny proportion of total supply that changes in it will have no effect on price (1)
- homogeneous product/all the products are the same (1) so the products of different producers are perfect substitutes for each other (1)
- perfect information (1) buyers and sellers are fully aware of price and profits earned in the market (1)

(c) Analyse how two supply-side policy measures could improve the performance of an airline industry. [6]

Up to 4 marks for any one policy measure analysed:

- privatisation (1) may introduce competition (1) increase profit incentive (1) encourage firms to be efficient/reduce costs (1)
- cut in corporation tax/tax incentives given (1) increase funds available for investment (1) improve technology (1) raise productivity (1) lower costs of production (1)
- Improved education and training (1) raise skills of workers (1) increasing productivity (1) lower costs of production (1)
- cut in income tax (1) increase the motivation of workers (1) raise productivity (1) lower costs of production (1)
- deregulation (1) removing laws and rules may reduce firms' costs (1) enabling them to invest more (1)
- subsidies (1) may encourage firms to invest in advanced technology, engage in research and development and/or train workers (1) lower costs of production/increase productive capacity (1)

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(d) Discuss whether price is likely to be higher in a monopoly than in a perfectly competitive market.

[8]

Up to 5 marks for why it might:

- lack of competition (1) gives a monopoly market power (1) if profit maximisers (1) may push up price (1) by restricting supply (1)
- lack of consumer choice/consumers can switch to rival producers in a perfectly competitive market (1) an increase in demand raises price (1) which will encourage new firms to enter the industry (1) reducing price (1)
- demand is often inelastic, e.g. water (1) increased demand raises price by greater proportion (1)
- a monopoly may be experiencing diseconomies of scale (1) example of diseconomies of scale (1) this will raise average costs of production (1)

Up to 5 marks for why it might not:

- a monopoly may be able to take advantage of economies of scale (1) example of economies of scale (1) with lower average costs, price may be lower (1) whilst still enabling a monopoly to enjoy high profits (1)
- with high profits, a monopoly may be able to spend more on research and development/new technology (1) this can reduce costs of production (1) enabling a monopoly to charge a lower price (1)
- a monopoly may be state-owned (1) it may choose to charge a low price to ensure everyone can afford it (1)
- private sector monopolies may not be profit maximisers (1) they may charge a lower price (1) in order to grow the business (1)
- monopolies may still face overseas competition (1) keeping prices down (1)

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7 (a) Define 'exchange rate'. [2]

The price (value) of a currency/how much a currency is worth (1) in terms of another currency/currencies. (1)

Note: allow 1 mark for an example e.g. £1 = \$2.

(b) Explain two benefits of a floating exchange rate system. [4]

- no need to keep reserves of foreign currencies (1) as the central bank will not be buying the currency to support its value (1)
- the exchange rate should move automatically/it is self-correcting (1) to eliminate a current account deficit/surplus (1)
- allows a government to concentrate on other aims e.g. full employment (1) as interest rate changes/foreign exchange dealings do not have to be undertaken (1)
- market forces determine the exchange rate (1) equilibrium price will be achieved (1)

(c) Analyse the effect of a rise in unemployment on living standards in a country. [6]

- higher unemployment reduces the income of the unemployed (1) the unemployed will not be able to buy so many goods and services (1)
- unemployment involves an opportunity cost (1) output will be lower than possible (1)
- the unemployed may experience health care problems (1) this would put a burden on health services (1)
- higher unemployment may increase crime (1) crime and the fear of crime lowers the quality of people's lives more resources e.g. prisons, have to be devoted to tackling crime which involves an opportunity cost (1)
- the unemployed may not be able to afford to educate their children (1) less educated people tend to enjoy a lower quality of life (1)
- spending on unemployment benefits (1) means less money for e.g. hospitals (1)



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**(d) Discuss whether coal miners are likely to be paid more than car assembly workers. [8]**

Up to 5 marks for why they might:

- demand for the labour of coal miners might be higher (1) because demand for coal may be increasing whilst demand for cars may be falling (1)
- the supply of coal miners may be lower (1) due the skills/qualifications needed (1) and the greater physical risks/dangers involved (1) and non-wage benefits enjoyed by car workers being higher (1)
- coal miners may have more bargaining power than car workers (1) this may be because e.g. a higher proportion of coal miners belong to a union (1)
- coal mining may provide essential energy for a country and be subsidised by the government (1) lower costs will enable firms to pay coal miners more (1)

Up to 5 marks for why they might not:

- some coal miners may be in less promoted posts than some car workers (1)
- it might be easier to substitute workers with capital in the coal industry (1) making demand for labour more wage elastic in the coal industry (1)
- the average age of coal miners may be lower than the average of car workers (1) making the workers less experienced (1)
- the coal industry may be declining whilst the car industry may be increasing (1) this may alter relative demand (1)
- car workers may be more skilled (1) these skills may be in higher demand (1)

Up to 3 marks for an appropriate diagram showing either case

Note: accept an answer based on why car workers may be paid more than coal miners.