

**ECONOMICS-0455  
INDEX  
WINTER SESSION**

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**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

International General Certificate of Secondary Education

**MARK SCHEME for the November 2004 question paper****0455 Economics****0455/02****Paper 2 (Structured Questions) maximum mark 60**

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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CIE is publishing the mark schemes for the November 2004 question papers for most IGCSE and GCE Advanced Level syllabuses.

**Grade thresholds** taken for Syllabus 0455 (Economics) in the November 2004 examination.

	Minimum mark available	Minimum mark required for grade			
		A	C	E	F
Component 2	60	n/a	30	23	19

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 F threshold as the E threshold is above it.

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

November 2004

INTERNATIONAL GCSE

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 5</b>
	<b>IGCSE EXAMINATIONS – NOVEMBER 2004</b>	<b>0455</b>	<b>2</b>

- 1 (a)** Up to 3 marks for explaining that low prices might result in lower revenue and lower profits. Therefore producers might be unwilling to produce as much as before. **[3]**
- (b)** Up to 3 marks for explaining that the reduction in supply in the following year is because there has been a decrease in the supply on the market. This is a different time period so the supply for that year will be represented by a shift to the left in the supply curve and a rise in the equilibrium price. 1 mark for the shift in supply and 1 mark for the labels. **[5]**
- (c) (i)** 1 mark each for better seeds, better pest control and better irrigation. **[3]**
- (ii)** Seeds are unlikely to affect fixed costs unless research is involved; pest control may be a combination of fixed and variable costs; irrigation improvements are more likely to affect fixed costs. The effect on revenue depends on changes in sales, which depend on possible changes in prices. 2 marks for each element but look for an explicit comparison. **[6]**
- (d)** 1 mark each for trade in goods, exports and current account. **[3]**
- 2 (a)** Up to 2 marks for defining the public sector as any business activity owned or controlled by central or local government. 1 mark for any likely occupation. **[3]**
- (b)** Up to 5 marks for describing functions of a trade union such as collective bargaining, improving wages, workers' welfare, better social conditions, terms of employment and legal representation.
- Up to 2 marks for a reasoned account of which function is most important. **[7]**
- 3 (a)** Up to 2 marks for a definition that distinguishes between a tax on a person or company at source, which cannot be easily avoided and a tax on a good or service that need not be paid if the good or service is not purchased. 1 mark each for one correct example of a direct tax and an indirect tax. **[4]**
- (b)** 1 mark each for identifying three different types of unemployment, such as seasonal, structural, cyclical and frictional. 1 mark each for explaining how each type of unemployment is caused. **[6]**
- 4 (a)** Up to 2 marks each identifying and explaining two issues such as family planning, spread of infection, general sanitation and clean water supplies. (This question has been asked because a number of developing countries now have information about the spread of HIV/Aids as part of the compulsory curriculum of all syllabuses). **[4]**
- (b)** Up to 6 marks for a description of the relative population structures, which may be supported by the standard diagrams. (N. B. These are changing because of the reduction in life expectancy due to HIV in Africa. General life expectancy has fallen on average by 10 years in many African countries since the late 1980s. It has fallen by much more than this in some countries. For example from 55 years to 39 years in Botswana). **[6]**

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	<b>IGCSE EXAMINATIONS – NOVEMBER 2004</b>	<b>0455</b>	<b>2</b>

- 5 (a) Up to 3 marks for explaining the meaning of growth, in terms of GDP or some similar economic indicator. [3]
- (b) Up to 5 marks for a discussion of the effects of economic growth. Benefits could include a higher standard of living, increased incomes and employment and more goods and services. Costs may include higher inflation, balance of payments problems, depletion of resources and more externalities.

Up to 2 marks for a reasoned conclusion on whether growth is advantageous.

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**MARK SCHEME for the November 2005 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.

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CIE is publishing the mark schemes for the November 2005 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 8
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- 1 (a) Explanation of role of co-ordination of other factors of production (1 mark), taking risks or making profits (1 mark). **[2]**
- (b) Farming in primary sector (1 mark), the building of a private hospital in secondary sector (1 mark – need reference to the building of the hospital). **[2]**
- (c) Explanation of meaning of industrial development with reference to businesses, new premises, machines, capital goods. **[4]**
- (d) Government could use subsidies, tax reductions, grants, changes in planning controls, relaxation of regulations, encouragement of foreign investment, or changes in labour/wage policy. **[6]**
- (e) Job creation causes increase in incomes, production, employment. This might help government's aims full employment, growth; possible result is better balance of payments through increased exports. **[6]**
- 2 (a) 2 for definition mentioning changes, or not, in output. 2 for examples. Wage may be considered either a fixed or variable cost, but not both in the same script. **[4]**
- (b) Description of benefits of availability in local area, personal service, possible longer hours, less queues, convenience.  
*Max 4 marks for benefits of a small firm with no reference to small food shops.* **[6]**
- 3 (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 or earning or on subsequent expenditure (2). **[4]**
- (b) Discussion of the use of both indirect and direct taxes. Could mention progressive, regressive direct taxes. Could also discuss the likely effect of imposing indirect tax on different products depending on whether the product is likely to be bought by low or high income groups. **[6]**
- 4 (a) Persistent rise in general level of prices. **[3]**
- (b) Explanation of use of base year, average household, basket of goods, weighted items, change from one period to another. **[7]**
- 5 (a) Brief explanation of benefits of specialisation in terms of efficient production, more economic use of resources. Full range can be used without any mention of comparative advantage. This term is not on the syllabus but specialisation and exchange is. **[6]**
- (b) Description of two types of protection - quota, regulation, tariff. (2 marks each) **[4]**



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## **MARK SCHEME for the October/November 2006 question paper**

### **0455 ECONOMICS**

**0455/02** Paper 2 (Core), maximum raw mark 60

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The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

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

Page 2	Mark Scheme	Syllabus	Paper
	IGCSE - OCT/NOV 2006	0455	02

- 1 (a) employment  
multiplier effects (do not expect this term)  
boost to exports  
by encouraging development of new skills  
introducing new technologies  
improved working conditions  
any other valid points, e.g. improvement in infrastructure.  
1 mark each, maximum (4). [4]  
There is no mark for a definition of a multi-national company.
- (b) Analysis of the idea of specialisation and opening markets worldwide, production at lower costs, increased efficiency, more competition, wider choice, lower prices. Note: core candidates are required to know about specialisation at international level but not about comparative advantage. Identification up to 3 marks. Explanation up to 3 marks. [6]  
If candidates only deal with the first sentence, maximum of 4 marks.
- (c) There will be unemployment if clothing manufacture ceases (1), but this could be replaced by manufacture of pharmaceuticals (1), boost exports (1), the great advantage that B has, was that its production was much cheaper than other countries (1). Straight copying: 2 marks maximum. [4]
- (d) One industry is very labour intensive, the other is not. 50,000 currently in medicines, 1.8m currently in clothing.  
  
Occupational immobility of labour. e.g. lack of skills.  
  
Multi-national companies may be wary of locating in Bangladesh, due to possible instability. (Note – we do not expect candidates to demonstrate a detailed knowledge of Bangladesh.) [6]
- 2 (a) Equilibrium: 1 Demand = Supply; 1 no tendency to change; 1 diagram: up to 3 marks.  
Disequilibrium: 1 Demand does not equal Supply; 1 excess Supply; 1 excess Demand; 1 diagram; up to 3 marks. [4]  
(Note – candidates do not have to include a diagram.)
- (b) Increased demand because, for example, of an increase in incomes. 2 diagram (labels and equilibrium 1, shift 1); 2 explanation. Maximum of 4 marks.  
  
Increased supply because, for example, cost reduction. 2 diagram (labels and equilibrium 1, shift 1), 2 explanation. Maximum of 4 marks. [6]  
(Note – if candidates include 2 diagrams, credit the labelling once only.)
- 3 (a) Statement of any four factors. e.g. Working conditions, holiday entitlement, lack of appropriate qualifications, travel time, career prospects, fringe benefits. [4]
- (b) Explanation of the sectors. 3 marks. Description of the changes that might occur in the balance between the primary, secondary and tertiary sectors. 3 marks. [6]
- 4 (a) Explanation of construction of retail price index, Basket, base, weight. [6]
- (b) Candidates should choose any two government aims listed in syllabus and give a brief explanation of the meaning of these. Full employment, economic growth, redistribution of income, balance of payments stability. 1 identification, 1 explanation in each case. [4]
- 5 (a) Explanation of meaning of resources (up to 2 marks), and the conservation of those resources rather than their use. (Up to 2 marks.) [4]
- (b) Beneficiaries could be the developers, the people who will use the development – it might be a shopping precinct, new commercial premises or a housing estate. Employment should increase, neighbouring businesses might benefit, transport providers should benefit. Who would be the beneficiaries up to 3 marks, why they would benefit and particular situations up to 3 marks. [6]

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**0455/02**

Paper 2 (Core), maximum raw mark 60

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Page 2	Mark Scheme	Syllabus	Paper
	IGCSE – October/November 2007	0455	02

- 1 (a) Explanation of land, labour, capital, and enterprise. [4]  
A list of four factors, 2 marks only.  
A list of three factors, 1 mark only.
- (b) More capital and more investment but less labour. [2]
- (c) Explanation of fixed and variable costs. Fixed cost will increase with new technology. Labour may be a fixed or a variable cost but likely delivery staff are thought to be a variable cost. As labour may be replaced by machines, this will decrease. However, if labour is paid more, the overall effect is uncertain. [4]
- (d) Price rises usually cause demand to fall and switch to other substitutes. This may not be thought to be a sufficient increase to cause many to switch to alternative means of communication. Extended candidates could mention price elasticity of demand. [4]
- (e) Only comparison on price is with Italy and Germany.  
No real information about rate of inflation, only a general statement about price comparing well.  
Delivery figures do seem to support the claim that Royal Mail is providing good service (but only comparison is with France).  
Only one delivery a day now, no comparison on that with other countries.  
Statement about investing in training and technology.  
Does say it needs to make profits. Not sure how much will be re-invested.  
The conclusion is uncertain as there is insufficient evidence. [6]  
A maximum of 4 marks for a one-sided answer.
- 2 (a) May employ people from different countries but this is not the definition. Has to operate in different countries. Governments may be involved in multi-national companies but this again is not the definition and most would be privately owned. [4]
- (b) Group of people working together in a similar occupation, promote welfare, safety, negotiate wages. [6]

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- 3 (a)** Explanation of principle. Must mention 'next best' or 'best' for 2 marks. Application in terms of what might be given up – for example, might get higher pay but give up shorter journey, might give up possible alternative job, might give up holidays by switching employment, 1 mark. [3]
- (b)** Could be a range of non-wage factors, could be amount of skill required, may be a manager or a clerical worker, differences in male and female, extent of union activity, supply of and demand for labour can be mentioned. [7]  
Maximum of 5 marks if not related to a service sector occupation.
- 4 (a)** Any three which could be connected with age distribution, birth rate, death rate; occupational distribution; dependency ratios, extent of malnutrition. [3]
- (b)** Comment on validity of using GDP. Difficulties of comparison over time and between countries, problems of informal economy, inflation, income per head, non-economic factors influencing standard of living, exchange rates. [7]
- 5 (a)** Concentration on a particular skill, or in this case a particular product, which it is thought the country is better suited to providing. [4]
- (b)** Text books will tell you that specialisation will produce greater efficiency. However, this has implications in terms of the human cost of this through loss of income, employment, impoverishment of regions and general disaffection of those who are not involved in the specialised areas. [6]

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## **MARK SCHEME for the October/November 2008 question paper**

### **0455 ECONOMICS**

**0455/02**

Paper 2 (Core), maximum raw mark 60

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<b>Page 2</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – October/November 2008</b>	<b>0455</b>	<b>02</b>

- 1 (a) A diagram which shows the number of males and females (1) within different age groups (1) in the population of a particular country at a given time (1). [3]
- (b) The prediction suggests that the number in the lower age range will decline, those in the middle age ranges will increase but those in the higher age ranges will increase slightly for males but not for females – except at the very top. There is a possibility that the overall population will fall. [3]
- (c) (i) Diagram for a pyramid with more even shape. 1 for labels/numbering, 1 for recognising there will be more people at the older age ranges and 1 for recognising there will probably be proportionately fewer people in the lower age ranges. [3]
- (ii) The difference reflects the changes in the birth and death rates. The birth rate will be lower than an undeveloped country, death rate will be lower and more will live until an older age. This may be due to differences in health care, education, employment structures and social conditions. There may also be differences in migration. [4]
- (d) Education will affect people's knowledge of health matters – especially important when compared with Botswana where AIDS is very common. There may be improved education for women which will affect their attitudes to child bearing and also give them employment opportunities. It will depend though on whether there are sufficient resources and developed infrastructure for the girls to go to school. In some countries girls spend hours each day walking to fetch water and do not have the time to then walk to school. There may be more skilled workers and this may involve geographical mobility or migration which will change cultural practices. Many girls are currently removed from school to look after the family especially if there is illness. [7]

Award up to 4 marks for an essentially quantitative and/or micro approach; award 5 marks or above for an essentially qualitative and/or macro approach.

- 2 (a) Explanation of the reasons for saving, spending, balance of necessities, luxuries, short term versus long term, likelihood of using credit. [5]
- (b) Discussion of the need to promote economic growth, control inflation, correct adverse changes in the balance of payments, alter the distribution of income, prevent excess inflation. Candidates could briefly debate which of the aims might be more significant. Accept any other valid influences. [5]
- 3 (a) Increase in supply causes prices to fall. Need to increase (shift) demand if price is to remain the same. It also needs to try to recover the huge expenditure on the new port extension. [4]
- Candidates do not have to include a diagram to gain maximum marks. If they include a diagram, however, with no explanation, they can gain no more than 2 marks.
- (b) Definition referring to changes in output (3). Huge investment in fixed equipment makes it likely that fixed costs will be a higher proportion, certainly in the production. Relative proportion might be more debateable in the distribution. Could give examples of each cost (3). [6]

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- 4 (a)** The first is likely to be a public limited company/multi-national (2) and the second a sole trader or partnership (2). Explanation of each type. [4]

Vague comments on business sectors rather than business organisations can gain no more than 1 mark.

- (b)** Wage and non-wage factors, travelling, timing, career prospects, location, working environment. A list of factors can gain no more than 3 marks. [6]

- 5 (a)** A definition which explains the difference between private sector and public sector investment spending and gives examples of each. 2 marks for private, 2 marks for public. [4]

- (b)** Explanation of the link to generation of income, employment, growth, increase in the standard of living. [6]



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**MARK SCHEME for the October/November 2009 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/02**

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 – October/November 2009</b>	<b>0455</b>	<b>02</b>

- 1 (a) Explanation of the link between the birth rate, the death rate and the net rate of migration. [4]
- (b) The supply of new workers would decrease, wages might possibly increase, unless immigration increases or more of the older group go back to work. [6]
- A narrow approach on teachers/schools can get a maximum of 4 marks only.
- (c) Education has wider benefits to the general society and as such may be provided by the public sector. Comment on the general benefits of education. [5]
- NB: the word economics is not in the question, so broader points can be accepted.
- (d) There was less demand in senior schools. Extra expenditure was not such an issue and therefore the government did not have to make a choice between spending extra in the school or spending elsewhere. Not so many educational services were required so there was a smaller opportunity cost between education spending and other expenditure. However, there may be an opportunity cost with what to do with extra spending available for other services assuming total expenditure remains same. There are 2 marks for a correct definition of opportunity cost. [5]
- 2 (a) Diagram: labels (1), shift of demand curve to the left (1), change in equilibrium price and quantity (1). Explanation (1). [4]
- (b) Identification of complement connected with cruise ships (2). Discussion of employment prospects with examples and application (4). [6]
- (c) Discussion of whether all tourism will be affected or whether just part, what proportion, whether there are alternative ways tourists might visit the area other than by plane, whether there are employment opportunities elsewhere which those who work in the tourist industry can do, whether the employment in tourism is mainly seasonal anyway. Could discuss the effect on incomes and expenditure. [10]
- A maximum of 5 marks only for undeveloped assertions.
- 3 (a) Length of training, possible outcome from training, likely job prospects now against job prospects later, ability, interest, whether course is free or has to be paid for. [5]
- A maximum of 3 marks only if only job or college is considered.
- (b) Discussion of what is meant by specialisation, whether it is just monotonous routine or specialisation but at a higher level. Interest, income and likely job prospects are factors to consider. [5]
- A maximum of 3 marks only for a one-sided answer.
- (c) Description of possible changes from start of employment to retirement or resignation. [4]
- (d) Need to specify which groups and consider level of spending and also type of spending. [6]

<b>Page 3</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – October/November 2009</b>	<b>0455</b>	<b>02</b>

- 4 (a) Definition of fixed/variable cost. Recognition that milk costs vary with output. Variable cost. [3]

NB: candidates can get all 3 marks if there is no reference to fixed costs.

- (b) Candidates should mention determinants of elasticity and consider chocolate in the light of these – necessity, proportion of expenditure, substitutes – and come to a conclusion. They could also mention the different types of chocolate with different prices which might not all have the same elasticity. [7]

A maximum of 5 marks only if no conclusion.

- (c) We know profit levels, expenditure on one ingredient and that it has shareholders. Large company, issues shares. Probably, therefore, has high production levels and either employs a large number of people or has a high capital investment. Public limited company/multinational. [4]

A maximum of 2 marks only for private limited company/limited company if the reasoning is not fully developed.

- (d) Need to mention the link between costs/revenue and profits. Also then need to know the proportion of cost that is spent on milk, the level of other costs, whether the high price was temporary and whether Cadbury could raise the price for its products. Conclusion should be drawn. [6]

A maximum of 4 marks only if no conclusion.

- 5 (a) Description of economy with private and public sectors, allocation of resources partly by market, partly by government, explanation of how market sector works. [4]

- (b) Explanation of any three macro-economic aims. 2 for each. [6]

A maximum of 3 marks only if just a list of macro-economic aims.

- (c) Explanation of a budget – income, expenditure for year – for government activities, enterprises, public sector subsidies. [4]

- (d) Discussion of different types of tax, revenue from government enterprises and tariffs, government borrowing, selling government businesses. [6]

A maximum of 4 marks only for just one approach.

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6 (a) Description of different parts of the current account of the balance of payments. [4]

(b) Discussion about advantages of increased choice, better use of resources, ability to earn income, increase in economic growth. [6]

(c) Discussion about the limitation to specialisation versus the gain from protection in terms of employment and incomes and support for home industry and services. [10]

A maximum of 6 marks only if a one-sided answer that deals with just better or worse.

7 (a) Description of some general characteristics of a developing country. [5]

(b) Discussion of benefits of using resources to generate income against the possible depletion in the long term. Consideration of whether the resources are renewable or not. [5]

A maximum of 3 marks only if a one-sided answer that deals with just the conservation or the use of resources.

(c) Discussion of various indicators for comparison with comment on the drawbacks of using the standard GNP or GDP indicator. [10]

A maximum of 6 marks only if there is no reference to methods of comparing living standards between countries, e.g. real GDP per capita/head or Human Development Index.

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International General Certificate of Secondary Education

**MARK SCHEME for the October/November 2010 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:

- getting away from the colder climates in Europe and North America
- visiting the safari parks
- visiting the beaches.

[2]

(b) Definition of balance of payments – 1 mark.

Explanation of what happened before 2008:

- tourism Kenya's largest foreign exchange earner
- it was bringing in between US\$1000m and US\$1500m a year
- more than the combined earnings from the next two largest earners
- these earnings from this invisible item would be a major contributor to the current account.

Explanation of what happened after 2008:

- the demand for holidays in Kenya fell as holiday makers chose to visit other destinations
- this would have the effect of worsening the current account of the balance of payments unless there were other changes to offset this
- future uncertain – would depend on whether tourism increased again.

[5]

(c) Idea of economic growth as a macro-economic aim of government – 1 mark.

Explanation in terms of:

- increase in real output over a period of time
- improved production possibilities
- increased incomes
- measured through changes in GDP, GNP or NNP.

Could accept a distinction that's 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). [4]

(d) Kenya's economic growth a 'success story':

- it increased from 0.5% to 7% per year between 2002 and 2007
- a figure of 7% per year is a particularly high figure relative to many other countries
- this would have brought significant benefits to the economy: for example, one million people were employed in the tourist industry directly or indirectly
- we are not told, however, anything about the rate of inflation and so cannot know what the real rate of economic growth was.

Effect of a fall in the number of holiday makers going to Kenya:

- the incomes of those directly employed in the tourist industry would fall
- it would also adversely affect the incomes of those indirectly involved
- employment would be likely to fall
- this would cause a fall in the standard of living/quality of life of many Kenyans
- article refers to analysts fearing a recession (do not expect reference to this term)
- fall in incomes and employment could lead to a negative multiplier effect (the syllabus does not explicitly refer to the concept of the multiplier, but candidates may suggest some understanding of what could happen).

A maximum of 4 marks if only one of these aspects is covered.

[9]

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- 2 (a) Demand and supply diagram:
- labels (price, quantity, demand, supply) (1)
  - shift in the demand curve for fish to the right (1)
  - shift in the supply curve for fish to the left (1).

Description of what might have happened in the market for fish:

- price would be likely to rise (1)
- the final equilibrium position is uncertain: it would depend on the balance of these two shifts (1). [5]

- (b) (i) Effect on incomes of fishermen:

- incomes are likely to rise because of the increase in demand
- the extent of the rise will depend on the price elasticity of demand
- the decrease in supply will also help to push incomes up. [4]

- (ii) Effect on profits of food retailers:

- they are likely to gain from the increase in the price of fish (although PED would need to be considered)
- but they are likely to lose from any decline in the demand for meat
- the effect on the profits of food retailers is, therefore, uncertain
- the extent to which consumers switch from one product to another and the relative profit margins on each product will also need to be considered to know the overall change in profit levels. [4]

- (c) Taxes:

- direct taxes
- indirect taxes.

Subsidies

Regulations:

- location
- buildings
- waste/pollution/environmental controls
- health and safety regulations/laws
- employment regulations/laws
- minimum/maximum prices
- minimum wage rates.

A maximum of 5 marks if answer is only on taxes and subsidies, with no reference to regulations. [7]

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3 (a) Arguments in favour of companies spending money on training to increase the skills of their workforce:

- an increase in skills would be likely to increase levels of productivity
- it would enable workers to become more efficient
- it would make better use of scarce resources
- it would be likely to reduce average cost
- it could lead to an increase in profits.

[4]

(b) Up to 2 marks each for an explanation of three reasons (apart from the lack of skills):

- a drop in income
- longer/less convenient working hours
- a longer and more expensive journey
- limited promotion/career prospects
- less satisfactory working conditions
- possible need to move house
- family commitments
- lack of information/knowledge about other job opportunities.

[6]

(c) Definition of a trade union – 1 mark.

Explanation of the possible benefits of trade union membership in terms of:

- wage/salary negotiations
- improvements in working conditions/health and safety
- negotiations on holiday provision
- negotiations on pension provision
- legal advice/representation
- social activities
- special discounted deals, e.g. on insurance.

[4]

(d) The demand for labour:

- give tax relief to firms to encourage an increase in production, which would lead to the employment of more labour
- regional policy to encourage firms to locate in particular areas, which would increase the demand for labour in those areas
- government policy in relation to the public sector, which will lead to an increase or decrease in the demand for labour depending on that policy.

The supply of labour:

- provide effective training/retraining schemes
- provide a good system of education
- minimum wage legislation will encourage workers to offer themselves for employment.

An answer which deals with only demand or supply can gain no more than 4 marks.

[6]



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4 (a) Identification of two types of business organisation that are likely to be found in a mixed economy (2):

- sole proprietor/trader
- partnership
- private limited company
- public limited company
- multi-national
- co-operative
- public corporation.

Description of their characteristics (2 × 2). [6]

(b) Definition of a mixed economy – 1 mark.

Explanation of why most countries have mixed economies:

- possible misallocation of resources if reliance is placed solely on the price mechanism
- possible market failure, e.g. merit goods, demerit goods, public goods, externalities (these terms are not referred to in the syllabus, but there is a reference to the concept of market failure and the reasons for its occurrence)
- regulation and control of private firms in mixed economies
- possible reasons for government influence on private producers through regulations, subsidies and taxes
- the need of the government to try and achieve its macroeconomic aims. [6]

(c) 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.

A maximum of 5 marks if only one approach is adopted. [8]

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5 (a) Definition of a developing country – 1 mark.

Possible reasons for such a disastrous effect:

- consideration of the importance of rainfall for basic food crops
- this is especially important with subsistence farming
- this is especially a problem with export crops
- the economy will be dependent on primary exports
- the situation will be aggravated by the existence of low incomes
- the situation will also be aggravated by limited reserves of food and water. [5]

(b) General policies:

- subsidies to farmers
- tax relief to farmers
- support to buy land
- help to establish businesses.

Specific policies:

- installation of piped water supplies
- improved irrigation provision
- construction of reservoirs
- assistance in the stockpiling of food reserves. [7]

(c) Discussion of such indicators as:

- GDP or GNP
- GDP per head/capita or GNP per head/capita
- real GDP per head/capita or real GNP per head/capita
- level of education
- level of health care
- relative size of primary, secondary and tertiary sectors
- income levels
- quality of life as well as standard of living
- Human Development Index (HDI).

An answer which doesn't address the issue of the most useful can gain no more than 5 marks.

A list of indicators can gain a maximum of 3 marks [8]

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- 6 (a)** Identification (1) and explanation (1) of 2 concerns:
- family planning
  - spread of infection
  - general sanitation
  - clean water supplies. [4]
- (b)** Increased spending on health care is likely to lead to:
- an increase in the birth rate
  - a decrease in the death rate
  - an increase in the average age of the population
  - candidates may comment on the falling life expectancy in many countries, especially in Africa, due to the spread of HIV and this will have implications for health care provision. [6]
- (c) (i)** Opportunity cost means:
- the benefit obtained from the next best alternative foregone because of a particular choice. [2]
- (ii)** Social benefit means:
- the sum of private benefits and external benefits. [2]
- (d)** Opportunity cost:
- the opportunity cost of health care programmes is the money and resources which could have been allocated to other types of government expenditure, such as education, defence or transport.
- Social benefit:
- private benefit – individuals will be healthier and live longer
  - external benefit – individuals will be more productive, leading to improved economic growth, increased general well-being and a better standard of living/quality of life for the population.
- A maximum of 4 marks if only one of the concepts is addressed. [6]

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- 7 (a) Tariff:
- a tax imposed on an imported good.

Quota:

- a limit on the quantity of a commodity that can be imported (or a limit in terms of market share).

In order to get the third mark, this distinction must be explained. [3]

(b) The effect of a tariff on imports:

- the prices of imports would be likely to increase
- this might switch demand to home-produced goods
- the profits of home producers might increase
- employment in the country could increase
- incomes in the home country could increase
- this will have a positive effect on the standard of living/quality of life
- if home products are exported (and imported goods reduced), this could have a positive effect on the current account of the balance of payments
- all of the above, however, is based on the assumption that the price elasticity of demand for the imported goods is relatively elastic.

Possible disadvantages:

- could be inflationary
- other countries may retaliate
- limited effect if PED is inelastic.

A maximum of 5 marks if only advantages or disadvantages of tariffs are considered. [8]

(c) Discussion of the benefits of free trade:

- greater competition between firms
- greater amount of choice for consumers
- firms need to be efficient
- firms have access to larger markets
- allocation of resources enhanced
- advantages of specialisation (there are no explicit references to absolute or comparative advantage in the syllabus)
- world output is increased
- standards of living are increased.

Discussion of the disadvantages of free trade:

- infant/sunset industries may collapse
- this could lead to an increase in unemployment
- will be difficult to prevent dumping.

A maximum of 6 marks for a discussion of only the benefits or disadvantages of free trade. [9]

**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
International General Certificate of Secondary Education

**MARK SCHEME for the October/November 2010 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) (i) Fiscal policy is concerned with the raising of money through taxation (1) which can then be spent on various areas of the economy (1).

It is concerned with money coming in to a government (1) and money going out from a government (1).

Fiscal policy is a tool of government economic policy (1). [2]

- (ii) A government could increase its own expenditure to increase domestic demand.

Possible areas:

- education; this would also have the benefit of increasing the skills/qualifications of the labour force
- health; this would also have the benefit of increasing the productivity of the labour force
- transport infrastructure
- benefits
- buying up/taking over failing private sector firms
- government support for investment expenditure by firms on new plant and machinery.

Alternatively, it could reduce taxes to increase domestic demand.

All 4 marks can be given for either an increase in expenditure or a reduction in taxes. [4]

- (b) A consideration of either health care or state benefits (up to 2).

A consideration of both but no reference to which would be more successful (up to 3).

A consideration of both and an assessment of which might be more likely to stimulate an economy (up to 4). [4]

- (c) Possible reasons:

- over-dependence on agriculture to provide jobs and income
- domination of international trade by the developed countries
- lack of capital
- low productivity
- weak trade unions in many countries
- insufficient investment in education and skills
- insufficient education about family planning
- high population growth
- relatively low level of health care
- low level of investment in transport infrastructure. [4]

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(d) Possible policies:

- improving education: expenditure on improving the schools and colleges so that the workforce becomes more skilled and productive
- support for dissemination of information on family planning to try and slow down the rate of population growth
- minimum wage legislation
- use of direct taxes, such as income tax, to try and bring about a more equal distribution of income
- encouragement given to multi-nationals to locate in the country to provide more employment opportunities, such as through tax holidays
- financial support to firms to help them survive/expand
- government projects in transportation
- subsidising exports
- devaluing currency.

Candidates can gain full marks for a discussion of just two of these if the development is good. The question does refer to the possible **effectiveness** of these policies; a maximum of 4 marks if this is not addressed. [6]

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- 2 (a) Land: natural resources, e.g. minerals, the sea (1).  
Labour: human resources, e.g. workers (1).  
Capital: man-made aids to production, e.g. machinery and equipment (1).  
Enterprise or entrepreneurship: the ability to combine factors of production and to take risks (1).

A list of the four factors, with no examples, will gain just 1 mark.

A list of the four factors, with examples, will gain 2 marks. [4]

- (b) The nature of the economic problem:

- at any moment in time in an economy, output is limited by the resources and technology available; there is, therefore, a basic condition of scarcity
- the wants of consumers are unlimited or infinite
- the ability of the resources to satisfy those wants, however, are limited or finite
- there is, therefore, a need to make a choice as a result of this scarcity
- this choice will be in terms of what to produce, how to produce and for whom to produce.

Candidates can gain all 4 marks for addressing any four of these five points. [4]

- (c) In market systems, decisions are made by individual buyers and sellers who act in their own self-interest. Producers aim to maximise their profits and consumers aim to satisfy their utility/satisfaction. The price system allocates resources through the interaction of the forces of demand and supply so that an equilibrium, market clearing, position is established. There is no or very little government intervention.

In mixed economic systems, the price system continues to exist in many areas of the economy, but there is a recognition of possible market failure. This gives rise to a much greater degree of government involvement to influence the allocation of resources. Sometimes the government will control resources directly and sometimes it will influence the private sector in various ways.

A maximum of 2 marks if only one type of economic system is considered. [4]

- (d) A one-sided approach in favour of the market economy, including reference to, for example:

- greater efficiency
- consumer sovereignty
- wider choice/more competition
- encouragement of innovation. (up to 5 marks)

A more balanced answer, which recognises that there are some possible disadvantages of a market economy, including, for example:

- existence of monopolies
- non-provision of public goods
- under-provision of merit goods
- over-provision of demerit goods
- existence of externalities
- inequality in the distribution of income and wealth. (up to 8 marks)

Note: candidates do not specifically need to refer to terms such as public goods, merit goods or demerit goods, as these are not explicitly referred to in the syllabus. [8]



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- 3 (a) The functions of money described:
- a medium of exchange (1)
  - a unit of account (1)
  - a store of value (1)
  - a standard for deferred payments (1).

A maximum of 2 marks if the four functions are listed (a maximum of 1 mark if three of them are listed). Do not accept answers which focus on the attributes, properties or characteristics of money. [4]

- (b) Demand and supply diagram:
- labels (price or wage, quantity or employment) (1)
  - demand and supply curves (1)
  - shift of demand curve to the right (1).

Analysis:

- increase in demand for air travel is likely to increase demand for pilots
- idea of derived demand
- effect of this on wage levels.

Put a mark in brackets out of 3 next to the diagram and a mark in brackets out of 3 next to the analysis. [6]

- (c) Changes in earnings:
- relatively low earnings to begin with
  - gradual increase in earnings as more experience is gained
  - earnings will reach a maximum as a person reaches their full potential
  - earnings will fall; after employment ends, reliance on pension.

A maximum of 2 marks if no reference is made to earnings eventually falling. [3]

- (d) Reasons for saving more:
- future consumption
  - interest rates
  - precautionary factors
  - availability of savings schemes.

Reasons for spending more:

- attitudes to spending
- conspicuous consumption
- uncertainty about the future
- lack of dependants.

A maximum of 4 marks if only reasons for saving more or for spending more are addressed. A maximum of 3 marks if only the level of income is discussed. [7]

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4 (a) Main characteristics:

- it operates in more than one country (but this needs to involve more than just selling in different countries)
- it has production or service facilities outside its country of origin
- its headquarters are likely to be in one particular country
- they are some of the largest firms in the world, employing many thousands of workers
- they are responsible for about 65% of world trade.

A maximum of 2 marks if only one characteristic is described.

[4]

(b) Reasons for the continued existence of small firms:

- the size of the market may be small
- can cater for a variety of specialised tastes/orders (idea of niche)
- may produce expensive items with a very limited demand
- preference for personal service
- provide parts for larger manufacturers
- limited finance to grow any larger
- personal choice/preference of owners to remain small
- government assistance.

Candidates can gain full marks if they have only covered two of these, but only if the explanations are thorough. [6]

(c) A definition of monopoly – up to 2 marks.

Possible advantages:

- greater level of production
- scope for economies of scale
- this could lead to lower costs and, possibly, lower prices
- abnormal profits earned can be used to finance investment in research and development
- this can encourage innovation.

Possible disadvantages:

- barriers to entry can lead to abnormal profits in the long run; there is no guarantee that these profits will be used to finance investment in research and development
- allocative inefficiency; in other words, the price charged is greater than the marginal cost and this causes a welfare loss
- productive inefficiency; in other words, the monopolist is unlikely to produce at the lowest point on the average cost curve
- a higher price will be charged for less output (compared to perfect competition)
- less consumer choice
- X inefficiency; in other words, because a monopolist dominates a market, it may have less incentive to be efficient.

This is a deliberately open question and candidates may answer it from the viewpoint of a firm, a consumer, a government or the economy generally. All are equally valid approaches.

A maximum of 6 marks (including 2 marks given for a definition of monopoly) if only the advantages or disadvantages are discussed. [10]

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- 5 (a) Full employment exists when all those willing and able to work at a given wage are working. In other words, all unemployment is voluntary. It is thus the level of employment at which all those who wish to work have found jobs, with the exception of those who are frictionally employed.

Full employment is one of the main government macro-economic objectives (1).

Accept answers which refer to resources other than labour. [3]

- (b) Different types of unemployment:

- demand deficient/cyclical
- structural
- frictional
- technological
- seasonal
- residual
- regional
- voluntary
- involuntary.

A number of these can be explained or just two of them explained very thoroughly. [6]

- (c) The various stages:

- basket of goods and services
- monitoring of price changes
- selection of base year = 100
- weighting of the items in the basket
- change in index between years.

[5]

- (d) A definition of inflation – 1 mark.

Possible disadvantages:

- reduction in purchasing power of a given sum of money
- decline in real income
- effect on those on fixed incomes in particular
- savers can be worse off if inflation is greater than the rate of interest
- lenders of money can be worse off (again, depending on the interest rate)
- can be linked with unemployment (stagflation)
- a country's exports can become less price-competitive in world markets (the actual effect will depend on inflation rates in different countries).

Possible advantages:

- it can act as an incentive to firms to produce
- it could stimulate economic growth
- it leads to higher wage increases
- borrowers of money may gain.

A one-sided view that assumes that inflation is always harmful can gain a maximum of 4 marks (including 1 mark given for a definition of inflation). Answers normally should make some comment on the fact that the rate of inflation needs to be considered. [6]

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- 6 (a) (i) Net migration is the difference between:
- immigration (1) and
  - emigration (1).
- [2]

- (ii) Other possible factors:
- birth rate
  - fertility rate
  - death rate.
- [2]

- (b) Developing countries:
- usually a very rapid rate of population growth, putting pressure on economies that may not be able to satisfy the needs of the population
  - this can lead to high rates of unemployment
  - some people will be forced to emigrate to look for work
  - standards of living/quality of life will be adversely affected.

Developed countries:

- rate of population growth usually lower than that in developing countries, so less of a problem
- however, there may be a high rate of immigration which could put pressure on resources
- this would especially be the case in areas of education and health
- depending on skills of these immigrants, there could be a significant effect in the labour market.

A maximum of 4 marks for an answer which deals with only developed or developing countries. [6]

- (c) A definition of the three sectors – 2 marks.

Change in occupational structure of population:

- primary sector – this may be in decline
- secondary sector – this may be on the increase
- if deindustrialisation, secondary sector could be in decline
- possible move from labour-intensive to capital-intensive methods of production
- tertiary sector – this may be on the increase
- effect of these changes may help country on path to development.

A maximum of 6 marks (including 2 marks for a definition of the sectors) for a one-sided answer which assumes that such a change would necessarily be beneficial for an economy. [10]

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**7 (a)** Structure of current account:

- visible trade account – the difference between the export revenue and import spending on physical goods, e.g. cars, washing machines
- invisible trade account – measures the difference between export revenue from and import spending on services, e.g. banking, insurance and tourism
- income – e.g. interest, profit and dividends flowing in and out of the country
- current transfers – e.g. grants for overseas aid.

An answer which just deals with visibles and invisibles can gain up to 3 marks. [4]

**(b)** Policies:

- expenditure switching policies – attempts to make imports relatively expensive compared to exports, such as through import controls, e.g. tariffs or through a reduction in the exchange rate such as a devaluation/depreciation
- expenditure reducing policies – attempts to reduce spending throughout the economy through deflation, such as through an increase in taxes, a reduction in government spending or an increase in interest rates
- encouraging demand for exports, such as through subsidies.

A maximum of 4 marks if only an increase in exports or a reduction in imports is explained. [6]

**(c)** Specialisation:

- the process by which individuals, firms and economies concentrate on producing those goods and services in which they have an advantage
- production processes are broken up into a sequence of different tasks.

A maximum of 2 marks if only division of labour is considered. [4]

**(d)** Benefits:

- it can lead to greater efficiency of production
- it has the potential to increase the output that can be obtained from a given quantity of resources
- reference to examples at the national level (idea of concept of comparative advantage, although do not expect this term as it is not on the syllabus).

Disadvantages:

- at the national level, workers/firms may specialise in areas of production and there is a decline in demand for the goods produced.

A maximum of 4 marks if only the benefits or disadvantages are discussed. An answer which focuses on division of labour only can gain a maximum of 3 marks. [6]

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**0455 ECONOMICS**

**0455/23**

Paper 2 (Structured Questions),  
maximum raw mark 80

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- 1 (a) A merger occurs when two or more firms agree to join together to form a new business enterprise; there is a combining of two or more firms under one management and there is usually mutual agreement (1).

A takeover occurs through an acquisition where one company buys all, or a controlling interest, of the shares of another company; this may involve a hostile bid by one company for another and so there may be quite a lot of opposition (1). [2]

(b) 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 for reference to possible external economies, such as availability of skilled labour or existence of ancillary firms.

The question does refer explicitly to car production; a maximum mark of 3 if a general answer with no specific reference to car production. [5]

(c) Possible reasons:

- decline in income/real income/disposable income
- prices too high
- prices uncompetitive with other producers
- possible increase in taxes on cars
- quality/reliability less than competitors
- recession/rise in unemployment/general economic conditions
- lack of advertising/poor quality of advertising
- improvement in quality of public transport/more reasonable prices (substitute good)
- rise in price of petrol/diesel (complementary good).

[6]

(d) Possible reasons:

- to maintain employment
- to maintain revenue from taxes
- to avoid having to pay unemployment benefits and other forms of social security benefits
- negative regional multiplier effect (don't expect use of term multiplier)
- status/reputation of economy
- possible political reasons, e.g. don't want to risk losing votes of so many people.

Maximum of 4 marks for a one-sided view.

Candidates do not need to discuss all of these. Full marks can be obtained if just two reasons are discussed thoroughly. [7]

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- 2 (a) Possible points:
- enterprise refers to business knowledge and the ability to run a production process
  - it is the quality which involves initiative to create and sell a product
  - entrepreneurs organise resources to make goods and services
  - they are the people who take the risks
  - they are the people who take the decisions necessary to make a firm run successfully. [4]

- (b) Possible ways:
- subsidies/grants
  - tax incentives
  - regional policy
  - reskilling/retraining schemes
  - encouraging investment from overseas
  - road shows/advertising to encourage new entrepreneurs. [4]

- (c) Diagrams:
- both diagrams correctly labelled (demand, supply, price, quantity) (1)
  - shift of demand curve in one diagram (1)
  - shift of supply curve in the other diagram (1).

Re-allocation of resources:

- decisions are made by individual buyers and sellers
- they act in their own self-interest
- producers aim to maximise their profits
- consumers aim to maximise their utility/satisfaction
- the price mechanism allocates resources
- this is done through the interaction of the forces of demand and supply
- there is a market-clearing equilibrium position where there is no excess demand or excess supply
- there is no government intervention. [6]

- (d) Possible disadvantages of market forces:
- merit goods may be under-provided
  - demerit goods may be over-provided
  - public goods may not be provided at all
  - externalities may not be taken into consideration
  - some consumers/producers will have more power than others.

Candidates do not need to refer specifically to demerit, merit or public goods to gain full marks.

A key word in the question is **just**; a one-sided answer can gain no more than 4 marks. [6]



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- 3 (a) Functions:
- accepting deposits of money and savings
  - helping customers make and receive payments
  - making personal and commercial loans
  - providing overdraft facilities
  - buying and selling shares for their customers
  - providing bureau de change facilities
  - storing valuables in safe deposits
  - financial advice.

Candidates do not need to describe all of these. Full marks can be obtained through a thorough description of just two of them. [4]

- (b) A definition of the Stock Exchange can gain 2 marks.

Role of a stock exchange:

- it enables stocks and shares to be bought and sold
- it brings buyers and sellers of stocks and shares together
- this enables firms to raise finance
- it thus contributes to the growth of an economy
- it will usually have an index indicating the general value of stocks and shares and this will show how an economy is doing.

Candidates do not need to explain all of these. Full marks can be obtained through a thorough explanation of just one of them. [4]

- (c) Differences in earnings between:

- male/female
- skilled/unskilled
- private/public
- agricultural/manufacturing/services.

Allow any reasonable grouping of workers, e.g. by age, union or non-union, part-time or full-time, regional, level of risk.

A description of the differences can gain no more than 4 marks. [6]

- (d) Low income groups are likely to:

- spend a high proportion of their income (propensity to consume) to meet basic needs for food, clothing, housing and heating
- save a low proportion (the savings ratio) of their income because they don't usually have very much of their income left to save.

High income groups are likely to:

- spend a low proportion of their income; they will probably spend more than low income groups, but it will be a smaller proportion of their income. Much of this spending will be in relation to wants rather than needs, e.g. expenditure on luxury items
- save a high proportion of their income because they usually have quite a lot of their income left over to save.

A key word in the question is **always**; an answer which fails to take this into account can gain no more than 4 marks. [6]

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- 4 (a) A co-operative:
- a business organisation which is owned and controlled by a group of people to undertake an economic activity to their mutual benefit
  - each member of a co-operative has an equal share in the ownership and control of the organisation, e.g. a co-operative retail or farming group. [2]

A public corporation:

- it is owned/controlled by a government/is in the public sector
- it is responsible for the day-to-day running of a business. [2]

(b) Demand for labour:

- a derived demand for what the labour can produce
- the higher the revenue obtained from the sales of these products, the greater the demand for labour to produce these products
- the revenue obtained from the sale of these products will need to be greater than the cost of employing the labour
- is therefore linked to the wage rate paid; idea of surplus value (don't need to use that term)
- this is why the demand curve for labour is downward-sloping
- linked to the productivity of the labour
- will be affected by demand for capital. [6]

(c) Definitions of public and private sector – up to 2 marks.

Possible advantages of public sector employment:

- greater job security
- job satisfaction, e.g. working in state community schools
- status, e.g. doctors in state community hospitals
- enhanced pension provision.

Possible advantages of private sector employment:

- improved working conditions
- better pay
- more incentives, e.g. bonuses
- stress on efficiency.

A maximum of 6 marks, inclusive of mark(s) for definitions, for an answer which deals with only one of the sectors. [10]

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- 5 (a) Inflation is a general (1) and sustained/persistent (1) rise in the level of prices (1) of goods and services in an economy over a period of time (1).

Any three of these four aspects can be rewarded.

For comment on reduction of purchasing power/increase in cost of living, 1 mark. [3]

- (b) Possible causes:

- demand-pull
- cost-push
- monetary (excessive growth of the money supply)
- imported (as a result of international trade).

Difficult to give specific marks for each of these possible causes of inflation. Candidates can gain full marks for any two causes only. An answer which analyses only one cause can gain a maximum of 3 marks. [7]

- (c) A subsidy is a payment made by a government (1) to producers (1) to help reduce their costs of production (1). [3]

Allow up to 2 marks if reference is only made to consumers.

- (d) Possible advantages of subsidies:

- as a result of the subsidy, producers will tend to increase supply at every price
- as supply increases, the market price will tend to fall
- this will benefit consumers who will gain by being able to buy a product at a lower price than would otherwise be the case
- demand will expand and this will increase standards of living
- this is especially the case if it is an essential service/product.

Possible disadvantages of subsidies:

- public money is needed to finance them
- can distort competition
- can be used to support inefficient producers
- can lead to excess supply
- may not be passed on to consumers.

Accept answers that focus on subsidies being provided to consumers, e.g. in the provision of education.

A maximum of 4 marks if an entirely one-sided answer. [7]

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**6 (a) Difficulties:**

- it may be measured by the number of people claiming unemployment benefits, but not all countries pay these
- some people may want to work, but are not actually claiming benefits
- some people may be in employment in the hidden/informal economy, but are officially registered as unemployed
- poor data collection in rural areas
- high dependence on seasonal work.

Can gain all 3 marks for one problem well developed. [3]

**(b) Possible consequences:**

- the economy is under-producing compared to its potential output
- this leads to a lower rate of economic growth
- it is a waste of scarce resources
- the government loses tax revenue from income tax as fewer people are working and less revenue from VAT as there is less spending
- the government has to pay out more in the form of unemployment benefits; there is an opportunity cost of this as the money could have been spent elsewhere
- it can cause social problems, such as a higher crime rate
- workers pay higher taxes. [6]

**(c) Real Gross Domestic Product:**

- real – after the effect of inflation has been taken into account (1)
- gross – before depreciation/capital consumption is deducted (1)
- domestic – produced within the geographical boundaries of the country (1)
- product – the goods and services produced in a given year (1).

Alternatively, allow 2 marks for idea of output and 2 marks for explanation of real. [4]

**(d) Possible differences:**

- real GDP per capita
- levels of income
- life expectancy
- education/literacy rate
- access to safe water supplies and sanitation
- extent of ownership of consumer goods
- primary/secondary/tertiary proportions
- participation in international trade
- availability/use of capital
- health
- diet
- infrastructure
- distribution system
- rate of population growth/optimum population.

A maximum of 5 marks if candidates only discuss developed or developing countries. [7]

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- 7 (a) Possible factors:
- a reduction in import controls
  - an increase in demand/standard of living
  - the collapse of a domestic producer
  - an effective advertising campaign for the imports
  - exhaustion of domestic resources.
- [4]

- (b) Possible advantages of a fixed exchange rate:
- less volatility in the exchange rate so less instability
  - makes planning/forecasting easier and so less uncertainty
  - this could encourage investment/trade, having a positive effect on the economy
  - avoids speculative movements in exchange rate
  - it could encourage tourism
  - it will force a country to control its rate of inflation.
- [6]

- (c) Possible advantages of a fall in an exchange rate:
- exports made more competitive
  - this would stimulate demand for them if PED is elastic
  - imports made less competitive
  - this would reduce demand for them if PED is elastic
  - balance of payments disequilibria can be corrected
  - there is no need for the central bank to use foreign reserves to maintain a fixed exchange rate.

Possible disadvantages of a fall in an exchange rate:

- PED may not be elastic and so the effect on the balance of payments may be less than expected
- if demand for imports is inelastic, this could contribute to imported inflation.

A key word in the question is **always**; an answer which fails to take this into account can gain a maximum of 6 marks. [10]

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**MARK SCHEME for the October/November 2011 question paper  
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**0455 ECONOMICS**

**0455/21**

Paper 2 (Structured Questions), maximum raw mark 80

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- 1 (a) Economic growth:
- an increase in the total output of goods and services in an economy over a period of time
  - an increase in national income
  - an increase in real Gross Domestic Product (GDP)
  - an increase in the productive capacity/potential of an economy. [2]

- (b) Profit maximisation:
- profit is the reward to business owners or entrepreneurs
  - for taking the risk of setting up a firm
  - a firm which does not make a profit may be forced to close down
  - retained profit is an important source of finance for firms. [4]

- (c) Importance of bank lending by commercial banks:
- bank lending in China up by 34% in 2009
  - idea of greater liquidity in the banking system
  - this will enable firms and private individuals to finance expenditure more easily
  - this will lead to higher employment and incomes
  - but there are potential problems – it could be inflationary and/or lead to an increase in imports, affecting the balance of payments
  - limited funds will involve an opportunity cost.

A maximum of 4 marks if only positive aspects are described. [6]

- (d) Potential advantages:
- a rise in national output; more goods and services produced
  - can lead to a rise in standards of living.

Potential disadvantages:

- can cause external costs, such as pollution
- could reduce quality of life, e.g. less leisure time.

A maximum of 5 marks for a one-sided answer. [8]

- 2 (a) Identification of factors:
- managers – accept managers as either labour or enterprise
  - machinery – capital
  - people – labour.

2 marks for the identification of 2 or 3 factors.

2 marks for the explanation of 2 or 3 factors.

Do not accept land. [4]

- (b) (i) Horizontal integration:
- when firms engaged in the same stage of production of a good combine
  - examples of car firms that have combined, e.g. Tata Motors and Jaguar. [4]

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(ii) Vertical integration:

- when firms engaged in different stages of production combine
- forward integration involves going forward to a retail outlet, e.g. where a car producer owns/controls dealerships
- backward integration involves going backward to the supply of raw materials, e.g. where a car producer owns/controls supplies of raw materials/parts. [4]

The benefits will relate to the possible advantages of economies of scale in reducing the costs of production.

A maximum of 3 marks in each of (i) and (ii) for an answer which makes no explicit reference to the car industry.

(c) Reasons for differences in remuneration:

- skills/training
- education/qualifications
- experience
- level of responsibility
- geographical area
- trade union membership
- demand factors (idea of derived demand)
- supply factors.

Answers which make no reference to the demand for, or the supply of, labour can gain no more than 5 marks. Similarly, an answer which makes no reference to people in the car industry can gain no more than 5 marks. Answers which fail to address both of these aspects can gain no more than 4 marks. [8]

3 (a) Description of an indirect tax:

- these are taxes on the expenditure on goods and services (1)
- they are added to the price of goods and services and normally collected from those selling the goods or services (1).

Example:

- sales tax (e.g. VAT, GST), tariffs, excise duties (1). [3]

(b) Diagram:

- correct labelling of P and Q axes and D and S curves (1)
- shift of the supply curve to the left (1)
- equilibrium price rises and equilibrium quantity falls (1).

Explanation of what is shown in the diagram (3). [6]



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- (c) Explanation of market failure:
- the market does not allocate resources as efficiently as was expected
  - some goods may be over-consumed (demerit goods, but don't need to use the term)
  - some goods may be under-consumed (merit goods, but don't need to use the term)
  - some goods may not be provided at all (public goods, but don't need to use the term)
  - positive and negative externalities may not be taken account of (but don't need to use the term)
  - there may be information failure. [5]

- (d) Extent to which introduction of an indirect tax could correct market failure:
- an indirect tax on a good would increase its price
  - and this might lead to a reduction in demand
  - reducing the market failure
  - but it won't have much of an effect if demand is relatively price inelastic
  - and it would not address other aspects of market failure
  - such as the under-consumption of merit goods, which would require a subsidy.

A maximum of 4 marks if extent is not addressed. [6]

- 4 (a) Possible factors that can affect saving:
- interest rates, especially real interest rates
  - availability of appropriate savings schemes
  - advertising of/knowledge about what is available at financial institutions
  - confidence/trust in financial institutions
  - size of real disposable income
  - rate of inflation
  - wealth
  - save for a future purchase, e.g. a house
  - precautionary factors, e.g. 'saving for a rainy day'
  - satisfaction of wants and needs
  - tastes and preferences of consumers
  - consumer confidence/expectations about future changes in the economy, e.g. risk of unemployment. [6]

- (b) Possible reasons:
- consumption would fall
  - savings are a withdrawal from the circular flow of income (don't expect that term)
  - a lower demand could lead to jobs being lost and higher unemployment
  - lower spending would lead to a reduction in government revenue from indirect taxes on expenditure. [6]

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(c) Possible ways:

- reduction in income tax to increase disposable income
- reduction in an indirect tax on expenditure, e.g. VAT
- government controls through maximum prices to keep prices of products affordable to many people
- a reduction in interest rates to make saving less attractive
- changes in savings schemes to make them less attractive, e.g. an increase in the minimum deposit to open one
- reduction/withdrawal of tax advantages of savings schemes. [8]

5 (a) (i) Full employment:

- this is where the number of employment vacancies in an economy (1)
- is equal to the number of people unemployed in that economy (1).

OR:

- this is where all those willing and able to work at the given real wage (1)
- are working, i.e. all unemployment is voluntary (1). [2]

(ii) The unemployment rate:

- this is the number of people unemployed (1)
- as a proportion of the labour force (1). [2]

(b) Possible types of unemployment:

- residual
- frictional
- natural
- structural
- regional
- seasonal
- cyclical or demand deficient
- technological
- real wage (or classical).

A maximum of 3 marks for a list of different types of unemployment. [6]

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- (c) Possible benefits:
- increase in incomes
  - increase in standards of living/quality of life
  - encourages economic growth/increase in GDP
  - reduces the amount of money spent on benefits
  - and releases this money for other types of spending (idea of opportunity cost)
  - such as health or education
  - brings in more revenue from taxation, both direct (from the incomes earned)
  - and indirect (from the extra expenditure)
  - helps reduce/eliminate a budget deficit
  - reduces the extent of crime and social disorder
  - encourages exports
  - and helps reduce/eliminate a balance of payments deficit.

Possible disadvantages:

- inflationary effects
- effect on balance of payments.

A maximum of 6 marks for a one-sided discussion.

[10]

6 (a) Possible reasons:

- birth rate
- death rate
- fertility rate
- net migration
- religious attitudes and beliefs
- knowledge about/availability of contraception
- standard of living/quality of life
- literacy rate
- average age of marriage.

[6]

(b) (i) The geographical distribution of its population:

- there is likely to be a move away from rural villages
- to urban areas
- and this increased urbanisation will be likely to place a greater burden on resources and available space.

[2]

(ii) The occupational distribution of its workforce:

- continued reduction in the primary sector
- initially an increase and then a reduction in the secondary sector
- continued increase in the tertiary sector.

[4]

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(c) Possible advantages:

- extra consumers, so increasing the level of demand
- extra workers, so increasing the level of supply
- this should lead to greater economic growth
- and an increase in the standard of living/quality of life.

Possible disadvantages:

- extra demand may outstrip supply, causing inflation
- extra workers may not have the required skills/training
- their lower productivity could be a problem
- they may not all be able to get a job and so unemployment could rise.

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

7 (a) Trade protection:

- the protection of industries in a domestic market
- the restriction of imports coming into a country.

[4]

(b) Possible reasons:

- to protect an infant industry
- to prevent dumping
- to protect a declining industry
- to raise revenue through tariffs
- to overcome a balance of payments deficit.

[6]

(c) Possible advantages to consumers:

- increase in standards of living/quality of life
- greater variety of choice for consumers.

Possible disadvantages to consumers:

- a reduction in standards of living/quality of life (5).

Possible advantages to producers:

- greater efficiency of production
- increase in world output.

Possible disadvantages to producers:

- infant (sunrise) industries could collapse
- declining (sunset) industries could collapse (5).

For each part, an entirely one-sided answer (i.e. fails to address 'all') can gain no more than 3 marks. [10]

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**0455 ECONOMICS**

**0455/22**

Paper 2 (Structured Questions), maximum raw mark 80

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- 1 (a) (i) One influence on the increase in demand for cocoa:
- the fashion for more 'upmarket' chocolate. [1]
- (ii) Two influences on the decrease in supply of cocoa:
- poor weather (dry weather)
  - under-investment in the industry
  - producers don't use many chemicals or pesticides
  - they need to invest in other farming techniques
  - pests
  - disease. [2]
- (b) Diagram:
- correctly labelled and drawn axes (P and Q) and curves (D and S) (1)
  - correctly labelled and drawn shift of the demand curve to the right and supply curve to the left (1)
  - change in equilibrium price and equilibrium quantity clearly shown (1).
- Explanation of diagram:
- shifts of demand and supply curves (1)
  - higher price (1)
  - change in quantity uncertain (1). [6]
- (c) Effects of fluctuations in the cocoa market:
- wild fluctuations in relation to changes in demand and supply conditions, especially in relation to supply
  - these fluctuations likely to lead to volatile prices
  - this will be extremely unstable for farmers – this instability can be very unsettling, making planning uncertain. Variations in prices will lead to variations in incomes – this will affect the standard of living of the farmers. [3]
- (d) In favour:
- establish fixed (minimum or maximum) prices to support an industry
  - may be able to maintain employment levels.
- Against:
- goes against free market forces
  - could mean that a government is supporting an inefficient industry.
- A one-sided answer can gain no more than 5 marks. [8]
- 2 (a) Explanation:
- there are finite/limited resources
  - so there is a basic situation of scarcity
  - there are unlimited wants
  - so there is a need to exercise choice. [4]
- (b) Explanation of factors of production:  
2 marks for identifying four factors, but no explanation.  
1 mark for identifying three factors, but no explanation.  
Candidates should state and explain all four factors to gain full marks. [4]

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**(c) Opportunity cost:**

- it is the next best alternative that is foregone (2 marks for definition)
- it represents cost in terms of what could have been had as an alternative to the item actually chosen
- the idea of opportunity cost may be applied in any situation where choices are being made
- the need for choice is due to the existence of scarce resources which have alternative uses; this is why it is an important concept for economists (2 marks for development that goes beyond a definition).

If opportunity cost is not clearly defined, but an example is used which indicates a basic understanding, give 1 mark.

Alternatively, an example might be used to aid the explanation and this could be given 1 mark.

There are no marks, however, for simply giving an example. [4]

**(d) Possible benefits:**

- a better-educated workforce is likely to be more productive
- this could lead to greater output/higher GDP
- a healthier workforce is likely to miss fewer days of work
- and so again productivity could increase.

Possible disadvantages:

- there might not be sufficient demand for workers
- there could be a high rate of unemployment
- improved health care is likely to lead to a lower death rate/higher birth rate
- this would lead to an increase in population which could put pressure on resources.

Other types of expenditure:

- idea of opportunity cost involved
- other types of expenditure might also have a significant impact on economy, e.g. spending on transport infrastructure or housing.

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

**3 (a) (i)** Private cost: the costs of production that are borne by the business which produces the product or by the consumer who purchases the product (1).

**(ii)** Private benefit: the benefits which accrue to the individual buyer or seller of a product (1).

**(iii)** External cost: the costs which occur that are paid by a third party, rather than the producer (1).

**(iv)** External benefit: the benefits which result from a firm's operations, but which give benefits to a third party (1). [4]

**(b) Possible examples:**

**(i)** Private cost: the construction cost (1).

**(ii)** Private benefit: the profit made by the private company (1).

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(iii) External cost: the noise pollution resulting from the noise of vehicles on the motorway (1).

(iv) External benefit: the savings in time from people driving their vehicles along the motorway (1). [4]

(c) Reasons for involvement of private companies:

- they could contribute some of the finance
- would be less of a burden on the government/taxpayer
- they would have the expertise/experience from having built other roads
- they would have the necessary equipment/machinery
- government free to concentrate on other things, e.g. defence.

A candidate can get full marks if they answer on just one of these. [4]

(d) Benefits:

- jobs will be created
- bring in more business (idea of multiplier effect, but don't need that term)
- journey times will be reduced.

Disadvantages:

- some business may be lost as towns/villages are by-passed
- noise pollution
- some people may have to be moved if their land is on the motorway route.

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

Don't award marks where the answer is simply repeating what was in (b). [8]

4 (a) Functions of a trade union:

- they exist to protect the interests of their members
- gain appropriate wage/salary increases; idea of collective bargaining
- job security
- working conditions/health and safety
- dismissal/redundancy
- possible influence on government at national level.

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

(b) Reasons include:

- union doesn't exist in a particular line of work
- person is self-employed
- cost of annual fee/subscription is expensive
- worker doesn't agree with views/actions of union
- employees are satisfied with their pay and working conditions
- they are illegal in some countries.

[4]



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(c) Reasons include:

- entrepreneurs want to work for themselves
- the market is too small (e.g. niche market)
- greater flexibility
- costs may be lower (e.g. non-unionised labour may be cheaper)
- provision of personal services
- may be able to benefit from external economies of scale (e.g. advertising)
- government support (e.g. subsidies)
- lack of capital.

[4]

(d) Possible benefits:

- internal economies of scale, e.g. risk-bearing, administrative or managerial, technical, marketing, financial, increased dimensions
- as the size of the firm increases, average long-run cost goes down
- external economies of scale, e.g. a pool of skilled labour, infrastructure, suppliers
- larger market share/control of market.

Possible disadvantages:

- diseconomies of scale, i.e. as the size of a firm increases, average long-run cost goes up
- lack of personal service.

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

Also, an answer which contains no explicit reference to costs of production can gain no more than 5 marks.

[8]

5 (a) Economic growth:

- an increase in the total output of goods and services in an economy over a period of time
- an increase in national income
- an increase in real Gross Domestic Product (GDP)
- an increase in the productive capacity/potential of an economy.

Give 1 mark for a basic description and the second mark for development, e.g. reference to GDP or increase in productive capacity.

[2]

(b) Possible economic aims:

- full employment
- price stability
- redistribution of income
- balance of payments stability.

Allow relevant environmental aims.

Allow exchange rate.

[4]

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(c) Possible policies:

- increase in quantity of factors, e.g. encourage immigration, discover/exploit natural resources
- increase in quality of factors, e.g. improved education/training facilities, encourage research and development
- reallocating resources out of sunset and into sunrise industries
- tax holidays to encourage firms to spend more on investment
- improve information about employment opportunities
- encourage geographical mobility of workers
- encourage inward investment
- monetary and/or fiscal policy (effect on the demand side).

A maximum of 3 marks for one policy only. [6]

(d) Possible conflict:

- price stability, if increase in demand is greater than increase in supply
- redistribution of income, if most of the gains from economic growth go to the richer people in the society
- balance of payments stability, if increase in incomes resulting from economic growth leads to a large increase in the demand for imports relative to that for exports.

Conflict less likely:

- full employment, as economic growth is likely to lead to an increase in the demand for labour.

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

6 (a) Data include:

- real GDP per capita
- Human Development Index
- occupational distribution of labour
- birth rate/death rate
- life expectancy
- rate of population growth
- quality of infrastructure
- housing/sanitation
- proportion of exports from the primary sector
- quality of water
- literacy rate.

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

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(b) Possible influences:

- the average age of the population
- the gender balance of the population
- the women's fertility rate
- the age at which women decide to have children
- the participation rate of women in the labour force
- the socio-economic status of women
- the availability of/knowledge about family planning
- the standard of living
- education
- medical/health facilities
- cultural issues.

[6]

(c) Possible benefits:

- companies would provide jobs leading to a reduction in unemployment
- incomes would rise
- standards of living/quality of life could increase
- government revenue from taxation would increase, providing money to finance poverty reduction programmes for those not at work.

Possible problems:

- some of the jobs might not be very well paid
- there is no guarantee that the company will remain in the country for long
- some of the jobs might be reserved for workers from country of company
- much of the profit will be sent home to original country.

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

[8]

7 (a) Reasons for specialisation:

- the idea that countries concentrate on producing those products that their resources are best at making
- this comes about because of the different factor endowments all over the world
- specialisation will involve a better use of resources internationally
- this will lead to greater efficiency of production; this should lower the costs of production
- idea of absolute advantage (don't need to use that term) – a country will produce a product if it can produce it using fewer resources than other countries (candidates may also have an idea of comparative advantage, but don't need to use that term)
- countries will tend to focus on labour-intensive production if they have an abundance of labour, e.g. China, and capital-intensive production if there is a shortage of labour, e.g. Singapore.

[4]

(b) Possible methods of trade protection:

- tariffs
- quotas
- subsidies
- exchange controls
- administrative restrictions
- embargo.

1 mark for the identification of each (2 x 1) and 2 marks for the description of each (2 x 2). [6]

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- (c) The advantages of free trade:
- an increase in world output
  - an increase in consumer choice
  - an increase in living standards
  - an increase in competition.

The disadvantages of free trade:

- inefficient declining industries may collapse, increasing unemployment
- infant industries will not be able to get themselves established
- strategic industries, e.g. related to defence, may be threatened
- current account imbalance.

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

[10]

**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
International General Certificate of Secondary Education

**MARK SCHEME for the October/November 2011 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 October/November 2011 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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- 1 (a) Possible benefits of economic development:
- increase in standard of living/quality of life
  - better educational opportunities
  - improved health care
  - increase in incomes
  - increase in employment
  - increase in output/real GDP/economic growth
  - higher ranking in Human Development Index.
- [4]

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

- (b) Any two reasons:
- to ensure that the natural resources of natural gas and oil are extracted
  - this could contribute to economic growth/encourage economic development
  - taxation on this could lead to an increase in government revenue
  - could help to create wealth/increase living standards
  - large amount of land/supply could reduce price
  - not enough resources to develop without external support.
- [4]

- (c) Potential disadvantages:
- may be more inefficient
  - will be supported by public funds and so will not be so worried about making profits
  - may have less concern for the environment (indicated in item)
  - may not have the necessary expertise/knowledge
  - possibly too much interference from politicians
  - issue of opportunity cost.
- [4]

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

- (d) Use of resources:
- contributes to the economic development of Peru
  - leads to a higher standard of living/quality of life.

Conservation of resources:

- this will be better in the long-term
- avoids using up scarce resources too quickly
- need to be mindful of environmental impact of use/exploitation; people in Peru have been unhappy about exploitation
- idea of sustainability in terms of future generations [candidates do not need to refer to the term sustainability itself].

Answers need to get across the idea that there is a trade-off between the two; an answer which is entirely one-sided can gain no more than 5 marks. An answer which fails to make any reference to Peru can gain no more than 6 marks. [8]

Page 3	Mark Scheme: Teachers' version	Syllabus	Page 63
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- 2 (a) Basic economic problem:
- finite/limited resources
  - basic situation of scarcity
  - unlimited wants
  - necessity for a choice to be made.
- [2]

- (b) Possible causes:
- reduction in price of complements
  - increase in price of substitutes
  - change in income
  - change in tastes and preferences
  - effect of advertising campaign
  - climate/season.

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

- (c) Diagram:
- axes (P and Q) and curves (D and S) correctly labelled (1)
  - shift of the demand curve to the right (1)
  - rise in both equilibrium price and equilibrium quantity (1).

Explanation of what is happening in the diagram, e.g. shift in demand curve and increase in equilibrium price and output – up to 3 marks. [6]

- (d) Advantages:
- idea of invisible hand to allocate resources through price signals
  - no need for government intervention to achieve this
  - profit motive should lead to greater efficiency
  - importance of consumer sovereignty.

Disadvantages:

- there may be market failures
- some goods may be under-consumed
- some goods may be over-consumed
- problem of externalities.

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

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- 3 (a) Functions:
- government's bank
  - lender of last resort
  - issuing of notes/coins
  - involvement in monetary policy, e.g. determination of interest rates
  - management of the national debt
  - possible involvement in exchange rate determination.

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

- (b) Explanation of three of:
- means of exchange
  - unit of account/measure of value
  - store of value
  - standard for deferred payment.

[6]

- (c) Reasons in favour of government support:
- the financial system is too important to be allowed to 'go under'
  - money is the 'oil' in the economic system
  - continued liquidity is important for both institutions and private individuals
  - without that, aggregate demand will fall
  - this will have a negative effect on employment and economic growth
  - collapse of financial institutions would have a terrible effect on confidence in country and its economy
  - this could deter inward investment.

Reasons against government support:

- government might be supporting inefficient institutions
- the 'survival of the fittest' idea suggests that weak institutions should be allowed to collapse
- the money will need to come from somewhere – public funds
- this might lead to taxes going up
- idea of opportunity cost – the alternative areas of public expenditure that the money might have gone to.

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



Page 5	Mark Scheme: Teachers' version	Syllabus	Page 65
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- 4 (a) (i) Features of a co-operative:
- owned and controlled by members
  - each member has an equal share in this: one member, one vote. [2]

- (ii) Any two of:
- producer
  - worker
  - farming
  - consumer/retail
  - banking/financial
  - insurance
  - funeral. [2]

- (b) A public limited company:
- part of the private sector
  - companies exist to make profit
  - controlled by shareholders
  - has limited liability.

A public corporation:

- part of the public sector
- may make a profit, but not necessarily the main aim
- may have objective to serve public/community interest in one way
- controlled by the state/government.

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

- (c) For a definition of monopoly – up to 2 marks.

Advantages of monopoly:

- they make abnormal/supernormal profits
- these can be used to finance research and development
- their products should therefore be in the vanguard
- such a large firm can benefit from economies of scale
- the lower costs could lead to lower prices for consumers.

Disadvantages of monopoly:

- the large profits are a reflection of the higher prices that consumers have to pay
- firm is a price maker, not a price taker
- output will be lower than in perfect competition
- there will therefore be inefficiency
- no guarantee that the lower costs will lead to lower prices
- consumer not given choice.

A one-sided answer can gain no more than 6 marks. [10]

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- 5 (a) Progressive tax:
- these are taxes on income, e.g. Income Tax
  - they take a higher proportion of a person's income (not just a higher amount) as the income rises.

Regressive tax:

- these are taxes on spending, e.g. VAT, GST
- they take a smaller proportion of a person's income as the income rises. [4]

(b) Possible reasons:

- to finance expenditure on public goods, e.g. defence, law and order
- to finance expenditure on merit goods, e.g. education, health care
- to discourage consumption of demerit goods, e.g. tobacco, alcohol
- to discourage consumption of imports
- to support different sectors of the economy
- to reduce consumption/growth/inflation.

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

Candidates who only give one reason can still get full marks if the answer is extremely thorough. [6]

(c) Advantages:

- taxes can be used to finance expenditure on various benefits for the less well-off
- progressive taxation is particularly useful to raise the finance as it takes an increasing proportion of income from the better-off
- taxes can be used to finance subsidies to make things cheaper
- taxes can be used to finance maximum prices
- idea of 'fairness' as a policy objective.

Disadvantages:

- the cost of the various benefits can be very large
- taxes could be too high (especially income tax)
- there is an opportunity cost here as the money used to finance benefits could have been spent on other things
- some people may decide to leave the country as a result of a high level of taxation
- the distribution of income can be so fundamentally uneven that government policies/initiatives don't really achieve very much ('tip of the iceberg').

A one-sided answer can gain no more than 6 marks. [10]

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- 6 (a) Exchange rate:**  
It is the price/value (1) at which one currency is bought and sold (1) for another currency on the foreign exchange market/it is the price of one currency (1) in terms of another currency (1).

For a specific example, e.g. £1 = \$1.4, one mark. [2]

**(b) Possible causes:**

- changes in the demand for the currency
- to pay for more exports
- changes in the supply of the currency
- to pay for more imports
- changes in the balance of trade
- changes in interest rates
- economic/political state of the country; level of confidence
- speculation
- rate of inflation in relation to other countries.

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

**(c) Current account structure:**

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

[4]

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

A good answer on the visible and invisible balance only can be awarded 3 marks.

**(d) Yes:**

- a depreciation (or devaluation) of a currency will make exports cheaper
- and if demand is price elastic this should lead to an increase in demand
- it will also make imports dearer
- and if demand is price elastic this should lead to a reduction in demand.

No:

- price elasticity of demand may not be elastic
- the change in the currency may not have much of an effect
- any impact is likely to take a while to come into effect
- the demand for goods is dependent on many factors, not just the price of a good.

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

Up to 3 marks where candidates explain alternative options for solving a deficit e.g. deflation, higher taxes/import duties and higher interest rates. [8]

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7 (a) Net migration:  
 This is the difference (1) between the number of people coming into a country (immigrants) (1) and the number of people leaving a country (emigrants) (1) over a particular period of time. [3]

(b) Possible economic reasons:

- to gain employment
- to obtain a higher income/lower tax rates
- to improve standard of living/quality of life
- to benefit from improved education/health care facilities
- to improve skills/widen experience
- to follow firm, e.g. multi-national.

[7]

(c) Positive effects:

- obtaining employment
- increase in standard of living/quality of life
- economy may benefit from economic growth
- government will benefit from increased revenue.

Negative effects:

- migrants may not have the necessary skills/training and cannot obtain work
- may lead to unemployment
- may lead to inflation if demand exceeds supply
- may be a burden on resources, especially if migrants locate in particular areas, e.g. housing
- similar point in relation to education
- some of the income may be sent home to relatives; leakage from the economy
- may lead to a fall in wages if supply of labour is greater than the demand.

A maximum of 6 marks for a one-sided answer.

[10]

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
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## **MARK SCHEME for the October/November 2012 series**

### **0455 ECONOMICS**

**0455/21**

Paper 2 (Structured Questions), maximum raw mark 80

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- 1 (a) Up to 2 marks for:
- answer: the volume of mail fell by a greater percentage (1)
  - the volume of mail fell by 20% (44/220) from 2006 to 2010 (1)
  - the number of employees fell by 15% (108/720) from 2006 to 2010 (1).

Note: maximum 2 marks for this question. [2]

- (b) (i) 1 mark for explanation of a substitute product:
- products which are possible alternatives for the consumer.

Up to 2 marks for examples from the extract:

- email
- online advertising
- online billing
- capital as substitute for labour.

No credit can be given for examples not included in the extract. [3]

- (ii) Up to 2 marks for identifying any two possible reasons:
- it could be more efficient/reduce production costs
  - it can be used for longer periods of time each day
  - it should be cheaper (at least in the long term once it has been paid for)
  - the machinery will not be involved in industrial action
  - technology becomes more advanced.

Up to 2 marks for explaining these any two possible reasons. [4]

- (c) 1 mark for the correct formula:
- $\frac{\text{percentage change in the quantity demanded of a product}}{\text{percentage change in the price of a product}}$

Up to 2 marks for explanation of price elasticity of demand:

- the responsiveness/sensitivity of quantity of a product demanded to a change in its price.

A maximum of 2 marks can be given for an answer which implies understanding of the concept of PED but does not specifically refer to the term.

Note: Maximum 2 marks for any of the explanations of PED above.

Up to 2 marks for an explanation of the link with revenue:

- if the PED for the services of the USPS is inelastic, the proposal will lead to an increase in revenue
- if the PED for the services of the USPS, however, is elastic, the proposal will lead to a fall in revenue and so the aim will not be achieved. [4]

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- (d) Up to 5 marks for reasons why it would be a good idea:
- it would enable costs to be kept down and therefore prices charged to consumers would be lower
  - a country's postal service is an essential service and so prices should be kept as affordable as possible
  - if demand increases, more jobs would be created, keeping down the rate of unemployment in the country
  - subsidy as investment (e.g. in R&D) – higher returns in the long run.

Up to 5 marks for why it would not be a good idea:

- government would need to pay for subsidies; this would be a burden on it
- the subsidies could mean that other forms of government expenditure might be reduced/cancelled: idea of opportunity cost.
- they could protect the business from the full rigour of competition, contributing to it becoming less efficient.

Up to 2 marks for a supported conclusion.

A maximum 4 marks for an understanding of subsidies, but not applied to the question.

Note: maximum 7 marks for this question. [7]

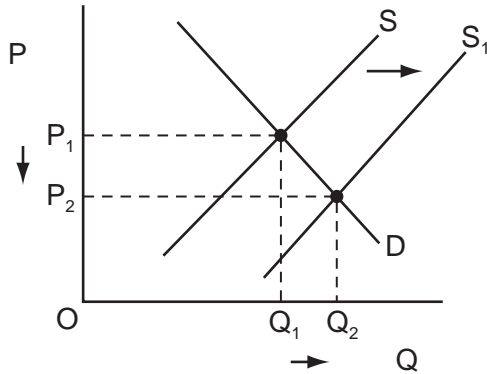
- 2 (a) Up to 3 marks for identifying possible causes:
- the size of the population
  - the age structure of the population
  - unemployment in similar industries frees labour for this industry
  - change in relative wage rates between industries
  - the retirement age
  - the school leaving age
  - attitudes to working women
  - the average number of hours worked
  - the proportion of full-time/part-time employees
  - the extent of overtime
  - the length of holidays
  - the number of days lost through illness.

Up to 3 marks for explaining possible causes. [6]

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(b) Up to 4 marks for diagram:

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



Up to 2 marks for explanation:

- the wages would go down (1)
- the extent of the reduction would depend on whether there was a slight increase in supply or a large increase in supply (1). [6]

(c) Up to 2 marks for an explanation/definition of a trade union.

Up to 3 marks for each possible point well developed:

- the number of trade union members
- the proportion of workers in the industry
- the financial strength of the union
- the negotiating skills of the union leaders
- the wider economic environment
- the proportion of labour costs in total costs
- the level of skill of the union members
- the demand for the product
- length of time union established/experience at negotiating
- type of economy – command may restrict trade union activity.

Note: maximum 8 marks for this question.

[8]



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- 3 (a)** Up to 2 marks for an explanation of a central bank:
- it is a bank that is responsible for overseeing the banking system as a whole
  - it does not usually accept deposits from customers
  - it is usually owned by a government.

Note: 2 marks can be obtained by an explanation of only one of the above. [2]

- (b)** Up to 4 marks for a description of the role of a central bank, which could include:
- banker to the government
  - banker to the commercial banks
  - lender of last resort
  - management of the national debt
  - holding foreign currency and gold reserves
  - issues bank notes
  - implements monetary policy/sets interest rates
  - regulates and supervises the banking system.

A description of one role can obtain a maximum of 2 marks.

A list-like approach maximum 2 marks. [4]

- (c)** Up to 4 marks for explanation of why spending patterns of the poor are different:
- tend to spend a higher proportion of their income
  - tend to spend a higher proportion on essential items, e.g. food
  - tend to spend a lower proportion on luxury goods, e.g. holidays
  - tend to buy items of lower quality.

Up to 4 marks for explanation of why spending patterns of the rich are different:

- tend to spend a lower proportion of their income
- tend to spend a lower proportion on essential items, e.g. food
- tend to spend a higher proportion on luxury goods, e.g. holidays
- tend to buy items of higher quality.

Note: maximum 6 marks for this question. [6]

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(d) Up to 6 marks for a discussion of possible wage factors:

- wages/salaries
- overtime pay
- bonuses
- commission.

Up to 6 marks for a discussion of possible non-wage factors:

- job satisfaction
- working conditions
- working hours
- holidays
- pension provision
- fringe benefits
- job security
- promotion prospects
- location/transport
- safety and security, especially at night for women
- gender stereotyping/perception of others.

No single argument should be awarded more than 3 marks.

Up to 2 marks for a supported conclusion.

Maximum 6 marks for a generic answer which does not cover a woman's choice.

Note: maximum 8 marks for this question. [8]

4 (a) Up to 4 marks for explanation of reasons:

- private limited companies cannot invite the general public to buy shares on the stock exchange; it is necessary to get the consent of other shareholders
- they can only be sold to known individuals, usually friends and family
- the maximum number of shareholders is fifty
- for all these reasons, obtaining finance is much more restricted than with a public limited company and this makes them less likely to be multi-nationals.

Note: maximum 2 marks for explanation of one reason. [4]

(b) Up to 4 marks for analysis of internal growth:

- this is achieved by a firm expanding on its own, e.g. sales may increase as the size of the market increases.

Up to 4 marks for analysis of external growth:

- this is achieved by a firm joining with another firm through a merger/takeover/acquisition
- this can be in the form of horizontal, vertical (backward or forward) or conglomerate integration.

Note: a maximum of 6 marks for this question. [6]

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(c) Up to 7 marks for a discussion of perfectly competitive firms.

Possible advantages:

- price likely to be lower and output higher than in a monopoly firm
- firms likely to be more efficient
- absence of barriers to entry/exit makes market responsive to consumer needs
- emphasis on consumer sovereignty
- wide choice of suppliers
- perfect information.

Possible disadvantages:

- it is essentially a theoretical construct
- very few examples of firms actually operating in such a market structure
- in many cases consumers have little choice; the firm supplying them will be in monopoly, oligopoly or perfect competition
- competition can waste resources/duplication
- problem of too much choice of suppliers
- possible lack of variation of products.

Up to 7 marks for a discussion of firms in monopoly.

Possible advantages:

- can make abnormal profits in both long run and short run; this can provide finance to spend on research and development
- this expenditure could lead to an improved product
- large size of firm could create economies of scale
- the lower costs could be passed on to consumers as lower prices
- it could be a natural monopoly where having more firms would not be in consumers' interests (e.g. water supply)
- ability to supply whole country/large areas.

Possible disadvantages:

- price likely to be higher and output lower than in perfect competition
- lower costs from economies of scale might not be passed on to consumers
- the firm may be inefficient
- market dominance means there is no incentive to improve efficiency.

Up to 2 marks for a supported conclusion.

Note: maximum 10 marks for this question.

[10]

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- 5 (a) Up to 2 marks for an explanation of economic growth:
- increase in output (1)
  - increase in GDP/real GDP/national income/national output (2).

Up to 2 marks for further development:

- increase in a country's productive potential (long-run output) (2)
- outward shift of production possibility curve (2)
- an increase in quantity of resources (1)
- an increase in quality of resources (1).

Note: PPC is not on syllabus until 2014.

[4]

- (b) Up to 6 marks for explanation of possible actions:

- fiscal policy
- monetary policy
- encourage investment, e.g. through lowering corporation tax, tax holidays or provision of investment grants
- encourage education and training to increase the quality of human capital
- encourage technological change, e.g. through financial support
- support an export drive
- lower interest rates to encourage borrowing by firms
- promote free trade
- promote low inflation.

Note: any one reason can obtain a maximum of 3 marks.

[6]

- (c) Up to 7 marks for discussion of the benefits of economic growth:

- leads to higher standards of living/reduction in poverty
- generates jobs and incomes
- improvement in infrastructure
- opportunity for leisure
- attracts foreign investment
- rise in tax revenues.

Up to 7 marks for problems associated with economic growth:

- risk of inflation
- risk of balance of payments deficit
- possible pollution as more resources used up in production
- resources could be depleted
- increase in consumption could cause problems: e.g. cars and congestion
- unequal benefits from growth because of distribution of income.

Up to 2 marks for a supported conclusion.

Note: maximum 10 marks for this question.

[10]

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- 6 (a)** 1 mark for definition of GDP per head:
- Gross Domestic Product divided by the total population of a country.

Up to 3 marks for description of Human Development Index:

- GDP per head (1)
- Life expectancy at birth (1)
- Education (adult literacy rate) and combined primary, secondary and tertiary enrolment ratios / mean years and expected years. (1) [4]

- (b)** 1 mark for definition of birth rate.

Up to 6 marks for effect of a rise in the birth rate on GDP per head:

- a rise in the birth rate could lead to a speeding up of the rate of growth of a population (2)
- this would depend on changes in the death rate and in net migration (2)
- if there is a larger population, it will lead to a reduction in GDP per head (assuming that GDP does not increase by a greater proportion) (2).

Answers can also use a fall in the birth rate as an explanation to gain full marks.

Note: maximum 6 marks for this question. [6]

- (c)** Up to 7 marks for a description of possible policies to reduce poverty:

- improve the quantity/quality of education
- increase aggregate demand
- introduce/raise a national minimum wage
- encourage more multi-national companies to locate in the country
- provide more state benefits
- redistribution of income / more progressive taxation.

Up to 3 marks for one point well developed.

Up to 2 marks for a supported conclusion.

To obtain more than 7 marks an answer must focus on which policies would be most useful in reducing poverty in a country. [10]

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7 (a) Up to 5 marks for explanations of the advantages of specialisation:

- make better use of available resources/factor endowments
- increase in output
- higher standards of living
- take advantage of a lower opportunity cost ratio in production
- increased efficiency.

Note: good explanations of two reasons can obtain 5 marks.

[5]

(b) Up to 5 marks for explaining why a country may choose not to specialise

- there may be increasing costs of production from diseconomies of scale
- high transport costs may not make it worthwhile
- there may be exhaustion of resources
- may want to avoid risk of relying on a few products.

Note: good explanations of two reasons can obtain 5 marks.

[5]

(c) Up to 7 marks for advantages and disadvantages of a fixed exchange rate.

Possible advantages:

- there is a greater degree of certainty and stability
- this can encourage investment and trade
- there is likely to be less speculation
- can set rate low to increase exports/improve current account
- can set rate high to reduce inflation.

Possible disadvantages:

- governments need to maintain sufficient reserves to intervene in the market
- the agreed exchange rate might not be appropriate; too high and it might make exports uncompetitive, too low and expensive imports cause inflation
- policies taken to maintain a particular exchange rate may not be in the best interests of the wider economy.

Up to 7 marks for advantages and disadvantages of a floating exchange rate.

Possible advantages:

- exchange rate automatically adjusts so that demand equals supply
- this can automatically eliminate deficits or surpluses in balance of payments
- there is no need for the central bank to maintain reserves
- domestic policies can be pursued more easily, e.g. changing interest rates.

Possible disadvantages:

- it can cause instability which could discourage investment and trade
- the exchange rate can be very volatile
- speculation on future exchange rate movements can be destabilising.

Note: maximum of 10 marks for this question.

[10]

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
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## **MARK SCHEME for the October/November 2012 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 – October/November 2012</b>	<b>0455</b>	<b>22</b>

- 1 (a) 1 mark each of four from:
- a mainly agricultural country
  - nearly a third of the population live in poverty
  - the infrastructure is poor
  - an increasing number of shanty towns
  - millions of people moving into the cities/large scale rural to urban migration.

Note: a maximum mark of 4.

[4]

- (b) Possible economic reasons:
- to gain employment
  - to increase wages/salaries
  - to improve standard of living/quality of life
  - possible promotion
  - take advantage of better training
  - better facilities e.g. education/health care.

Full marks can be awarded to an answer which deals with only two economic reasons in some depth. [4]

- (c) Up to 3 marks for the diagram:  
 labels (price, quantity, demand, supply) (1)  
 shift of the demand curve to the right (1)  
 equilibriums (1)

Explanation: changes in demand would bring about a rise in the equilibrium price (1)

[4]



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(d) Up to 3 marks for possible advantages to the local tribespeople who are already living on the land:

Examples

- a large profit from selling the land; may use this for e.g. education/health care/house
- may have greater employment opportunities, supplying food/materials such as sand and wood, building/working in the city
- living in the city may increase living standards, better facilities provided e.g. hospitals.

Up to 3 marks for possible disadvantages to local tribespeople who are already living on the land:

Examples

- loss of farmland, may reduce income in the long run, may become unemployed
- disruption to their traditional way of life, some pollution e.g. noise when city is built.

Up to 3 marks for possible advantages to the economy of Ghana as a whole:

Examples

- higher employment, building the city, local multiplier effect (term does not have to be used), attract FDI, higher GDP
- reduced pollution, cutting external costs
- reduced overcrowding, improving living standards.

Up to 3 marks for possible disadvantages to the economy of Ghana as a whole:

Examples

- opportunity cost of the money needed to finance the project, example
- may result in empty houses/schools etc. elsewhere, inefficient use of resources
- possible inflationary effects, higher level of activity may raise prices.

Up to 4 marks for a list-like response.

Note: maximum mark of 8.

[8]

<b>Page 4</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Page 82</b>
	<b>IGCSE – October/November 2012</b>	<b>0455</b>	<b>22</b>

- 2 (a) Land: natural resources available for production, e.g. oil, coal, forests, fish, farming  
Labour: human effort available for production/human capital, e.g. skilled/unskilled  
Capital: man-made physical goods used in production, e.g. machines, tools, factories (Do NOT accept money)  
Enterprise: the role of the entrepreneur in terms of organising the other factors of production and in taking a risk in doing so  
Only TWO factors need to be described.  
1 mark for each correct description (2); 1 mark for each use of examples (2)  
Note in the case of enterprise: Up to 2 marks from: organising other factors of production (1); risk bearing (1) example (1). For the example just the name of a business is not acceptable. [4]

- (b) 2 marks for an explanation of what is meant by the economic problem, i.e. limited/finite resources and unlimited/infinite wants (1) giving rise to a condition of scarcity/insufficient resources (1).

2 marks for an explanation of what is meant by opportunity cost, i.e. the benefit obtained from the (next) best alternative (1) foregone (1).

2 marks for an explanation of why opportunity cost is relevant to the allocation of resources i.e. the condition of scarcity gives rise to the need to make a choice (1) opportunity cost indicates if resources are used for one purpose they cannot be used for another purpose/ consideration of opportunity cost can result in an efficient allocation of resources (1). [6]

- (c) Up to 7 marks for the case for intervention:

Examples:

- income inequality, some people will have more influence than others because of their greater buying power, there may be a shortage of basic necessities, on grounds of equity everyone should have access to education, health care and housing
- some goods will be over-consumed – demerit goods (term does not have to be used), consumers may be unaware of the harmful effects to themselves/underestimate private costs, may not take into account effects on others/external costs
- some goods will be under-consumed – merit goods (term does not have to be used), consumers may be unaware of the full benefits to themselves/underestimate private benefits, may not take into account the benefits to others/external benefits
- some goods will not be provided – public goods (term does not have to be used), not possible to make consumption dependent on payment/non-excludable
- may be information failure, consumers may not be aware what different suppliers are charging, firms may not know cheapest source of raw materials
- some markets may be dominated by a monopoly, need for regulation.

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Up to 7 marks for case against intervention:

Examples:

- free market forces can promote efficiency, firms that do not produce what consumers want may go out of business, firms that produce at high costs may go out of business, firms that produce what consumers want may enjoy high profits, firms that produce at low costs may enjoy high profits
- consumers should decide on the allocation of resources/be sovereign
- price changes signal changes in demand, automatically allocate resources, quick adjustment to changes in consumer demand
- government intervention may be slow/bureaucratic, takes time for a government to recognise need for intervention, takes time to introduce policies
- government intervention may be influenced by desire to win political support/may be corruption
- difficult to determine what are merit/demerit goods, quantity of public goods to supply
- difficult to measure external costs and benefits, so difficult to determine social costs and benefits.

Up to 2 marks for a supported conclusion.

Note: a macro approach is acceptable but if the focus is on only one aspect e.g. trade protection there is a maximum of four marks available.

Note: maximum of 10 marks.

[10]

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- 3 (a) Up to 2 marks for a description of social costs:
- social costs are private costs plus external costs. (2)
  - social costs are total costs/ costs to society. (1)

Up to 2 marks for examples:

1 mark for example of a private cost identified as such e.g. the cost of paying the wages of those building the railway.

1 mark for an external cost identified as such e.g. the damage to the land of scenic beauty.

1 mark maximum for any number of examples of costs of constructing the railway which are not identified specifically as either private and external costs. [4]

- (b) Up to 3 marks for identifying reasons:
- a government will have other things to spend the money on
  - a government may lack finance
  - private sector funding may be more readily available
  - private sector funding may be more efficient.

Up to 3 marks for explaining reasons:

- there will be an opportunity cost of using government funding
- government may already be spending more than it is raising in taxation
- private sector firms may be encouraged to invest by improving economic prospects
- private sector firms may bring expertise and may monitor project carefully to ensure low costs/high quality. [6]

- (c) Up to 7 marks for advantages:

Examples:

- improvement in travel time will reduce firms' costs, make firms more internationally competitive, raise exports, increase GDP
- reduced travel time may encourage fewer people to travel by cars, reducing congestion, reducing pollution
- employment will be created during the building, reducing unemployment, raising GDP
- local 'multiplier' effect in the area (term does not have to be used), work for e.g. taxi firms, encourage firms to move into areas serviced by the railway
- train companies will benefit (1) likely to attract more passengers and so higher revenue (1).

Up to 7 marks for disadvantages:

Examples:

- disruption to farming/loss of fertile agricultural land, reduction in agricultural output
- negative impact on area of scenic beauty, reduction in tourism, reduction in GDP
- bus companies may experience lower demand, causing unemployment, structural unemployment
- high cost, opportunity cost in terms of other projects
- demand for the services of the railway may be low, price of travelling may still be higher than travelling by road, quality may still be lower.

Up to 2 marks for a supported conclusion.

Up to 5 marks for a list-like response.

Note: maximum of 10 marks.

[10]

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- 4 (a) The four functions of money:
- a medium of exchange
  - a store of value
  - a unit of account
  - a standard for deferred payments.

4 marks for 4 functions identified and described.

3 marks for 3 functions identified and described.

2 marks for 2 functions identified and explained or 4 functions described.

1 mark for 1 function identified and explained or 3 functions described.

[4]

- (b) Up to 4 marks for identification of ways:

- a relatively high rate of interest
- effective advertising/publicity/information
- extension of branch opening hours
- provision of Internet operation
- details of the financial strength of the institutions
- a compensation scheme to protect savers if a bank does collapse
- provision of more saving schemes
- increase in number of branches.

Up to 3 marks for explanation e.g.:

- a high interest rate increases the reward from saving, increases the opportunity cost of spending/discourages spending, if the rate of interest is higher than inflation there is a positive real interest rate
- advertising of saving schemes will make people more aware of e.g. range of saving opportunities
- long branch opening hours will make it easier for people to deposit savings and to gain access to savings
- internet access reduces the time taken to access savings/find out details of savings
- awareness of strength of institutions/compensation schemes will increase people's confidence in saving
- more saving schemes increase the chance of people finding one that will suit them
- more branches will bring saving schemes closer to people.

Full marks can be awarded to an answer which deals with only two ways in some depth. [6]

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(c) Possible reasons:

- demand for workers may be higher in one sector, higher demand results in higher earnings
- supply of workers may be lower in one sector, lower supply results in higher earnings
- job security may be greater in one sector, this may encourage higher supply and so lower earnings
- pensions provided by one sector may be worth more, as a result people may be prepared to work for lower earnings
- trade unions may be stronger in one sector, this will give workers stronger bargaining power, which may push up earnings
- public sector may be more likely to comply with minimum wage legislation, this could raise average earnings in the sector
- there may be more overtime available in one sector, pushing up earnings
- skill/qualifications required may be higher in one sector, reducing supply, raising earnings
- risks involved in jobs in one sector may be higher, reducing supply, raising earnings
- status of working in one sector may be higher, increasing supply, reducing earnings.

A generic answer on earnings, which doesn't clearly distinguish between earnings in the two sectors, can gain no more than 7 marks.

Up to 5 marks for a list-like response.

Note: a maximum of 10 marks.

[10]

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5 (a) Up to 2 marks for describing the main features of a co-operative:

- it is owned by the workers/customers
- it is run for the benefit of the workers/members
- the workers/customers are often shareholders in the business
- equal voting for members
- sharing resources
- reference to limited liability

Up to 2 marks for describing the main features of a public corporation:

- it is a state-owned public enterprise/nationalised industry
- it is accountable to a government
- there are no shareholders
- may act in the public interest.

[4]

(b) Co-operative

Up to 2 marks:

- operates in the private sector
- does aim to make a profit
- the profit is distributed to the workers/members
- how profit may be earned i.e. raising revenue/lowering cost.

Public corporation

Up to 2 marks:

- operates in the public sector
- does not aim to make a profit
- aim is to work in the public interest.

[4]

(c) Up to 2 marks for horizontal integration:

- two (or more) firms come together that are producing similar goods/services at the same stage of production. (1)
- examples could include banks, motor car manufacturers, breweries. (1)

Up to 2 marks for vertical integration:

- two (or more) firms come together that are at different stages of production. (1)
- there could be forward vertical integration where a firm takes over another firm at a later stage of production e.g. an airline taking over a travel agency or a brewery taking over a public house. (1)
- there could be backward vertical integration where a firm takes over another firm at an earlier stage of production to secure supplies, e.g. a tyre company taking over a rubber plantation or a brewery taking over hop fields. (1)

[4]

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(c) Up to 5 marks for disadvantages:

Examples:

- may be high prices, low quality, due to lack of competition
- may be lack of innovation/product development, and so slow response to changes in consumer demand
- quantity produced may be restricted, to drive up price
- if large, may experience diseconomies of scale, raise costs of production, increase prices.

Up to 5 marks for advantages:

Examples:

- if large, may experience economies of scale, lower costs of production, lower prices
- large profits may be used to finance investment, may raise quality of products
- may avoid wasteful duplication, e.g. in the case of water supply/rail infrastructure
- a state monopoly may base decisions on social costs and benefits, increasing efficiency.

Up to 2 marks for a supported conclusion.

Up to 4 marks for a list like response.

Note: a maximum mark of 8.

[8]

6 (a) Definition of inflation – 1 mark

Up to 6 marks for possible harmful effects of inflation:

- some workers, whose wages are not linked to the rate of inflation, will find that the real value of their earnings falls
- it is particularly a problem for those not in trade unions or in trade unions that are not very powerful
- borrowers tend to gain whilst lenders tend to lose (unless loans are index linked)
- those on fixed incomes tend to lose out
- there is thus a redistribution of income in an economy
- if the rate of inflation is relatively high, it can make a country's exports much more expensive abroad, making them less competitive
- menu costs, i.e. the cost of changing prices regularly
- the uncertainty that can affect investment decisions
- if the rate of inflation is very high, it can lead to hyperinflation and this can result in the collapse of a currency.

Up to 3 marks on any one harmful effect well explained.

Note: Up to 3 marks for a list-like response.

Note: maximum mark of 6.

[6]



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- (b) Up to 4 marks for the effect on the unemployed:
- will not be able to use skills/knowledge
  - this could mean that skills/knowledge become out of date
  - this will make them less employable in the future
  - this could have social effects
  - greater loss of income.

Up to 4 marks for the effect on the economy:

- output of the economy likely to be less
- lower GDP/economic growth
- candidates may refer to particular types of unemployment, e.g. structural rather than seasonal
- loss of tax revenue will be higher
- more will have to be spent on unemployment benefit opportunity cost.

Note: a maximum of 6 marks.

[6]

- (c) Up to 6 marks for reasons why may conflict:

Examples:

- high employment will increase income, this will increase spending, higher spending will increase total (aggregate) spending, which may result in demand-pull inflation.
- high employment may result in a shortage of workers, wages may be pushed up, as firms compete for workers/trade unions have greater power, causing cost-push inflation/wage-price spiral.
- high employment may increase demand for imports, which may result in imported inflation.
- to reduce inflation/keep inflation low a government may seek to reduce total (aggregate) demand, so may e.g. raise taxes/interest rates, the lower demand will reduce output, causing cyclical unemployment.

Up to 6 marks for reasons why may not conflict:

- supply-side policies may enable an economy to have both low inflation and high employment, e.g. education will make labour more skillful/mobile, this may reduce unemployment, more skillful workers may reduce costs, and so lower cost-push inflation.
- low inflation may increase demand for exports, higher demand may increase output, this may raise employment, lower cyclical unemployment.

Up to 2 marks for a supported conclusion.

Note: maximum mark of 8.

[8]

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**7 (a)** Definition of regional specialisation – 1 mark

Up to 4 marks for possible advantages:

- able to focus on what the region is best at producing
- output in the region should be higher
- there should be higher living standards
- economies of scale could lead to lower costs
- efficiency is likely to increase
- may gain a good reputation.

Note: maximum mark of 4.

[4]

**(b)** There are four elements:

- trade in goods/visible balance of exports and imports
- trade in services/invisible balance of services
- income
- current transfers.

An answer which only focuses on the first two elements, i.e. the balance on trade in goods and services, can gain 3 marks. [4]

**(c)** Up to 2 marks for general reference to market forces:

- fall in demand for the currency
- rise in supply of the currency.

Up to 4 marks for explanation of specific reasons:

- fall in demand for exports/increase in current account deficit due to e.g. fall in quality/inflation
- rise in demand for imports/rise in current account deficit due to e.g. higher incomes at home
- less FDI/more investment abroad due to e.g. better economic prospects abroad
- changes in hot money flows due to a fall in the rate of interest
- speculation – reduction in demand/rise in supply due to expectation currency will fall in value.

Note: maximum mark of 4.

[4]

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(d) Up to 5 marks for the advantages and disadvantages of a floating exchange rate:

Examples:

- the exchange rate automatically adjusts, moving current account position to equilibrium/ eliminating deficits or surpluses
- no need for the central bank to keep reserves, foreign currencies/gold can be used for other purposes
- governments can pursue other objectives more easily e.g. changing interest rates to influence inflation
- may be instability of value which could discourage trade and investment
- may be speculation, causing movements in value which lead to current account deficits or surpluses.

Up to 5 marks for advantages and disadvantages of a fixed exchange rate:

Examples:

- may be a greater degree of certainty and stability, may promote trade and investment
- may be less speculation
- need to keep reserves, to intervene to protect the exchange rate, involves an opportunity cost
- exchange rate may not be set at an appropriate level, if too high will discourage exports, if too low, may increase import prices – causing inflation
- policies taken to maintain the exchange rate may conflict with other objectives e.g. raising the interest rate may increase unemployment/reduce economic growth.

Up to 2 marks for a supported conclusion.

Up to 4 marks for a list-like approach.

Note: a maximum mark of 8.

[8]

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### **0455 ECONOMICS**

**0455/22**

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	<b>IGCSE – October/November 2012</b>	<b>0455</b>	<b>22</b>

- 1 (a) 1 mark each of four from:
- a mainly agricultural country
  - nearly a third of the population live in poverty
  - the infrastructure is poor
  - an increasing number of shanty towns
  - millions of people moving into the cities/large scale rural to urban migration.

Note: a maximum mark of 4.

[4]

- (b) Possible economic reasons:
- to gain employment
  - to increase wages/salaries
  - to improve standard of living/quality of life
  - possible promotion
  - take advantage of better training
  - better facilities e.g. education/health care.

Full marks can be awarded to an answer which deals with only two economic reasons in some depth. [4]

- (c) Up to 3 marks for the diagram:  
 labels (price, quantity, demand, supply) (1)  
 shift of the demand curve to the right (1)  
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Explanation: changes in demand would bring about a rise in the equilibrium price (1)

[4]

<b>Page 3</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Page 4</b>
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(d) Up to 3 marks for possible advantages to the local tribespeople who are already living on the land:

Examples

- a large profit from selling the land; may use this for e.g. education/health care/house
- may have greater employment opportunities, supplying food/materials such as sand and wood, building/working in the city
- living in the city may increase living standards, better facilities provided e.g. hospitals.

Up to 3 marks for possible disadvantages to local tribespeople who are already living on the land:

Examples

- loss of farmland, may reduce income in the long run, may become unemployed
- disruption to their traditional way of life, some pollution e.g. noise when city is built.

Up to 3 marks for possible advantages to the economy of Ghana as a whole:

Examples

- higher employment, building the city, local multiplier effect (term does not have to be used), attract FDI, higher GDP
- reduced pollution, cutting external costs
- reduced overcrowding, improving living standards.

Up to 3 marks for possible disadvantages to the economy of Ghana as a whole:

Examples

- opportunity cost of the money needed to finance the project, example
- may result in empty houses/schools etc. elsewhere, inefficient use of resources
- possible inflationary effects, higher level of activity may raise prices.

Up to 4 marks for a list-like response.

Note: maximum mark of 8.

[8]

<b>Page 4</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Page 95</b>
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- 2 (a) Land: natural resources available for production, e.g. oil, coal, forests, fish, farming  
Labour: human effort available for production/human capital, e.g. skilled/unskilled  
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Enterprise: the role of the entrepreneur in terms of organising the other factors of production and in taking a risk in doing so  
Only TWO factors need to be described.  
1 mark for each correct description (2); 1 mark for each use of examples (2)  
Note in the case of enterprise: Up to 2 marks from: organising other factors of production (1); risk bearing (1) example (1). For the example just the name of a business is not acceptable. [4]

- (b) 2 marks for an explanation of what is meant by the economic problem, i.e. limited/finite resources and unlimited/infinite wants (1) giving rise to a condition of scarcity/insufficient resources (1).

2 marks for an explanation of what is meant by opportunity cost, i.e. the benefit obtained from the (next) best alternative (1) foregone (1).

2 marks for an explanation of why opportunity cost is relevant to the allocation of resources i.e. the condition of scarcity gives rise to the need to make a choice (1) opportunity cost indicates if resources are used for one purpose they cannot be used for another purpose/ consideration of opportunity cost can result in an efficient allocation of resources (1). [6]

- (c) Up to 7 marks for the case for intervention:

Examples:

- income inequality, some people will have more influence than others because of their greater buying power, there may be a shortage of basic necessities, on grounds of equity everyone should have access to education, health care and housing
- some goods will be over-consumed – demerit goods (term does not have to be used), consumers may be unaware of the harmful effects to themselves/underestimate private costs, may not take into account effects on others/external costs
- some goods will be under-consumed – merit goods (term does not have to be used), consumers may be unaware of the full benefits to themselves/underestimate private benefits, may not take into account the benefits to others/external benefits
- some goods will not be provided – public goods (term does not have to be used), not possible to make consumption dependent on payment/non-excludable
- may be information failure, consumers may not be aware what different suppliers are charging, firms may not know cheapest source of raw materials
- some markets may be dominated by a monopoly, need for regulation.

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Up to 7 marks for case against intervention:

Examples:

- free market forces can promote efficiency, firms that do not produce what consumers want may go out of business, firms that produce at high costs may go out of business, firms that produce what consumers want may enjoy high profits, firms that produce at low costs may enjoy high profits
- consumers should decide on the allocation of resources/be sovereign
- price changes signal changes in demand, automatically allocate resources, quick adjustment to changes in consumer demand
- government intervention may be slow/bureaucratic, takes time for a government to recognise need for intervention, takes time to introduce policies
- government intervention may be influenced by desire to win political support/may be corruption
- difficult to determine what are merit/demerit goods, quantity of public goods to supply
- difficult to measure external costs and benefits, so difficult to determine social costs and benefits.

Up to 2 marks for a supported conclusion.

Note: a macro approach is acceptable but if the focus is on only one aspect e.g. trade protection there is a maximum of four marks available.

Note: maximum of 10 marks.

[10]



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- 3 (a) Up to 2 marks for a description of social costs:
- social costs are private costs plus external costs. (2)
  - social costs are total costs/ costs to society. (1)

Up to 2 marks for examples:

1 mark for example of a private cost identified as such e.g. the cost of paying the wages of those building the railway.

1 mark for an external cost identified as such e.g. the damage to the land of scenic beauty.

1 mark maximum for any number of examples of costs of constructing the railway which are not identified specifically as either private and external costs. [4]

- (b) Up to 3 marks for identifying reasons:
- a government will have other things to spend the money on
  - a government may lack finance
  - private sector funding may be more readily available
  - private sector funding may be more efficient.

Up to 3 marks for explaining reasons:

- there will be an opportunity cost of using government funding
- government may already be spending more than it is raising in taxation
- private sector firms may be encouraged to invest by improving economic prospects
- private sector firms may bring expertise and may monitor project carefully to ensure low costs/high quality. [6]

- (c) Up to 7 marks for advantages:

Examples:

- improvement in travel time will reduce firms' costs, make firms more internationally competitive, raise exports, increase GDP
- reduced travel time may encourage fewer people to travel by cars, reducing congestion, reducing pollution
- employment will be created during the building, reducing unemployment, raising GDP
- local 'multiplier' effect in the area (term does not have to be used), work for e.g. taxi firms, encourage firms to move into areas serviced by the railway
- train companies will benefit (1) likely to attract more passengers and so higher revenue (1).

Up to 7 marks for disadvantages:

Examples:

- disruption to farming/loss of fertile agricultural land, reduction in agricultural output
- negative impact on area of scenic beauty, reduction in tourism, reduction in GDP
- bus companies may experience lower demand, causing unemployment, structural unemployment
- high cost, opportunity cost in terms of other projects
- demand for the services of the railway may be low, price of travelling may still be higher than travelling by road, quality may still be lower.

Up to 2 marks for a supported conclusion.

Up to 5 marks for a list-like response.

Note: maximum of 10 marks.

[10]

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4 (a) The four functions of money:

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

4 marks for 4 functions identified and described.

3 marks for 3 functions identified and described.

2 marks for 2 functions identified and explained or 4 functions described.

1 mark for 1 function identified and explained or 3 functions described.

[4]

(b) Up to 4 marks for identification of ways:

- a relatively high rate of interest
- effective advertising/publicity/information
- extension of branch opening hours
- provision of Internet operation
- details of the financial strength of the institutions
- a compensation scheme to protect savers if a bank does collapse
- provision of more saving schemes
- increase in number of branches.

Up to 3 marks for explanation e.g.:

- a high interest rate increases the reward from saving, increases the opportunity cost of spending/discourages spending, if the rate of interest is higher than inflation there is a positive real interest rate
- advertising of saving schemes will make people more aware of e.g. range of saving opportunities
- long branch opening hours will make it easier for people to deposit savings and to gain access to savings
- internet access reduces the time taken to access savings/find out details of savings
- awareness of strength of institutions/compensation schemes will increase people's confidence in saving
- more saving schemes increase the chance of people finding one that will suit them
- more branches will bring saving schemes closer to people.

Full marks can be awarded to an answer which deals with only two ways in some depth. [6]

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(c) Possible reasons:

- demand for workers may be higher in one sector, higher demand results in higher earnings
- supply of workers may be lower in one sector, lower supply results in higher earnings
- job security may be greater in one sector, this may encourage higher supply and so lower earnings
- pensions provided by one sector may be worth more, as a result people may be prepared to work for lower earnings
- trade unions may be stronger in one sector, this will give workers stronger bargaining power, which may push up earnings
- public sector may be more likely to comply with minimum wage legislation, this could raise average earnings in the sector
- there may be more overtime available in one sector, pushing up earnings
- skill/qualifications required may be higher in one sector, reducing supply, raising earnings
- risks involved in jobs in one sector may be higher, reducing supply, raising earnings
- status of working in one sector may be higher, increasing supply, reducing earnings.

A generic answer on earnings, which doesn't clearly distinguish between earnings in the two sectors, can gain no more than 7 marks.

Up to 5 marks for a list-like response.

Note: a maximum of 10 marks.

[10]

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5 (a) Up to 2 marks for describing the main features of a co-operative:

- it is owned by the workers/customers
- it is run for the benefit of the workers/members
- the workers/customers are often shareholders in the business
- equal voting for members
- sharing resources
- reference to limited liability

Up to 2 marks for describing the main features of a public corporation:

- it is a state-owned public enterprise/nationalised industry
- it is accountable to a government
- there are no shareholders
- may act in the public interest.

[4]

(b) Co-operative

Up to 2 marks:

- operates in the private sector
- does aim to make a profit
- the profit is distributed to the workers/members
- how profit may be earned i.e. raising revenue/lowering cost.

Public corporation

Up to 2 marks:

- operates in the public sector
- does not aim to make a profit
- aim is to work in the public interest.

[4]

(c) Up to 2 marks for horizontal integration:

- two (or more) firms come together that are producing similar goods/services at the same stage of production. (1)
- examples could include banks, motor car manufacturers, breweries. (1)

Up to 2 marks for vertical integration:

- two (or more) firms come together that are at different stages of production. (1)
- there could be forward vertical integration where a firm takes over another firm at a later stage of production e.g. an airline taking over a travel agency or a brewery taking over a public house. (1)
- there could be backward vertical integration where a firm takes over another firm at an earlier stage of production to secure supplies, e.g. a tyre company taking over a rubber plantation or a brewery taking over hop fields. (1)

[4]

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(c) Up to 5 marks for disadvantages:

Examples:

- may be high prices, low quality, due to lack of competition
- may be lack of innovation/product development, and so slow response to changes in consumer demand
- quantity produced may be restricted, to drive up price
- if large, may experience diseconomies of scale, raise costs of production, increase prices.

Up to 5 marks for advantages:

Examples:

- if large, may experience economies of scale, lower costs of production, lower prices
- large profits may be used to finance investment, may raise quality of products
- may avoid wasteful duplication, e.g. in the case of water supply/rail infrastructure
- a state monopoly may base decisions on social costs and benefits, increasing efficiency.

Up to 2 marks for a supported conclusion.

Up to 4 marks for a list like response.

Note: a maximum mark of 8.

[8]

**6 (a)** Definition of inflation – 1 mark

Up to 6 marks for possible harmful effects of inflation:

- some workers, whose wages are not linked to the rate of inflation, will find that the real value of their earnings falls
- it is particularly a problem for those not in trade unions or in trade unions that are not very powerful
- borrowers tend to gain whilst lenders tend to lose (unless loans are index linked)
- those on fixed incomes tend to lose out
- there is thus a redistribution of income in an economy
- if the rate of inflation is relatively high, it can make a country's exports much more expensive abroad, making them less competitive
- menu costs, i.e. the cost of changing prices regularly
- the uncertainty that can affect investment decisions
- if the rate of inflation is very high, it can lead to hyperinflation and this can result in the collapse of a currency.

Up to 3 marks on any one harmful effect well explained.

Note: Up to 3 marks for a list-like response.

Note: maximum mark of 6.

[6]

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- (b) Up to 4 marks for the effect on the unemployed:
- will not be able to use skills/knowledge
  - this could mean that skills/knowledge become out of date
  - this will make them less employable in the future
  - this could have social effects
  - greater loss of income.

Up to 4 marks for the effect on the economy:

- output of the economy likely to be less
- lower GDP/economic growth
- candidates may refer to particular types of unemployment, e.g. structural rather than seasonal
- loss of tax revenue will be higher
- more will have to be spent on unemployment benefit opportunity cost.

Note: a maximum of 6 marks.

[6]

- (c) Up to 6 marks for reasons why may conflict:

Examples:

- high employment will increase income, this will increase spending, higher spending will increase total (aggregate) spending, which may result in demand-pull inflation.
- high employment may result in a shortage of workers, wages may be pushed up, as firms compete for workers/trade unions have greater power, causing cost-push inflation/wage-price spiral.
- high employment may increase demand for imports, which may result in imported inflation.
- to reduce inflation/keep inflation low a government may seek to reduce total (aggregate) demand, so may e.g. raise taxes/interest rates, the lower demand will reduce output, causing cyclical unemployment.

Up to 6 marks for reasons why may not conflict:

- supply-side policies may enable an economy to have both low inflation and high employment, e.g. education will make labour more skillful/mobile, this may reduce unemployment, more skillful workers may reduce costs, and so lower cost-push inflation.
- low inflation may increase demand for exports, higher demand may increase output, this may raise employment, lower cyclical unemployment.

Up to 2 marks for a supported conclusion.

Note: maximum mark of 8.

[8]

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**7 (a)** Definition of regional specialisation – 1 mark

Up to 4 marks for possible advantages:

- able to focus on what the region is best at producing
- output in the region should be higher
- there should be higher living standards
- economies of scale could lead to lower costs
- efficiency is likely to increase
- may gain a good reputation.

Note: maximum mark of 4.

[4]

**(b)** There are four elements:

- trade in goods/visible balance of exports and imports
- trade in services/invisible balance of services
- income
- current transfers.

An answer which only focuses on the first two elements, i.e. the balance on trade in goods and services, can gain 3 marks. [4]

**(c)** Up to 2 marks for general reference to market forces:

- fall in demand for the currency
- rise in supply of the currency.

Up to 4 marks for explanation of specific reasons:

- fall in demand for exports/increase in current account deficit due to e.g. fall in quality/inflation
- rise in demand for imports/rise in current account deficit due to e.g. higher incomes at home
- less FDI/more investment abroad due to e.g. better economic prospects abroad
- changes in hot money flows due to a fall in the rate of interest
- speculation – reduction in demand/rise in supply due to expectation currency will fall in value.

Note: maximum mark of 4.

[4]

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(d) Up to 5 marks for the advantages and disadvantages of a floating exchange rate:

Examples:

- the exchange rate automatically adjusts, moving current account position to equilibrium/ eliminating deficits or surpluses
- no need for the central bank to keep reserves, foreign currencies/gold can be used for other purposes
- governments can pursue other objectives more easily e.g. changing interest rates to influence inflation
- may be instability of value which could discourage trade and investment
- may be speculation, causing movements in value which lead to current account deficits or surpluses.

Up to 5 marks for advantages and disadvantages of a fixed exchange rate:

Examples:

- may be a greater degree of certainty and stability, may promote trade and investment
- may be less speculation
- need to keep reserves, to intervene to protect the exchange rate, involves an opportunity cost
- exchange rate may not be set at an appropriate level, if too high will discourage exports, if too low, may increase import prices – causing inflation
- policies taken to maintain the exchange rate may conflict with other objectives e.g. raising the interest rate may increase unemployment/reduce economic growth.

Up to 2 marks for a supported conclusion.

Up to 4 marks for a list-like approach.

Note: a maximum mark of 8.

[8]



**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
International General Certificate of Secondary Education

## **MARK SCHEME for the October/November 2012 series**

### **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 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 October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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- 1 (a) Up to 3 marks for a diagram:
- labels (price, quantity, demand, supply) (1)
  - shift of the supply curve to the left (1)
  - equilibriums (1).

1 mark for an explanation that change in supply causes price to be higher. [4]

- (b) 1 mark for a definition of cost-push inflation.

Up to 3 marks for examples developed from the extract:

- a reduction in wheat production (as a result of the fires) (1)
- the higher cost of raw materials (1)
- employees ask for higher wages to compensate for the rise in the price of food (1).

Note: maximum of 3 marks. [3]

- (c) 1 mark for a definition of inflation.

Up to 5 marks for an explanation of how inflation is measured using of a Retail Prices Index (RPI) or a Consumer Prices Index (CPI):

- Stating RPI or CPI
- selecting a base year = 100
- finding out how households spend their money / basket of goods
- attaching weights to items of expenditure
- finding out price changes
- constructing a weighted price index.

Note: maximum of 5 marks. [5]

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- (d) Up to 2 marks for an explanation that a very competitive market consists of many firms (1) without barriers of entry (1).

Up to 6 marks for stating the advantages of a competitive market:

- competition will force sellers to keep prices down so that they don't lose customers
- if they did, they would go out of business (assumption of no barriers to entry and exit)
- consumers will have perfect information and so will know what prices are being charged by different firms
- tends to promote efficiency.

Up to 6 marks for stating the disadvantages of a competitive market:

- some firms will assume a high level of brand loyalty and so keep prices higher than competitors' prices
- idea of abnormal profits being competed away in the long run, but this would mean that firms may not have funds to finance research and development which could lead to better products
- consumers may not have perfect information about prices
- firms in a highly competitive market may not be that large and so might not be able to benefit from economies of scale.

Up to 2 marks for a supported conclusion.

Note: maximum of 8 marks.

[8]

- 2 (a) Up to 2 marks for a definition of capital:

- man-made physical goods used in production, e.g. machines, tools, factories, roads (do NOT accept money).

Up to 2 marks for an explanation of importance:

- idea of capital-intensive production, making greater use of latest, more technologically advanced, machines, tools, equipment. [4]

- (b) Up to 3 marks for an explanation of enterprise:

- the role of the entrepreneur in terms of organising the other factors of production and in taking a risk in doing so.

Up to 4 marks for an analysis of impact of entrepreneur:

- how well the other factors are organised/combined to produce goods/services which satisfy the needs and wants of consumers
- the application of business 'know-how'
- the willingness to take risks to be innovative/imaginative
- the inspirational leadership/vision that is provided
- increases revenue/reduces costs; raises profits. [6]

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- (c) Up to 2 marks for a definition of opportunity cost:
- the benefit of the (next) best alternative foregone as a result of making a choice.

Up to 4 marks for the discussion of the importance for firms:

- firms will need to consider implications of choices made in terms of both products produced and the different resources and methods of production used, including impact on profits and competitors.

Up to 4 marks for the discussion of importance for consumers:

- consumers will need to consider implications of choices made in terms of consumption decisions.

Up to 4 marks for the discussion of importance for governments:

- governments will need to consider implications of choices made in terms of a limited amount of financial resources and yet there will be many diverse demands on these limited resources.

Note: maximum of 10 marks.

[10]

- 3 (a) Up to 2 marks for an explanation of price elasticity of supply:
- a measure of the responsiveness supply to a change in price of a product (2)
  - formula: the percentage change in quantity supplied of a product/the percentage change in price of a product (1).

Up to 3 marks for some further development:

- explanation of the range of values from perfectly inelastic to perfectly elastic
- reference to appropriate examples.

[5]

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- (b) Up to 2 marks for an explanation of price elasticity of demand:
- a measure of the responsiveness demand to a change in price of a product (2)
  - the percentage change in quantity demanded of a product/the percentage change in price of a product (1).

Up to 7 marks for possible influences:

- the availability of substitutes
- the proportion of income spent on a product
- whether the product is a necessity or a luxury
- whether the product is addictive or not
- whether its purchase can be postponed
- how the market is defined
- the time period.

A maximum of 4 marks for a list-like approach.

Award a maximum of 3 marks for any single influence explained well.

Note: maximum of 7 marks.

[7]

- (c) Up to 6 marks for an explanation of price elasticity of supply:
- supply of a product will be price elastic if the change in supply is measured over a long period of time during which producers can increase or decrease production easily; resources are readily available to expand supply in response to an increase in price
  - supply of a product will be price inelastic if the time period is too short for producers to make significant changes in production; there is a shortage of resources available to expand supply in response to an increase in price.

Up to 6 marks for an explanation of price elasticity of demand:

- Idea that if PED for a product is elastic, the business should reduce the price to increase revenue
- Idea that if PED for a product is inelastic, the business should raise the price to increase revenue.

Note: maximum of 8 marks.

[8]

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- 4 (a) Up to 3 marks for any possible reasons:
- to receive dividends
  - to make a capital gain
  - to influence the running of a company through voting at AGM
  - to facilitate a takeover of a company.

Any one reason can get a maximum of 2 marks. [3]

- (b) Up to 4 marks for a description which could include:
- provides a market for buying and selling of shares, bonds and other securities
  - this enables finance to be raised
  - a means of savings for both private and institutional investors
  - share prices give an indication of how well particular firms are doing
  - a share index (e.g. FTSE 100 or 250) gives an indication of how well the economy as a whole is doing.

Any one reason only can get a maximum of 2 marks. [4]

- (c) Up to 5 marks for possible reasons:
- wage/salary
  - bonus/commission
  - job satisfaction
  - working conditions
  - working hours
  - preferential arrangements on financial products
  - pension provision
  - fringe benefits
  - job security/promotion prospects.

Any one reason can get a maximum of 2 marks.

A maximum of 3 marks for a list-like approach.

An answer which makes no reference to financial services can get no more than 3 marks. [5]

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(d) Up to 2 marks for a basic idea of the role/function of trade unions.

Up to 2 marks for explaining that their power and influence in an economy depends on such factors as proportion of workers in trade unions, number/size of trade unions, financial strength of unions and their ability to exercise influence on firms and government.

Up to 4 marks for explaining the benefits to an economy:

- they can negotiate wages and working conditions with employers on behalf of employees
- defend employee rights and jobs.

Up to 4 marks for explaining the disadvantages to an economy:

- reduction of mobility of labour
- creates unemployment/inflation through wage demand
- reducing competitiveness of domestic firms.

Up to 2 marks for a supported conclusion.

Note: maximum of 8 marks.

[8]

5 (a) Up to 2 marks for explaining that a tax raises revenue when consumers or producers pay an amount to a government; this can be in the form of direct or indirect taxes.

Up to 2 marks for explaining that a subsidy is an amount of money that is paid by a government to the producer of a product so that the cost is reduced, enabling this lower cost to be passed on to the consumer in the form of a lower price or increased production. Also accept subsidy to consumers. [4]

(b) Up to 6 marks for possible circumstances in which a subsidy might be provided:

- for social reasons, e.g. to the provider of an essential service, such as a railway
- for employment reasons, e.g. to keep a firm in business
- to raise incomes, e.g. to certain agricultural workers
- to keep down the prices of essential goods, e.g. bread, milk/reduce poverty
- to make home produced goods more competitive compared with imports
- to increase production of a merit good.

Any one reason only can get a maximum of 3 marks.

Maximum of 3 marks for a list-like approach.

[6]

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- (c) Up to 7 marks for discussion of arguments in favour of increasing income tax:
- it will increase public revenue
  - this can then be spent by a government
  - this could increase employment and standards of living
  - as income tax is a progressive tax, it could help to bring about a more equal distribution of income
  - reduce inflation/aggregate demand
  - reducing the current account deficit.

Up to 7 marks for discussion of arguments against increasing income tax:

- the better off will be particularly badly hit
- this could lead to a disincentive effect
- it could lead to a 'brain drain' with higher-paid people leaving the country
- raise unemployment
- reducing GDP/harms economic growth.

Up to 2 marks for a supported conclusion.

Note: maximum of 10 marks.

[10]

- 6 (a) Up to 2 marks for an explanation of net migration:
- the difference between the immigration of people into a country and the emigration of people out of a country.

Up to 2 marks for explanation of any other factors:

- birth rate
- death rate
- fertility rate.

1 mark only for a list of other factors without explanation.

1 mark for stating whether or not net migrations likely to be the main factor affecting the size of a country's population. [5]

- (b) Up to 5 marks for consideration of the potential importance of health care programmes in reducing poverty in a country.

Up to 5 marks for consideration of other possible policies, e.g. expenditure on education, job-creation schemes or higher benefits.

Note: maximum of 7 marks.

[7]



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- (c) Up to 5 marks for a discussion of the usefulness of the Human Development Index:
- GDP per head
  - Life expectancy at birth
  - Education (adult literacy rate and combined primary, secondary and tertiary enrolment ratios)/expressed in mean years and expected years.

Up to 5 marks for discussion of other elements that could be considered:

- differences in the distribution of income
- size of the informal/hidden/underground economy
- differences in working conditions
- the composition of output
- political/social freedom
- other composite measures.

Up to 2 marks for a supported conclusion.

Note: maximum of 8 marks.

[8]

- 7 (a) Up to 3 marks for an explanation in terms of:
- influence of changes in demand
  - influence of changes in supply
  - payments for exports and imports
  - capital movements
  - changes in interest rates
  - speculation
  - expectations about future currency movements
  - lack of government intervention.

Any one reason can get a maximum of 2 marks.

[3]

- (b) Up to 6 marks for explanation of possible implications:
- will make exports more expensive and therefore less competitive
  - this could lead to a reduction in the demand for exports and therefore possible job losses (the effect will be determined by PED)
  - will make imports less expensive and therefore more competitive
  - this could lead to an increased demand for imports (again depending on PED) which could put some domestic firms out of business
  - although it would make the price of imported raw materials/component parts cheaper (not just finished goods) which could help domestic firms to keep down prices.

Allow a maximum of 3 marks for any point well developed.

[6]

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(c) Up to 2 marks for an explanation of a quota:

- this is a limit placed on imports
- it can be in the form of a physical number of units, market share or a certain value
- the objective is usually to protect domestic producers
- the supply of the imports will be reduced and the price will usually rise.

Up to 2 marks for an explanation of an embargo:

- this is a complete ban on the import of certain products
- it can be in the form of a complete prohibition on all trade with a particular country.

Note: maximum of 3 marks.

[3]

(d) Up to 6 marks for arguments in favour of protectionism:

- infant (sunrise) industry argument
- declining (sunset) industry argument
- strategic industry argument
- anti-dumping argument
- tariffs can raise revenue for a government.

A maximum of 3 marks for a list-like approach.

No single argument should be awarded more than 3 marks.

Up to 6 marks for arguments in favour of free trade:

- world output can be increased
- greater variety of choice for consumers
- standards of living can be improved.

A maximum of 3 marks for a list-like approach.

No single argument should be awarded more than 3 marks.

Up to 2 marks for a supported conclusion.

Note: maximum of 8 marks.

[8]

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
International General Certificate of Secondary Education

## **MARK SCHEME for the October/November 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) State two industries that have been growing in Oman. [2]

Two from the following:

- financial industry
- tourism industry
- education industry

(b) Describe two types of unemployment. [4]

Candidates could mention:

- structural (1) arising from the decline of particular industries and occupations (1)
- cyclical/demand-deficit (1) caused by a lack of total (aggregate) demand (1)
- regional (1) when industries decline in a particular area (1)
- technological (1) when advances in technology make particular occupations redundant (1)
- frictional (1) when workers are in between jobs (1)
- seasonal (1) when workers cannot find employment at certain times of year (1)
- search (1) when workers do not accept the first job on offer but spend time in pursuit of a good job (1)
- voluntary (1) workers not actively seeking employment (1)
- residual (1) workers who cannot get a job even during a boom period because of a lack of skills or disabilities (1)
- classical (1) when wages are not allowed to fall (1)

(c) Explain how fiscal policy can be used to support the development of a country such as Oman. [6]

Up to 4 marks for answers dealing with an increase in public spending:

- expenditure on education and training schemes/health care (1) raise labour productivity (1) reduce costs of production (1) raise the quality of products produced (1) increase demand for products made (1) increase incomes (1)
- grants and loans to encourage enterprise (1) increase output (1) increase employment (1) increase income (1)
- infrastructure development (1) examples of spending on infrastructure, e.g. road building, hospitals (1) reduce costs of production (1) increase output (1) increase income (1)
- increase in general government spending (1) increases total (aggregate) demand (1)

Up to 4 marks for answers dealing with a reduction in taxation:

- reduction in taxation (1) raise disposable income (1) increase demand (1) increase output (1) increase employment (1) increase income (1)
- tax holidays could be given (1) encourage multinationals to locate (1) increase output (1) increase employment (1) increase income (1)
- taxes on profits of companies could be reduced (1) encourage investment expenditure (1) increase output (1) increase employment (1) increase income (1)

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**(d) Discuss the extent to which spending on education and training will reduce the rate of unemployment in a country. [8]**

Up to 5 marks for why it might reduce unemployment:

- raise workers' skills (1) make them more productive (1) make them more occupationally mobile (1) increase demand for their labour/make them more employable (1) reduce structural unemployment (1) increase incomes (e.g. teachers) (1) and so increase demand (1) multiplier effect (not on syllabus but candidates may use the idea) (1)
- creates jobs in education (e.g. teachers) (1)
- increases total (aggregate) demand (1) which increases employment (1)
- new skills acquired allow them to start their own business (1) this may require more employees (1)
- workers might become highly skilled (1) which could help them obtain jobs abroad (1)

Up to 5 marks for why it might not reduce unemployment:

- education and training may be of a poor quality (1) may be in areas that are not in demand (1)
- may not reduce cyclical unemployment (1) demand for workers will remain low if demand for products is low (1)
- higher spending on education and training may be offset by lower spending on health care (1) and so productivity may not increase (1)
- higher taxes to pay for the education (1) may reduce demand for goods and services (1) and so reduce the demand for labour (1) but the net effect of an increase in government spending and taxation would be to increase demand (balanced budget multiplier effect not on the syllabus but may use the idea) (1)
- higher spending may cause inflation (1) which could cause unemployment (1) (this link must be explained for one mark).
- it is a long term solution (1) by the time trained workers enter the labour market the skills required may have changed (1)
- there may be an opportunity cost (1) such as spending on public services which would create more jobs directly (e.g. armed forces) (1)

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**2 (a) Describe why economic decisions involve an opportunity cost. [4]**

Up to two marks for definition:

Opportunity cost is the (next) best alternative (1) that is foregone (1)

Up to two marks for development

Resources are finite/limited in supply (1) if they are used to produce one product they cannot be used to produce another product (1) so a choice has to be made as to how resources have to be used (1) an example of this use of resources (1)

Reward but do not expect:

Economic decisions do not always involve an opportunity cost (1) e.g. employing the unemployed/using solar power/they might be free goods (1)

**(b) Using a production possibility curve diagram, explain how it can show the concept of opportunity cost. [6]**

Diagram:

Up to 3 marks:

- correct labelling of both axes (1)
- correct shape of curve (straight line or curve) (1)
- two points showing movement along curve/movement along axes (1)
- opportunity cost, with full employment of resources, must be on the PPC (1)

Explanation:

Up to 3 marks:

- PPC shows all possible combinations of the production of two goods (1)
- shows more of one product can be made only if less of another product is made (1) as a result of switching resources (1)
- shows if all resources are used to make one product, no units of the other product can be made (1)
- a move from inside the PPC outwards does not show opportunity cost (1)
- points outside the PPC are unattainable (1)

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**(c) Discuss the extent to which the concept of opportunity cost is only of use to governments. [10]**

Up to 7 marks for why the concept of opportunity cost is of use to governments:

- governments have to decide how to spend tax revenue (1) e.g. if they spend revenue on education they cannot spend it on health care (1)
- governments face policy conflicts (1) e.g. if it decides to raise spending to reduce unemployment (1) it may cause inflation/lose control of price stability (1)
- governments know a rise in taxation will involve an opportunity cost for taxpayers (1) they will have to forgo spending or saving
- a rise in taxation may discourage MNCs from setting up in the country (1) result in loss of output/employment (1)

Up to 7 marks for why the concept of opportunity cost can be of use to firms, consumers and workers:

- firms have limited resources (1) firms have to decide what to produce (1) e.g. if a firm produces more of one model of car, it may have to produce less of another model (1) take into account profits that can be earned (1)
- consumers have limited income (1) have to decide how they spend their money (1) if they buy one product they may not be able to buy another product (1) take into account satisfaction/value for money (1)
- workers have limited time (1) have to decide what job to do (1) if they undertake one job they cannot do another job (1) take into account wage and non-wage factors (1)
- to show advantages of specialisation in international trade (1) because it shows how output and consumption can rise (1)

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**3 (a) Describe what is meant by demand. [2]**

Demand is the willingness (1) and ability (1) to buy a product.

**(b) Using a demand and supply diagram, analyse the likely effect of an increase in advertising on the equilibrium price and equilibrium quantity of a product in a market. [6]**

Diagram:

- correct labelling of axes (1)
- shift of demand curve to the right (1)
- increase in equilibrium price (1)
- increase in equilibrium quantity (1)

Analysis:

- advertising may encourage people to buy more/switch from buying rival products/ become aware and start buying the product (1)
- effect of an increase in advertising on equilibrium price (1)
- effect of an increase in advertising on equilibrium quantity (1)

**(c) Describe the concept of price elasticity of demand. [4]**

Up to 2 marks for definition:

the responsiveness of demand to a change in price/the percentage change in quantity demanded of a product divided by the percentage change in its price (2)  
 how price affects demand/change in demand divided by change in price (1)

Up to 2 marks for further development:

elastic demand has a value greater than 1 (1) inelastic demand has a value less than 1 (1)  
 PED varies from perfectly elastic to perfectly inelastic (1) PED varies along the length of the demand curve (1)

**(d) Discuss the extent to which price elasticity of demand is of use to a business. [8]**

Up to 5 marks for why it might be useful:

- a business can appreciate how demand for its products will be influenced by a change in price (1)
- if PED is elastic, a fall/rise in price will cause a greater percentage rise/fall in demand (1) leading to an increase/fall in revenue (1)
- if PED is inelastic, a rise/fall in price will cause a smaller percentage fall/rise in demand (1) leading to an increase/fall in revenue (1)
- elastic PED may indicate that the business faces close substitutes for its products (1)
- inelastic demand may indicate the business has considerable market power (1)

Up to 5 marks for why it might not be useful:

- price is only one of a number of influences on demand (1) changes in the prices of other products (1) and income (1) can be significant
- PES should also be considered (1) e.g. demand may be elastic but may not be able to take advantage of a lower price, if PES is inelastic (1)
- In practice, it is difficult to determine PED (1) it may change over time (1)



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**4 (a) Explain how money functions as (i) a unit of account and (ii) a standard for deferred payments. [4]**

Up to 2 marks for a unit of account:

- the price of an item can be measured in terms of how many units of currency it is worth. Money can, therefore, be used to place a value on an item (1). Prices are expressed in monetary terms; this function of acting as a unit of account (or measure of value) enables buyers and sellers to agree on what items are worth, relative to each other (1)

Up to 2 marks for a standard for deferred payments:

- this function of money enables borrowers to borrow money and pay it back at a future date (1); in this way, money allows people to borrow and lend and an agreement can be reached about the amount to be repaid in the future (1)

**(b) Analyse the role that commercial banks can perform in an economy. [6]**

Provision of:

- current accounts (1) allows customers to make and receive payments/money transmission services (1) e.g. by cheque, direct debits, debit cards (1)
- deposit/savings accounts (1) interest paid to savers (1)
- loans (1) interest charged on the full amount of the loan (1) may be used for a variety of purposes e.g. to buy a car (1) mortgages to buy a house (1)
- overdrafts (1) interest charged on the amount borrowed (1) may be authorised or unauthorised (1)
- foreign currency/travellers' cheques (1) used by people visiting other countries (1)
- financial advice (1) e.g. on purchase of shares (1)
- safe deposit facilities (1) e.g. to keep important documents (1)
- by lending money they can increase total consumer spending (1) in the economy and total investment by firms (1). (Do not reward reference to functions of central bank such as setting interest rates)

A list-like approach can gain no more than 3 marks

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**(c) Discuss whether the rate of interest is the only influence on a person's decision to borrow money from a bank. [10]**

Up to 7 marks for the importance of the rate of interest:

- the rate of interest is the price (1) of borrowing money (1) reward for lending (1)
- a fall in the rate of interest will reduce the cost of loans/overdrafts (1) encouraging a rise in borrowing (1)
- a rise in the rate of interest will increase the cost of loans/overdrafts (1) encouraging a fall in borrowing (1)
- a person may take into account not only the current but also the expected future interest rate (1) less likely to borrow if the rate of interest is expected to rise (1) central banks change the interest rate to influence borrowing (1) e.g. to reduce the inflation rate it will raise the rate of interest (1)

Up to 7 marks for other influences on a decision to borrow money:

- the ability to repay loans/overdrafts (1) those with high income (1) or who are wealthy (1) are more likely to be able to repay
- the need for the loan/overdraft (1) e.g. someone in financial difficulty may need to seek a loan/overdraft (1)
- the availability of loans/overdrafts (1) a bank will not be willing to lend to someone it thinks will not be able to repay (1)
- future inflation (1) this may reduce the real cost of the loan/overdraft (1)
- confidence (1) a person may be more willing to borrow if she/he thinks her/his job is secure/income will rise (1)
- advertising by banks of the borrowing facilities that are available (1) increase awareness of the opportunities (1)
- social attitudes to borrowing money (1) a person may be reluctant to get into debt (1)
- in some countries banks are not allowed to charge interest (1) some religions prohibit usury (1)

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**5 (a) Describe two features of a partnership. [4]**

- unlimited liability (although limited liability can sometimes operate) (1) so that the amount owners can lose is not restricted to money they have put into the business (1)
- unincorporated (1) partners share profits/losses (1)
- a relatively low maximum number e.g. 20 (1) restricts the business size (1)
- partners may specialise (1) so there is a sharing of skills/expertise (1)
- usually involves a legal document called a Deed of Partnership (1) setting out the terms of the partnership (1)

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

**(b) Explain why a partnership might become a private limited company. [5]**

- to benefit from limited liability (1) so that the amount that owners can lose is restricted to the amount they have put into the business (1)
- to expand by issuing shares (1) this raises more capital (1) allows the firm to expand its output (1)
- a private limited company usually has a higher maximum number of owners (1) and so will be able to benefit from economies of scale (1) example (1)
- to have a board of directors (1) which appoints a managing director who takes responsibility for running the business (1)

**(c) Distinguish between internal and external economies of scale. [4]**

Internal economies of scale

Up to 2 marks:

- advantages that a firm can gain from itself growing in size (1) in the form of lower average costs (1)
- one example e.g. buying, technical, financial, managerial, risk bearing (1)

External economies of scale

Up to 2 marks:

- advantages that firms can gain from the industry growing in size (1) in the form of lower average costs (1)
- one example e.g. skilled labour force, specialist markets, improved infrastructure, specialist supplies (1)

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**(d) Discuss whether all small firms will eventually become large firms. [7]**

Up to 4 marks for why they might:

- if small firms respond to changes in consumer demand (1) they may increase sales (1) successful small firms will gain high profits (1) this can finance expansion (1)
- banks may be willing to lend to small firms (1) providing the finance for expansion (1)
- the government may provide subsidies for small firms (1) lowering their costs of production (1) increasing their supply (1)
- small firms may combine to take advantage of economies of scale (1) will lower cost of production (1) increase profits (1)

Up to 4 marks for why they might not:

- size of the market may be limited (1) demand for some products may be low (1)
- preference of owners/managers (1) it may be easier/less stressful to run a small firm (1)
- preference of consumers (1) people may want a personal service (1)
- difficulty of raising finance to expand (1) banks may be reluctant to lend to some small firms/charge them too high a rate of interest (1)
- market might be dominated by large firms (1) this creates barriers to expansion for small firms (1)

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**6 (a) Describe what is meant by relative poverty. [4]**

Relative poverty:

- this is where people in a country are generally less well off than others (1) such as in relation to the quantity/quality of material goods (1) they are not able to participate fully in the normal activities of the country they live in (1)
- people who are relatively poor in one country (especially a developed country) may be quite well off compared to the poor in another country (1) (especially a developing country) (1)

**(b) Explain why a government may not always have accurate knowledge of the level of poverty in its country. [6]**

- the poor may not have a permanent address/may not appear on official statistics (1)
- the poor may be in subsistence agriculture (1) their output is not measured (1)
- often population statistics may be an estimate (1)
- relative poverty is particularly difficult to determine as the 'relativity' may be very subjective (1)
- there may be illegal immigration (1) which is hard to monitor
- the existence of the informal economy (1) some of the poor may be earning an income but do not declare it (1) to avoid paying tax and/or to ensure that benefits are not stopped or because the activity is illegal (1)
- remote areas (e.g. Amazon forest) may be hard to access (1)
- corruption among officials/bribes paid to ignore areas where wages are below the national legal minimum (1)

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**(c) Discuss whether encouraging multinational companies to locate in a country is likely to reduce significantly the extent of poverty there. [10]**

Up to 7 marks for why it might:

- it may pay higher wages than domestic firms (1) this will reduce poverty among low wage workers (1)
- it may create new jobs (1) this could reduce unemployment (1) provide incomes (1)
- workers may gain new skills (1) raise productivity (1) increase long term earning potential (1)
- may contribute to improving infrastructure/schools/hospitals (1) which can improve the standard of living (1)
- may produce goods more cheaply (1) which the poor can afford to buy (1)
- will pay tax in that country (1) so the government can spend on things which benefit the poor (1)

Up to 7 marks for why it might not:

- some of the highly paid workers employed may come from the MNC country (1) local workers may be in low skilled/low paid jobs (1)
- MNCs may replace domestic firms (1) and so not add to employment (1)
- production may be capital rather than labour intensive (1)
- MNCs may not stay in the country for long (1) poverty may return to previous level when they leave (1)
- MNCs may avoid paying taxes in the country (1) reducing government revenue available to tackle poverty (1)
- MNCs may pay less than the minimum wage which local firms pay (1)
- MNCs may locate in certain parts of the country (1) not reduce poverty across the country (1)
- MNCs may deplete natural resources (1) reduce incomes in the country (1)
- MNCs may replace local labour with technology (1)

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7 (a) Explain what is meant by free trade. [4]

- international trade which is not restricted by import controls (1) such as tariffs, quotas or other methods of trade protection (1)
- allows world output to be increased (1) when each country specialises in producing the goods and services they are best at producing/with the lowest opportunity cost (1)
- is encouraged by organisations such as the World Trade Organisation (1)
- can increase standards of living (1)

(b) Analyse how a tariff can be used as a method of trade protection. [4]

- a tariff is a tax/duty on imported products (1)
- increases costs of production (1)
- reduces supply (1)
- raises price (1)
- this should lead to a reduction in demand (1)
- the demand for the home produced products (substitutes) rises (1)

(c) Explain why a government might decide to protect a strategic industry in its economy. [4]

- a strategic industry is an industry which is of vital importance to an economy (1) such as defence or agriculture (1)
- these are industries which are essential for the survival of a country (1) the aim is to ensure consistency of supplies (1)
- a country that is dependent on imports of food and weapons faces the risk of supplies being cut off due to wars or natural disasters (1)
- a strategic industry might be an infant or declining industry (1) argument for supporting such an industry (e.g. employment) (1)

(d) Discuss whether the protection of an infant industry in an economy can be justified. [8]

Up to 5 marks for reasons why it might be justified:

- an infant industry is a new industry (1) and so may not be able to compete on equal terms with longer established foreign producers (1)
- protection may enable an infant industry to grow (1) and so take advantage of economies of scale (1) may increase GDP/output (1) and employment (1)
- once the industry can compete equally with foreign producers, the protection can be removed (1)

Up to 5 marks for reasons why it may not be justified:

- difficult to identify which new industries have the potential to be successful (1) may waste government expenditure (1)
- it may involve opportunity cost (1) with an example (1)
- industry may become dependent on protection (1) may become complacent/not forced to become more competitive (1)
- may provoke retaliation (1) foreign industries may complain about unfair competition/seek to maintain competitive edge (1)

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### **0455 ECONOMICS**

**0455/22**

Paper 2 (Structured Questions), maximum raw mark 80

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**1 (a) Define the term ‘disposable incomes’.** **[2]**

- The amount of income people have left after direct taxes have been deducted (2)
- The amount of income people have left after taxes have been deducted and state benefits have been added (2)
- The amount of income people have left after taxes have been deducted (1)
- The amount of income people have left to spend and save as they please (1)
- The amount of income people have plus state benefits (1)

**(b) Explain how a consumer prices index is constructed.** **[5]**

- a basket of goods and services (1)
- a base year (100) is selected (1) should be a stable/unexceptional year (1)
- measurement of changes of prices of products in the basket/index of price changes (1) from a range of outlets (1)
- products are given weights (1) to reflect their importance in buying patterns (1) buying patterns found from a household survey (1)
- weights are multiplied by price changes/formula (1)

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

**(c) Explain how individual workers can try to increase their wages above the rate of inflation.** **[5]**

- join a trade union (if they are not already in one) (1) to benefit from the potential advantages of collective bargaining (1)
- if a member of a trade union, participate in industrial action (1) development of industrial action (1)
- work longer hours (1) receiving overtime payments (1)
- improve their training/qualifications/skills (1) increase demand for their labour (1)
- gain promotion (1) by e.g. gaining higher skills (1)
- change to a better paid job with another employer (1)
- take a second job (1) to increase overall wages (1)

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

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**(d) Discuss to what extent a rise in interest rates would be to the advantage of UK workers. [8]**

Up to 5 marks for why it might:

- this could reduce the rate of inflation (1) (depending on the interest elasticity of demand, although candidates do not need to use that term) (1) reduce the extent of the negative effects of inflation, such as the erosion of purchasing power of money (1) this would make it more likely that wage rises would be effective rises in real terms (1)
- lower inflation may increase price competitiveness of domestic products (1) increase employment (1) raise job opportunities (1)
- higher interest rates would increase the return from saving (1) some workers may be net savers (1)

Up to 5 marks for why it might not:

- the interest rate on mortgages will go up (1) and this is a major proportion of the expenditure of many workers (1) leaving them less income to spend on other items (1)
- other borrowing costs will also go up (1), such as loans and overdrafts (1)
- this would be likely to reduce the level of demand in the economy (1) less production (1) higher unemployment (1)

**2 (a) Define the factor of production, enterprise. [4]**

- this is the factor that takes the risk (1) in bringing the other factors together/combining other factors to produce goods and to provide services in order to make profits (1)
- enterprise involves the taking of decisions (1) in terms of what to produce and how to produce it (1)
- enterprise is undertaken by entrepreneurs/examples of entrepreneurs (1) who receive profit as a reward (1)

**(b) Distinguish between the social benefits and the social costs involved in this example. [6]**

Example: cutting down timber in a rainforest

Up to 2 marks for definition of social benefits:

social benefits – the sum of private benefits and external benefits (2) total benefits to society (1)

1 mark for relevant example:

such as profit made by a firm (private benefit)/an increase in jobs for a community (external benefit) (1)

Up to 2 marks for definition of social costs:

social costs – the sum of private costs and external costs (2) total costs to society (1)

1 mark for relevant example:

such as the cost of machinery to a firm (private cost)/the pollution caused to the community (external cost) (1)

A maximum of 4 marks if the answer is not related to the example

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**(c) Discuss whether a resource, such as a rainforest, should be conserved rather than used. [10]**

1 mark for the rainforest is a natural resource/gift of nature (1)

Up to 7 marks for conservation of a resource:

- conservation involves taking a long-term rather than a short-term view (1) enabling future generations to benefit from the rainforest (1)
- if a rainforest is cut down, forest habitats that provide for people, plants and animals today and in the future are destroyed (1) may reduce tourism (1)
- cutting down forests could cause external costs (1) e.g. noise pollution (1)
- demand for wood may be higher in the future (1) resulting in a better return (1)

Up to 7 marks for use of a resource:

- this will increase incomes/GDP now (1) the standard of living in material terms will improve in the area (1)
- jobs will be created (1) lowering unemployment (1)
- exports can increase (1) improving the current account position (1)
- revenue earned may be reinvested by firms in the local area (1) creating employment (1)
- tax revenue will increase (1) this could be used to e.g. subsidise new industries (1)
- demand for timber may decrease in the future (1) so more revenue may be gained now (1)
- there is an opportunity cost involved in keeping the rainforests (1) e.g. the land could be used for farming (1)

**3 (a) Describe the non-wage factors that can influence a person's choice of occupation. [4]**

- job satisfaction (1) e.g. a person may enjoy a challenging occupation/an occupation such as nursing that involves helping people (1)
- type of work/working conditions (1) for instance, an occupation may usually be undertaken in a clean and safe environment (1)
- working hours (1) most people like to avoid occupations which involve very long hours or unsociable hours (1)
- size of the firm (1) some people like to work in occupations that are usually undertaken in small firms as there may be closer contact with employers and fellow workers/some people like to work in occupations that are usually undertaken in large firms as there may be greater diversity in tasks undertaken and greater promotion prospects (1)
- career prospects/opportunity for promotion (1) some occupations have clear career progression e.g. teaching (1)
- fringe benefits (1) such as subsidised housing/a company car (1)
- number/length of holidays (1) most people like regular and long holidays (1)
- pension scheme (1) people are attracted by a generous and safe pension scheme (1)
- job security (1) people are likely to be reluctant to undertake an occupation in which workers are often made redundant/the industry is in decline (1)
- location of job/distance and time to travel (1) most people prefer to work close to home/some people's choice may be restricted to a particular area because of the difficulty/cost of travel (1)

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

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**(b) Explain the different forms of payment that a worker can receive. [4]**

- wage (1) payment for carrying out a particular job/explanation of piece rate and/or time rate (1)
- salary (1) based on a fixed annual amount (1)
- overtime (1) payment for work in excess of the standard, contracted hours (1)
- bonus (1) extra payment acting as an incentive/payment for performance above that usually expected (1)
- commission (1) payment based on the percentage of sales a worker makes (1)

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

**(c) Consider the likely changes in earnings over an individual's lifetime. [3]**

- entry to the workforce: earnings relatively low (1)
- increase in skills/experience: earnings rise significantly (1)
- older/end-of-career workers: earnings fall (1)

Reward other logical suggestions based on economics e.g. promotion/demotion, outcomes of peer reviews, loss of jobs

**(d) Discuss whether a worker in the services sector is always likely to receive a higher wage than one in the manufacturing sector. [9]**

Up to 5 marks for why might:

- service sector includes banking (banker), insurance (insurance worker), health (doctor) and education (teacher) etc. (1)
- increase in demand for services will increase demand for labour (1) pushing up the wages of workers (1)
- profits in the service sector may be high (1) increasing ability of firms to pay higher wages (1)
- workers in the services sector may be more skilled than those in the manufacturing sector (1) increasing their productivity/bargaining strength (1)
- idea of deindustrialisation (1) unemployment increasing in manufacturing (1)

Up to 5 marks for why might not:

- manufacturing sector includes e.g. car production (car workers), food processing (food processing workers) and furniture making (carpenters) (1)
- demand for workers in some manufacturing industries may be increasing more than demand for workers in service sector industries (1)
- not all workers in the service sector are skilled (1) may have low productivity/bargaining strength (1)
- some workers in the manufacturing sector will be in more promoted posts (1) will have more experience (1)
- more workers in the manufacturing sector may belong to trade unions (1) may have stronger bargaining power (1)

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**4 (a) Analyse three characteristics of perfect competition. [6]**

- there are a large number of firms in the market/many buyers and sellers (1) so each firm's output is too insignificant to affect prices/each firm is a price taker/each consumer is too insignificant to affect price (1)
- each firm produces an identical/homogeneous product (1) products are perfect substitutes/demand is perfectly elastic (1)
- there is perfect information (1) firms know level of profit being made in the market/consumers know prices charged (1)
- no barriers to entry or exit (1) firms will come into the industry if supernormal profits are being made/firms will leave the industry if losses are made or profits are below normal (1)
- normal profits are made in the long-run (1) these are just sufficient to keep the firms in the industry (1)
- no advertising (1) due to perfect knowledge/products identical (1)

**(b) Distinguish between a firm that is a price taker and one that is a price maker. [4]**

Price taker:

- this would apply to a firm that is in a perfectly competitive market structure (1) where the price is determined by market conditions/all firms in the market have to accept this price/one firm's output is too small to influence price (1)

Price maker:

- this would apply to a firm that is in a monopoly market structure (1) a monopoly firm is able to use its market power to determine the price it wishes to charge/a monopoly's output is the industry's output (1)

**(c) Discuss whether pricing and output policies in perfect competition are more favourable to the consumer than those in monopoly. [10]**

Up to 7 marks for perfect competition more favourable:

- price may be lower (1) due to competitive pressure (1) driven down to a level which just covers costs (1)
- output may be higher (1) as firms will not be restricting output to drive up price (1)
- firms are likely to be responsive to changes in consumers' demand (1) trying to gain a competitive edge (1)
- firms may innovate (1) perfect knowledge spreads information about new methods/products (1) competitive pressure may force firms to innovate (1)

Up to 7 marks for monopoly more favourable:

- monopoly likely to be a larger firm (1) more able to take advantage of economies of scale (1) example/s of economies of scale (1) lower average costs of production (1) may lead to lower prices (1)
- monopoly may earn supernormal profits (1) these may be used to innovate (1) monopoly may feel safer innovating knowing that it can protect any resulting supernormal profits (1) innovation can lower prices (1) improve quality of products (1)

Up to a maximum of 7 marks for a good answer on only one element i.e. pricing or output.

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**5 (a) Explain what is meant by a regressive indirect tax. [4]**

Up to 2 marks for the indirect element:

- an indirect tax is a tax on spending (1)
- paid indirectly by consumers to the government via producers/the burden can be shifted (1)
- example/an indirect tax may have the same rate for most goods and services (1)

Up to 2 marks for the regressive element:

- all people pay the same rate irrespective of their income/ability to pay (1)
- the poorer people, therefore, will pay a higher percentage of income in tax than the richer people (1)

Note: to gain 4 marks there needs to be reference to the 'higher percentage of income' paid.

**(b) Using a demand and supply diagram, analyse how an increase in tax on fuel can affect the equilibrium price and equilibrium quantity of fuel. [6]**

Up to 4 marks for the demand and supply diagram:

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

Up to 2 marks for analysis:

- an increase in an indirect tax raises firms' costs of production (1)
- there will be a rise in the equilibrium price (1)
- and a fall in the equilibrium quantity (1)

**(c) Discuss the extent to which a direct tax, such as income tax, can affect the distribution of income in an economy. [10]**

Up to 7 marks on how it can affect the distribution of income:

- a direct tax is a tax on the income of people and firms (1)
- income tax is usually a progressive tax (1) this takes not just more of the income of the rich (1) but also an increasing proportion of their income (1) reduces the gap between the income of the rich and the poor (1)
- tax revenue raised may be used to help the poor (1) e.g. spending on housing, education and health care (1) this may increase the earning potential of the poor (1)

Up to 7 marks for why the effect may be limited:

- will depend on how progressive the tax is (1) some countries operate flat taxes (1)
- will be influenced by the extent of tax avoidance (1) some of the rich may find ways of not paying the tax (1)
- a high rate may discourage effort and enterprise (1) leading to lower output (1) higher unemployment (1) greater poverty/more uneven distribution of income (1)
- it may be offset by the regressive nature of other taxes (1)
- other factors may change such as a lowering of the minimum wage (1) how this could affect the distribution of income (1)

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6 (a) Describe three possible causes of the growth of a country's population. [6]

Either:

- an increase in the birth rate (1) when the number of births per thousand of the population rises/due to e.g. a fall in the average age of marriage (1)
- a fall in the death rate (1) when the number of deaths per thousand of the population falls/due to e.g. improved health care (1)
- a rise in net immigration/immigration (1) where more people come into the country (immigrants) than leave the country (emigrants)/due to e.g. higher incomes in the country (1)

Or:

- up to 3 causes of an increase in the birth rate (3) each explained (3)
- up to 3 causes of a fall in the death rate (3) each explained (3)
- up to 3 causes of a rise in net immigration (3) each explained (3)
- up to 3 causes of a mixture of a rise in the birth rate/fall in the death rate, rise in net immigration (3) each explained (3)

Note: 3 marks for a rise in the birth rate, fall in death rate, net immigration/immigration.  
1 mark for reference to birth rate, death rate, immigration/migration.

(b) Explain how the rate of population growth may differ between a developed country and a developing country. [4]

- a developed country is likely to have a low rate of population growth (1) e.g. because of a relatively low birth rate (1)
- a developing country is likely to have a higher rate of population growth (1) e.g. because of a relatively higher birth rate (1)

(c) Explain what is meant by an ageing population. [2]

- this is where people are generally living longer (1)
- the average age of people in a country increases (1)
- more older people as a proportion of the population (1)

(d) Discuss to what extent an ageing population is a serious economic problem. [8]

Up to 5 marks for why it might be a serious problem:

- increase need for health care (1) tax revenue used to provide health care could have been used for another purpose/opportunity cost (1)
- increase cost of pensions (1) place a tax burden on workers (1)
- increase the dependency ratio (1) proportionally more non-workers will have to be supported by proportionally fewer workers (1)
- reduce mobility of the labour force (1) older workers may be less geographically/ occupationally mobile (1)

Up to 5 marks for why it might not be a serious problem:

- a rise in the average age from a young age (1) may reduce dependency ratio (1)
- older workers may be more experienced (1) leading to higher productivity (1)
- ageing population may not increase dependency ratio/cost of pensions (1) if retirement age is raised (1)
- longer life expectancy (1) raise living standards (1)

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**7 (a) Explain three potential benefits of free trade. [6]**

- countries can specialise in what they do most efficiently (idea of comparative advantage, though candidates do not need to refer to that term) (1) provides for a more efficient allocation of resources (1)
- world output of goods and services increases (1) raising standards of living (1)
- consumers gain from a greater choice (1) they can benefit from consumption of goods not produced in their country/variations in products (1)
- consumers can gain from lower prices (1) due to greater competition (1)
- firms can have greater choice of raw materials (1) this will lower costs of production/improve quality of products made (1)

**(b) Distinguish between quotas and exchange controls as methods of trade protection. [4]**

Quotas:

- a quota is a restriction/limit (1) on the imports of goods into a country (1)

Exchange controls:

- an exchange control is where a government limits access to foreign currency (1) which makes it more difficult to buy imports from abroad (1)

**(c) Explain how a subsidy could be used to protect an industry from foreign competition. [4]**

- this is where a payment is made to a domestic producer (1)
- to make production cheaper (1)
- so that the price charged is lower than those of imports (1)
- encouraging people to buy the domestic, rather than the imported, good (1)

**(d) Discuss whether the protection of a declining and inefficient industry in a country can ever be justified. [6]**

Up to 4 marks for why protection can be justified:

- to prevent a rise in unemployment (1) output can be reduced gradually (1) workers who retire or leave will not be replaced (1) unemployment causes a range of problems e.g. low tax revenue, high costs of benefits (1)
- to protect a strategic industry (1) concern that supplies might be cut off (1)

Up to 4 marks for why protection cannot be justified:

- leads to an inefficient allocation of resources (1) lowers living standards (1)
- may lead to retaliation (1) resulting in a fall in exports (1)
- owners of the industry may resist protection being removed (1) industry will not decline (1)
- better to train workers in new skills (1) subsidise/protect new industries (1)



**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
International General Certificate of Secondary Education

## **MARK SCHEME for the October/November 2013 series**

### **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 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 October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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**1 (a) Define the term ‘Gross Domestic Product’.** [3]

Technically, Gross – before deduction for depreciation (1) Domestic – within the geographical boundaries of a country (1) Product – the total value of goods/services produced in an economy in a given period of time (1).

Accept general understanding e.g. it is the total output produced (1) in an economy (1) over a given period of time (usually a year) (1).

Candidates may also refer to the three methods of calculating it (output, income, expenditure) and the fact that it may be adjusted for inflation (a ‘real’ figure).

**(b) (i) Give one example of each of the three industrial sectors.** [3]

- primary sector: one example from agriculture, fishing, forestry, mining, etc. (1)
- secondary sector: one example from any type of manufacturing or construction, etc. (1)
- tertiary sector: one example from education, health care, transport, etc. (1)

**(ii) Explain whether the change in the industrial sectors in Pakistan mentioned in the extract is the one normally expected to occur as a country develops.** [3]

- fall in primary sector which is generally less productive (1)
- fall in secondary sector; part of general trend of deindustrialisation in economies (do not need to refer to that term) (1)
- rise in tertiary sector which is generally more productive (1)

Candidates can be rewarded for comment that this pattern is part of a general trend as economies grow and become more developed, but also reward explanations that suggest that there may be different patterns of change in different countries.

Credit answers that accurately use data from the extract.

**(c) Explain how the use of monetary policy, through lowering interest rates and increasing the money supply, could be used to stimulate the rate of economic growth in a country.** [5]

Up to 3 marks on the rate of interest:

- lowering of interest rates will make borrowing cheaper (1) will reduce the reward from saving (1) and therefore be likely to increase spending (1) and so increase demand and output (1)

Up to 3 marks on the money supply:

- increase in the money supply to make funds more available (idea of quantitative easing although do not need to refer to this term) (1) with more money people are likely to spend more (1) again contributing to an increase in demand and output (1)

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**(d) Discuss whether other policies, apart from monetary policy, might be more successful in raising the rate of economic growth in Pakistan. [6]**

Up to 4 marks for why they may be more successful:

- fiscal policy through lowering taxes and/or increasing expenditure (1) higher government spending on schools and hospitals will directly increase output (1) lower income tax will increase disposable income (1) which may raise consumer expenditure (1) encouraging firms to produce more (1)
- supply-side policy measures are designed to increase the output potential of the country (1) education and training may increase productivity (1) subsidies/lower corporation tax may increase investment (1) privatisation may increase efficiency (1) deregulation can reduce firms' costs of production (1)
- some fiscal policy measures can increase both total demand but also total supply (1)
- supply-side policy measures can allow growth to occur over time (1) can allow growth to take place without inflation (1) can increase the economy's international competitiveness (1) improving the current account position (1)
- supply-side policies that remove trade restrictions (1) attract foreign investors which leads to increased capacity (1) higher output/income (1) and leads to economic growth (1).

Up to 4 marks for why they may be less successful:

- fiscal policy measures can take time to have an effect (1), e.g. takes time to pass the necessary legislation (1) and for people to respond to the changes (1)
- people and firms may not respond as expected to fiscal policy measures (1), e.g. if people lack confidence (1) they may not spend more as a result of a cut in tax (1)
- supply-side policy measures can take a very long time to have an effect (1), e.g. increased spending on education make take 10–15 years to have an impact on productivity (1)
- supply-side policy measures may not work (1), e.g. privatisation may lead to inefficiency in the case of a private sector monopoly (1)
- supply-side policy measures can be very expensive (1), e.g. raising the school leaving age (1)

**2 (a) Using examples, define the factor of production, labour. [4]**

- labour represents human effort/capital/contribution (1)
- the physical (1) and mental (1) contributions of employees to the production process (accept skilled and unskilled)
- any two examples of jobs, this could be specific examples of physical contribution, e.g. mining or car production (1) and mental contribution, e.g. teacher or lawyer (1)

**(b) Explain why production is sometimes very labour-intensive. [6]**

- very labour-intensive would mean there is a high proportion of labour relative to capital (1)
- labour may be in plentiful supply in the economy (1) and so is relatively cheap (1)
- other factors, e.g. capital, may be less available (1) perhaps because of expense (1)
- sometimes jobs require labour/good or service cannot be mass produced (1) e.g. car repairs as opposed to car production (1)
- the production of some goods and services requires personal attention (1) e.g. hairdressing (1)

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**(c) Discuss whether a worker should always be encouraged to join a trade union. [10]**

Up to 7 marks for why should be encouraged:

- a trade union will provide a worker with more collective strength (1) this could be helpful in negotiating wage rises (1) improvements in worker conditions (1)
- a trade union may provide a member with a range of other benefits (1), e.g. training/ subsidised part-time education courses (1) in some countries trade unions provide members with unemployment benefits (1)
- a trade union may influence a government (1), e.g. to increase a minimum wage which workers can benefit from (1)

Up to 7 marks for why should not be encouraged:

- the trade union(s) in a particular industry may not be very powerful (1) especially if membership is low (1) and finance is limited (1)
- the cost of membership may be expensive (1)
- there may be difficulties in being a trade union member in some countries/some governments discourage trade union membership (1)
- industrial action can be disruptive (1) a worker may not receive an income while on strike (1) a worker may lose her/his job as a result of industrial action (1)

Maximum of 4 marks for a list.

**3 (a) Analyse what might have caused the costs of production in the motorcycle industry to have risen significantly in recent years. [4]**

Increase in costs of:

- raw materials/component parts (1), e.g. tyres (1)
- electricity (1)
- labour (1), e.g. mechanics (1)
- hiring/leasing/purchasing capital equipment (1), e.g. machines (1)
- indirect taxes (1), e.g. sales tax (1)

Answers which do not relate to the motorcycle industry can gain no more than 3 marks.

**(b) Using a demand and supply diagram, analyse the effect of an increase in production costs in the motorcycle industry on the equilibrium price and the equilibrium quantity of new motorcycles. [6]**

Up to 4 marks for the diagram:

- correctly labelled axes (1)
- shift of the supply curve to the left (1)
- increase in equilibrium price (1)
- decrease in equilibrium quantity (1)

Up to 2 marks for written analysis:

- to cover higher production costs, firms will require higher prices (1)
- effect of shift of supply curve to the left on equilibrium price (1)
- effect of shift of supply curve to the left on equilibrium quantity (1)

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**(c) Explain the concept of price elasticity of supply. [4]**

Up to 2 marks for definition:

- the responsiveness of supply to a change in price/the percentage change in quantity supplied of a product divided by the percentage change in price (2)
- how price affects supply/change in supply divided by change in price (1)

Up to 2 marks for further development:

- elastic supply has value greater than 1 (1) inelastic supply has a value less than 1 (1) PES varies from perfectly elastic to perfectly inelastic (1) PES varies along the length of the supply curve (1) always positive (1)

**(d) Discuss to what extent time is the main influence on the price elasticity of supply. [6]**

Up to 4 marks for why it might be the main influence:

- at a particular moment in time, it may be very difficult (or impossible) to increase supply (1) supply may be relatively inelastic (1)
- the longer the period of time, the more responsive supply is likely to be to a price change (1) relatively elastic (1)

Up to 4 marks for discussion of other possible influences:

- the ease with which a product can be stored (1) the easier it is to store the product, the more elastic the supply will be (1)
- the availability of factors of production (1), e.g. supply may be inelastic in periods of full employment (1)
- the cost of adjusting supply (1), e.g. it is cheaper to adjust the supply of pens than the supply of ships (1)

**4 (a) Describe three influences on spending, apart from changes in taxation. [6]**

- the need/want for the products (1) distinction between necessities and non-essential products (1)
- disposable income/wealth (1) spending will be greater in amount when income/wealth is higher as purchasing power will be higher (1)
- anticipated inflation rate in the future (1) people will spend more when they expect prices to rise/or spend less if they think inflation will be eliminated (1)
- confidence (1) during boom times/when people expect employment to remain high they will spend more (1)
- interest rate (1) a high interest rate will discourage borrowing/encourage saving and so reduce spending (1)
- other factors affecting pattern of spending, e.g. married/single, age, time of year, e.g. Christmas, new technology – identification (1) development (1)

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

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**(b) Explain how people's spending could be affected by changes in both direct and indirect taxes. [6]**

Up to 4 marks for direct tax:

- increase in income tax would reduce disposable income (1) and so make spending less likely (opposite effect with a reduction in income tax) (1)
- change in tax bands would affect spending (1), e.g. if lower rate starts at a lower level of income; same applies if top rate starts at a lower level of income (1)

Up to 4 marks for indirect tax:

- increase in a sales tax (e.g. VAT or GST) would make products more expensive (1) and discourage spending (opposite effect with a reduction in indirect tax) (1)
- if a sales tax was taken off a product (e.g. zero-rated) (1) it would make products less expensive and encourage spending (1)

**(c) Discuss whether a government should be concerned if people began to spend most of their money. [8]**

Up to 5 marks for why should be concerned:

- high levels of spending could cause inflation (1) demand-pull inflation (1)
- people may not have sufficient savings (1) to cope with unexpected events (1) may get into financial difficulties and have to rely on the state (1)
- lack of savings could reduce funds for lacking/investment (1) which would reduce economic growth (1)
- people may spend more on imports (1) exports could be diverted to the home market (1) worsen the current account position of the balance of payments (1)
- if increased spending is on demerit goods (1) creates social costs (1)

Up to 5 marks for less of a concern:

- high levels of spending could encourage firms to increase their output (1) leading to economic growth (1) and a fall in unemployment (1) higher output could result in firms taking greater advantage of economies of scale (1) lower costs of production could make firms more internationally competitive (1)
- high levels of spending would increase tax revenue (1) both direct and indirect (1) this could be spent on, e.g. health care (1)
- high levels of spending may attract multinational companies (1) due to a larger market (1)
- raises additional tax revenue for the government (1) which can be spent on improving services/infrastructure (1)

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**5 (a) Describe the advantages and disadvantages of a sole proprietor business organisation. [4]**

Up to 2 marks for advantages:

- owner is in complete control/takes all the important decisions (1)
- quick to make decisions/flexible (1)
- easy to set up/low start up costs/no complicated paperwork (1)
- all profits go to the sole trader (1)
- personal contact with customers/workers (1)

Up to 2 marks for disadvantages:

- owner does not have the legal protection of limited liability/the debt is unlimited (1)
- owner may have to work long hours (1)
- expansion can be very difficult due to lack of finance (1)
- lack of continuity (1)
- success may be limited by lack of skills of owner/poor health of owner (1)

**(b) Explain the different goals that such a business organisation might have. [5]**

- profit maximisation (1) trying to earn as much profit as possible (1)
- profit satisficing (1) keeping shareholders happy whilst pursuing some other goals/no shareholders to satisfy if sole proprietor (1)
- survival (1) especially during periods of low demand/recession (1)
- sales revenue maximisation (1) can make it easier to raise revenue/sell in bulk (1)
- growth (1) increase pay of managers/increase market power (1)
- ethical/community reputation (1) create a good image which can attract consumers (1)
- providing high quality goods and services (1) to retain customer satisfaction (1)

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

**(c) Analyse two reasons for the different sizes of firms in an economy. [4]**

- size of market/extent of demand (1) if there is a large demand, the firm is likely to be large (1) some firms are small because they are supplying a niche market (1)
- capital to finance expansion (1) some firms may find it easier to borrow from banks or sell shares (1)
- type of business organisation (1), e.g. sole trader v public limited company (1)
- preference of owner (1) an owner may not want the stress of running a larger company (1)
- age of the firms (1) firms tend to start relatively small (1)

1 mark for a basic analysis of each reason, and 1 mark for a development of the analysis of each.

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**(d) Discuss whether a monopoly is always in the best interest of consumers. [7]**

Up to 4 marks for why it might:

- if large, it may enjoy economies of scale (1) this would reduce costs of production (1) which may lower prices (1)
- supernormal profits could be spent on innovation/research and development (1) raise the quality of products (1)
- may be more likely to innovate/spend on research and development (1) as know any profits earned can be protected (1)

Up to 4 marks for why it might not:

- lack of competition could result in higher prices (1) and lack of choice (1)
- output may be lower (1) supply restricted to drive up price (1)
- inefficiency may occur (1) the monopoly may not feel the pressure to keep costs down (1) or respond to changes in consumer demand (1)

Maximum of 3 marks for a list.

**6 (a) Explain why the rate of population growth in some countries is greater than in others. [5]**

- some countries have a higher birth rate (1) this may be because of, e.g. a high infant mortality rate/lack of availability of contraception/low cost of raising children/need for children to support parents in old age (1)
- some countries have a lower death rate (1) due to, e.g. better health care/housing/nutrition (1)
- a birth rate that exceeds the death rate will lead to a natural increase in population (1)
- differences in fertility rates (1) if the fertility rate is below the replacement ratio, the population size will fall (1)
- differences in net migration (1) some countries experience net emigration whilst others have net immigration (1) due to, e.g. differences in incomes, job opportunities (1)

Alternatively allow up to 5 marks for a fully developed answer on any one of higher birth rate/lower death rate/net immigration.



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**(b) Explain what is meant when a country is described as being over-populated or under-populated. [5]**

- Over-population occurs when the balance between population and resources is wrong (1) when there are too many people (1) relative to resources (1) output per head is lower than possible (1) the country would benefit from either a fall in population (1) or an increase in resources (1) a country could have a large area of land but may still be regarded as over-populated if there is a shortage of, e.g. capital (1)

or

- under-population occurs when the balance between population and resources is wrong (1) when there are too few people (1) relative to resources (1) output per head is lower than possible (1) the country would benefit from a rise in population (1) this would enable resources to be used to a greater extent (1) a country may have a small area of land but may still be regarded as under-populated if there is, e.g. unused natural resources (1)

Allow reference to both over-population or under-population where comments are not simply a mirror image.

Credit, but do not expect, reference to optimum population. Allow up to 2 marks for a correct diagram and 1 mark for explanation.

**(c) Discuss whether the Human Development Index (HDI) is the best way of comparing the standard of living in different countries. [10]**

Up to 7 marks for why it is:

- it includes GDP/GNI per head (1) but goes beyond this (1)
- it takes into account life expectancy (1) this reflects the quality of health care (1)
- it includes mean and expected years of schooling/adult literacy and school enrolment (1) this reflects access to education (1)
- it divides countries into very high, high, medium and low human development (1) it is measured from 0 to 1 (1)
- there is also an inequality HDI (1) which takes into account the distribution of income (1)

Up to 7 marks for why it is not:

- it does not take into account all relevant indicators (1) for instance it does not include effects on the environment (1) which is included in the ISEW measure (1) it does not include infant mortality (1) number of doctors per head (1) gender inequality (1) political freedom (1) other indicators (1)
- not all countries are included (1) due to a lack of accurate data (1)

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7 (a) Explain why specialisation is an important aspect of international trade. [5]

- countries have different factor endowments (1)
- they should specialise in producing the products they are best at making/those which make the best use of these endowments (1)
- benefits from economies of scale can be obtained (1) so costs and prices can be lower (1)
- world output will increase (1) because of the greater efficiency of production (1) standards of living will rise (1)

(b) Describe the potential disadvantages of international specialisation. [4]

- a country can be vulnerable if it has to rely on imports to meet its needs (1) for instance, there may be a decline in the supply of a food product due to bad weather in the country from which it is sourced (1)
- less efficient industries will collapse (1) leading to an increase in unemployment (1)
- a country can be vulnerable to changes in world economic conditions (1) may be harmed by a world recession (1)
- a country can be vulnerable to volatility in exchange rate movements (1), e.g. exports may be reduced by a rise in the exchange rate (1)

(c) Describe the differences between a fixed and a floating exchange rate. [4]

Up to 2 marks for a fixed exchange rate:

- a fixed exchange rate is maintained by the government/central bank (1)
- it is maintained through intervention in the foreign exchange market, buying or selling the currency/changes in the interest rate to maintain a particular value (1)

Up to 2 marks for a floating exchange rate:

- the value is determined by the market forces of demand and supply (1)
- the value can change frequently due to changes in demand and supply (1), e.g. speculation/rate of inflation etc. (1)
- there is no need for a government/central bank to maintain a particular exchange rate (1)

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**(d) Discuss whether a floating exchange rate system is always preferable to a fixed exchange rate system. [7]**

Up to 4 marks for why it may be preferable:

- a government/central bank does not need to hold foreign currency reserves (1) these can be used for other purposes (1)
- a government/central bank can focus on other policy objectives (1), e.g. a government/central bank can increase the rate of interest to reduce inflation (1) without worrying that it may raise the exchange rate (1)
- the exchange rate can move to offset a current account deficit or surplus (1), e.g. if there is a deficit the exchange rate can fall (1) causing export prices to fall and import prices to rise (1)

Up to 4 marks for why it may not be preferable:

- there can be a large degree of volatility (1) this can cause uncertainty (1) which makes it difficult to plan (1) this can discourage investment (1)
- it may reduce international trade (1) exporters and importers may be uncertain as to how much they will receive in payment and how much they will have to spend (1)
- there is no guarantee there will be a current account balance (1), e.g. the exchange rate can be influenced by speculation (1)

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

**MARK SCHEME for the October/November 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.

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**1 (a) Define 'Gross Domestic Product'.** [2]

1 mark: total output

1 mark: either in/of a country/economy (1) or over a given time period (1)

Maximum of 2 marks

**(b) Using information from the extract, calculate the Gross Domestic Product per head in Mauritius in 2011.** [2]

Answer is US\$8,700 (2)

US\$11.31bn divided by 1.3 million people (1)

Correct figure, but with no reference to US\$ (1)

Correct method, but inaccurate figure, (1)

Maximum of 2 marks

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**(c) Discuss the extent to which economic growth is advantageous for a country. [6]**

**Up to 4 marks for why it may be advantageous:**

Up to 4 marks: rising incomes (1) leading to increase in standard of living (1) and higher government tax revenue (1). Higher government spending on e.g. health, education, infrastructure (1).

Up to 3 marks: lower unemployment / more jobs created (1), lower government spending on unemployment benefit (1), reduction of poverty (1).

Up to 2 marks: more exports (1) improving the balance of payments position (1)

Up to 2 marks: more goods and services produced in the economy (1) giving consumers greater choice (1)

**Up to 4 marks for why it may be disadvantageous:**

Up to 3 marks: may cause inflation (1), higher incomes lead to greater demand (1) but output may be unable to match this increased demand (1)

Up to 3 marks: may be an increase in external costs (1), e.g. more pollution and congestion (1), this may mean economic growth is unsustainable (1).

Up to 2 marks: faster pace of work/change (1) leading to personal costs, e.g. increase in stress and suicide (1).

Up to 2 marks: if economic growth is achieved by depleting resources (1) this could threaten future economic growth (1).

Up to 2 marks: if economic growth is dependent on MNCs (1) this may lead to a number of disadvantages e.g. they may pull out in future, they may create pollution, repatriate profits, exploit workers (1).

Maximum of 3 marks for a list or list-like response.

**(d) Using information from the extract, describe two functions that the stock exchange performs in the Mauritian economy. [4]**

Up to 2 marks: provides for the buying and selling of company stocks (or shares / equities) (1). This is a way for companies to raise finance (1) and help people to buy stakes in companies (1)

Up to 2 marks: provides for the buying and selling of government bonds (1). This is a way for governments to raise finance (1).

Up to 2 marks: lists companies on the stock exchange (1) providing information for investors (1).

Up to 2 marks: allows trade in several currencies (1), this facilitates international trade in stocks (1)

1 mark: helps liberalise the financial services sector

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**(e) Explain why governments impose taxes. [4]**

Candidates could refer to:

Up to 2 marks: to raise revenue / collect money for the government (1), to provide finance for government expenditure on e.g. education (1)

Up to 2 marks: to pay for government debts (1) so reduce the deficit (1)

Up to 2 marks: to redistribute income / wealth (1) and reduce the gap between rich and poor (progressive taxation) (1)

Up to 2 marks: part of fiscal policy (1) e.g. may raise tax to reduce inflation (1).

Up to 2 marks: raise the price of certain products (1) to discourage their consumption (1) (may refer to demerit goods but explicit reference to this term is not required).

Up to 2 marks: may increase price of imports (1) to improve the balance of payments position (1).

Maximum of 2 marks for a list or list-like response

**(f) Using Table 1, calculate the percentage of the labour force in Mauritius employed in the services (tertiary) sector. [2]**

Answer is  $7\% + 22\% + 6\% + 26\% = 61\%$  (2)

Correct method, but inaccurate figure (1)

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- (g) Using information from the extract, explain why there has been substantial investment by foreign firms in Mauritius in recent years. [4]

Candidates could refer to:

Up to 2 marks: well-educated, skilled and multi-lingual workforce (1) which could contribute to higher productivity (1) and lower costs of production (1).

Up to 3 marks: new production techniques/advances in technology (1) which could give rise to economies of scale (1) and development/innovation of new products (1)

Up to 3 marks: political stability (1), less change (1), less likelihood of wars/riots (1) giving greater certainty for investors (1)

Up to 2 marks: membership of a common market (COMESA – Common Market for Eastern and Southern Africa) (1), very large market (1)

Up to 3 marks: relatively low rates of taxation (1), which reduces firms' costs and increases spending (1) and makes it more attractive than other countries (1)

Up to 2 marks: flat tax rate e.g. 15% corporate, value added and income taxes (1) are simple to operate and budget for (1).

Maximum of 2 marks for a list-like response or more than two undeveloped points.



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- (h) Discuss whether an economy would benefit from becoming less specialised and having a greater range of different industries. [6]

**Up to 4 marks for possible benefits:**

Up to 4 marks: broader spread of industries (1), leading to less reliance on one or a few particular industries (1). This lowers risk (1), as demand for one type of product may fall (1), or there may be problems with supply, especially in primary sector (1).

Up to 3 marks: more industries may be linked to economic development (1) and movement in all countries from primary, through secondary, to tertiary sector (1), should lead to higher standards of living in the country (1).

**Up to 4 marks for possible disadvantages:**

Up to 4 marks: it may be difficult to identify which industries to develop (1) and the country may not be as efficient as other countries in producing other products/services (1). Costs are always changing, e.g. economies of scale may be overestimated and problems of diseconomies of scale may be underestimated (1) or set up costs may be high for new industries (1). If a mistake is made in the industries developed, resources will have been wasted setting up new and unprofitable industries (1).

Up to 4 marks: country may not have the appropriate resources (1). Labour may lack the skills/knowledge for the new areas (1) and there may be a lack of capital to support the new industries (1) or this could lead to over-reliance on foreign investors (1).

Up to 2 marks: Other countries may react to the development of new industries by imposing trade restrictions (1). If they do this, it will make this country's products uncompetitive (1).

**Maximum of 4 marks for an indirect approach examining the benefits (2) and disadvantages (2) of specialisation.**

Maximum of 3 marks for a list or list-like response.

**2 All countries face the economic problem and so choices have to be made.**

- (a) Explain what is meant by the 'economic problem'. [2]

There are finite/limited/scarce resources (1) but unlimited/infinite wants (1) and so it is necessary for a choice to be made (1)

Maximum of 2 marks

- (b) Describe the two main features of the factor of production, 'enterprise'. [4]

2 marks for identifying the two features:

- bringing together/combining the other factors of production (1)
- bearing risks (1)

2 marks for describing the two features:

- making a decision about how to combine/which factors to employ/whether to be labour-intensive or capital-intensive (1)
- risking own money/recognising risk/risk could include natural disasters, new competitors/change in technology/reward for the risk is profit (1)

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- (c) Using a production possibility curve diagram, explain how the curve can be used to show the consequences of a change in the allocation of resources between the production of two goods. [6]



Diagram – 3 marks

- correct labelling of two axes (1)
- correct shape of curve (1)
- movement from one position on the curve to another (1)

Explanation – 3 marks

- correct explanation that as more resources are allocated to the production of one good (1), less resources can be allocated to the production of the other good (1), as there will be an opportunity cost (1)

Only reward candidates who draw shifts if it is explained that if there are more resources, it is possible to devote more resources to the production of one good without reducing the production of the other.

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- (d) Discuss whether a decision by a government, with limited financial resources, to increase expenditure on education by 25% over a three year period, is likely to be an appropriate decision. [8]

**Up to 6 marks for why it may be an appropriate decision:**

Up to 4 marks: increase in expenditure is likely to improve the quality of education (1), this would enhance the skills/knowledge/quality of the workforce (1), leading to greater productivity (1) and a higher rate of economic growth (1).

Up to 4 marks: higher education spending should improve health (1) e.g. greater awareness of need for cleanliness/sanitation/diseases/nutrition (1), fewer days missed from work (1) and less spending on health care in the long term (1).

Up to 4 marks: more employment opportunities (1) for school leavers/graduates who are better educated (1), also for teachers and school support staff (1). Labour becomes more geographically and occupationally mobile (1), which reduces frictional and structural unemployment (1).

Up to 3 marks: educated school leavers are more likely to be innovative (1) and start new businesses (1), this will create employment (1)

Up to 3 marks: incomes will increase (1), demand/spending in the economy will increase (1), tax revenues will rise (1) (multiplier effect but this term not expected).

Up to 2 marks: education provides awareness of family planning (1), this could reduce population pressures on the economy (1)

**Up to 6 marks for why it may not be an appropriate decision:**

Up to 3 marks: there would be an opportunity cost involved (1), given that we are told that the government has limited resources (1). This could lead to other areas of the economy receiving less money e.g. housing, defence, transport (1).

Up to 2 marks: those benefiting from the higher education spending may emigrate (brain drain) (1), which may reduce the country's production/output/productivity (1) and increase the dependency ratio (1).

Up to 4 marks: in the short run, if mean years of schooling increase (1) the current labour supply will fall (1). The labour force may become more skilled but there may be a lack of appropriate jobs (1) and this would lead to a waste of resources (1).

Up to 2 marks: skills acquired might quickly become outdated e.g. in ICT (1) meaning more spending after 3 years will be required (1)

Up to 2 marks: it depends upon the distribution of the extra spending (1). It may only be a small minority which benefits (1) or spending may be on unproductive areas (1)

Up to 2 marks: three years could be too short (1). Education investment needs to be long-term (1)

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

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3 A government decides to encourage the use of public transport by the provision of a subsidy.

(a) Using a demand and supply diagram, analyse the effect of a subsidy on the equilibrium price and equilibrium quantity in such a market.

[6]

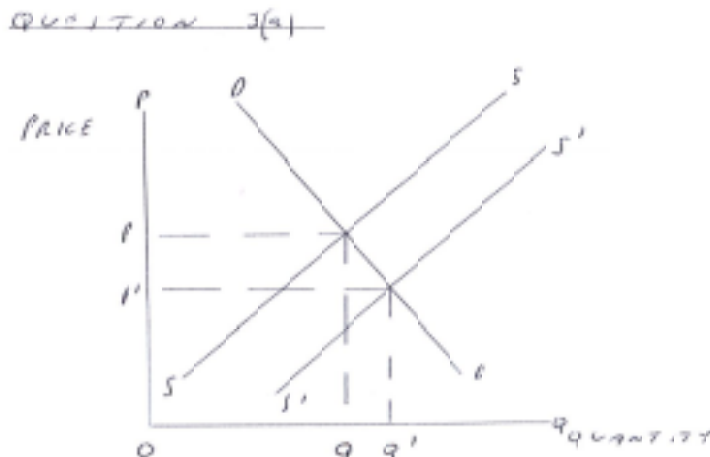


Diagram – 4 marks

- correct labelling of P, Q, D and S (1)
- shift of the supply curve to the right (1)
- decrease in equilibrium price as shown by lines or points e.g. E and E1 (1)
- increase in equilibrium quantity shown by lines or points e.g. E and E1 (1)

Explanation – 2 marks

- explanation of why supply has increased/shift of supply curve to the right (1)
- explanation of lower price and larger quantity (1)

(b) Explain what factors influence the price elasticity of demand for public transport. [6]

Up to 2 marks for a definition: Responsiveness of demand (1) to a change in price (1).  
Percentage change in quantity demanded ÷ percentage change in price (1)

Up to 2 marks: The price of service (1), as the price rises, demand becomes more elastic (1)  
(or the reverse)

Up to 2 marks: the availability of substitutes (1), e.g. if car travel is similar in price to public transport, PED is likely to be more elastic (1).

Up to 2 marks: the quality/reliability/safety/convenience of service (1) compared to alternatives e.g. car travel (1).

Up to 2 marks: the proportion of income public transport expenditure represents (1), the smaller the proportion, the less price elastic the demand (1).

Up to 2 marks: whether public transport is a necessity or luxury (1) e.g. travel to work is a necessity so demand would be less price elastic (1)

Maximum of 3 marks for a list or list-like approach.

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- (c) Discuss whether transport in a country should be provided by the public sector or by the private sector. [8]

**Up to 6 marks for why it should be provided by the public sector:**

Up to 2 marks: public sector funds may be more available than private sector funds (1) to provide a quality service (1).

Up to 2 marks: a public sector firm can be prevented from going bankrupt (1) so there is continuity of service (1).

Up to 3 marks: a public sector firm will be more interested in providing a good service than making a profit (1) as the government is more likely to base its decisions on social costs and benefits (1) rather than just private costs and benefits (1)

Up to 2 marks: public sector will be more inclined to keep prices low (1), benefiting the poor (1).

Up to 4 marks: the government will take an overview (1) and so there is a possibility there will be a better allocation of resources between transport forms (1) e.g. promoting an integrated transport system (1) which could be more sustainable (1).

**Up to 6 marks for why it should be provided by the private sector:**

Up to 2 marks: a private sector firm has to make a profit to survive / profit motive (1) and so the efficiency and quality of the service is likely to be good (1).

Up to 2 marks: the potential threat of bankruptcy (1) will force it to provide a good service to stay in business (1).

Up to 4 marks: private sector firms may be in competition with each other (1), leading to greater response to consumer demand (1), pressure to keep costs low (1), and prices competitive (1)

**Up to 5 marks for recognising that transport might be best provided by a combination of the two sectors.**

Recognising some methods of transport may be best in the private sector e.g. car travel (1) but the infrastructure could be best provided by the public sector e.g. roads, rails (1). Using a combination of both may draw on the strengths of each (1) e.g. private sector responds quickly to competitive pressure (1) but the public sector can take a longer view (1). The public sector could subsidise (1) the private provision.

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4 Different workers can be paid vastly different amounts of money. Sometimes this can be due to the level of skill that different workers have, and sometimes it can be influenced by whether a worker is in a trade union or not.

(a) Describe three factors that can influence an individual's choice of occupation. [6]

1 mark for each of up to three factors identified e.g.:

- wage/salary/overtime payments
- working hours
- bonus/commission/profit-sharing
- job security
- skills/training/qualifications needed
- proximity to home/travelling distance
- availability of overtime work
- promotion/career enhancement prospects
- job satisfaction
- social/welfare/sport facilities
- fringe benefits
- pension scheme
- holiday entitlement

1 mark for each related description e.g.:

- skills/training/qualifications needed: means that some workers cannot apply / and others will take a long time to train/study first
- travelling distance: if close to home, saves time/reduces costs
- job security: reduces risk of unemployment/provides continuity/certainty of income for the future

(b) Explain two reasons why an unskilled worker is usually paid less than a skilled worker. [4]

Up to 2 marks for reasons identified:

- a lower level of demand for an unskilled worker (1)
- a relatively high supply of unskilled workers (1)

Up to 2 marks for explanations:

- lower demand because of lower efficiency/productivity/value added of the unskilled worker (1)
- higher supply because little time needed to train/study to gain the requirements needed for the job (1)

The first 2 marks can be given instead for an appropriate demand and supply diagram.

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**(c) Describe what is meant by a trade union. [4]**

Candidates could refer to:

- an association of workers (1)
- it engages in collective wage/salary bargaining with employers (1)
- protects and promotes other interests of its members e.g. in relation to working conditions, health and safety (1)
- will often negotiate with governments on behalf of workers (1)
- may promote training for its members (1)
- may provide help for unemployed members (1)
- may provide other benefit schemes for its members (1)

**(d) Discuss whether membership of a trade union will always be beneficial for a worker. [6]**

**Up to 4 marks for benefits of membership of a trade union for a worker:**

Up to 4 marks: better basic pay/overtime (1), a union will bargain collectively for pay/overtime (1), a union will have more power than one individual worker (1), a union can use threat of industrial action to support wage demands (1).

Up to 4 marks: better working conditions (1), e.g. better working hours/better health and safety/sick pay/pensions (1), resulting from negotiation from trade unions (1), a union will have more power than one individual worker (1), a union can use threat of industrial action to support improved working conditions (1).

**Up to 4 marks for disadvantages of membership of a trade union for a worker:**

Up to 2 marks: worker will have to pay a fee to be a member (1), which reduces their take-home pay/spending power (1).

Up to 3 marks: union might bring workers out on strike (1), leading to them losing potential earnings (1), and the firm may take retaliatory action, e.g. loss of benefits/restricted promotion/redundancy (1).

Up to 3 marks: prolonged strike action could force a firm to go out of business (1), leading to unemployment of workers (1), and so lower living standards of former workers (1).

Up to 2 marks: union might be closely linked with a particular political party (1), which some workers may not choose to vote for (1).

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

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**5 In Pakistan, some businesses, especially sole proprietorships and partnerships, are perfectly competitive and other businesses are monopolies.**

**(a) Distinguish between a sole proprietor and a partnership. [4]**

**One mark for each characteristic and one mark for the comparison:**

Sole proprietor is ownership by one person (1), whereas partnerships involve a number of owners (1).

Sole proprietor receives all the profits (1), whereas partnership divides profits between partners (1).

Sole proprietor has complete control (1), whereas in partnership control is shared between partners (1).

Difficult for sole proprietor to raise finance (1), but in a partnership it is easier to raise finance from partners (1).

Maximum of two marks if no comparisons are made.



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- (b) Explain how some large firms can experience economies of scale, while others face diseconomies of scale. [6]

**One mark for a definition of economies of scale and/or diseconomies of scale:**

- as a firm grows in size, lead to reductions/increases in average total cost in the long run (1)

**Up to 4 marks for why large firms may experience economies of scale:**

Up to 3 marks: for explaining how up to two individual economies of scale may arise, e.g. technical (1) large firms can employ large-scale capital equipment (1), financial (1) large firms could raise finance more easily/more cheaply (1), marketing (1) a large firm is able to have a wider marketing campaign (1), buying (1) large firms can buy in bulk to reduce costs (1), managerial (1) a large firm can employ specialised staff (1), risk-spreading (1) diversification into different markets (1)

Up to 3 marks: for explaining how up to two external economies of scale may arise, e.g. ancillary services/industries (1), industries may develop to support the large firms (1), specialised labour (1), firms can recruit staff from other firms in the industry (1), infrastructure (1), firms can benefit from transport/communication links provided to support the industry (1)

Up to 2 marks: for explaining that large firms can spread fixed costs (1) over a greater amount of output (1)

**Up to 4 marks for why large firms may experience diseconomies of scale:**

Up to 3 marks: for explaining how up to two individual diseconomies of scale may arise, e.g. ineffective management (1), firm becomes too large to control and coordinate activities (1), poor industrial relations (1), greater likelihood of industrial action e.g. strikes (1)

Up to 3 marks: for explaining how up to two external diseconomies of scale may arise, e.g. pressure on infrastructure (1), causing congestion (1), pollution (1), if heavy industry is concentrated in one area (1), increase in cost of production (1) because of increased competition from other firms in the industry (1)

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(c) Discuss whether a monopoly is always in the public interest. [10]

**Up to 7 marks for why a monopoly may be in the public interest:**

Up to 5 marks: avoids wasteful duplication of resources (1), resulting in lower costs (1), lower prices (1), significant in the case of a natural monopoly (1), e.g. water supply (1).

Up to 4 marks: a monopoly may be more likely to earn high profits (1), and may invest these (1), in research and development/advances in technology (1), resulting in new/improved products (1).

Up to 3 marks: there can be advantages of economies of scale (1), lower costs (1) could lead to lower prices (1).

Up to 2 marks: a monopoly may seek to innovate (1), in order to keep out potential rivals (1).

Up to 2 marks: monopolies are more likely to be listed on the stock exchange (1), shareholders will receive dividends from the profits (1).

**Up to 7 marks for why a monopoly may not be in the public interest:**

Up to 4 marks: quantity is likely to be less than in perfect competition (1), because a monopoly is likely to restrict output (1), and push up the price (1), in order to get high profit (1).

Up to 3 marks: there could be diseconomies of scale (1), higher costs (1), could lead to higher prices (1).

Up to 3 marks: because of a lack of competition (1), costs may be higher/may be more inefficient (1), and so prices may be higher (1).

Up to 2 marks: a monopoly may be less likely to innovate/invest (1), due to lack of competition (1).

Up to 2 marks: quality may suffer (1) because of a lack of competitors (1)

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

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**6 Many countries experience different degrees of poverty and migration, but in all countries it can be difficult to measure living standards. (2)**

**(a) Distinguish between relative poverty and absolute poverty.**

Relative poverty is where people have fewer goods and services/income than others in an economy (1). Absolute poverty is where people are unable to meet basic needs/living on e.g. less than US \$1.25 a day (1).

**(b) Explain four reasons why some developing countries experience immigration. [8]**

1 mark for each of up to four reasons identified e.g.:

- wages/salaries
- employment prospects
- job security
- cost of living
- political/human rights/civil liberties
- prospect of trade union membership
- housing/accommodation provision
- working conditions
- war in other countries
- famine in other countries

1 mark for each of up to four explanations in the context of a developing country, e.g.:

- wages, although low, may be higher than neighbouring countries
- employment prospects may be higher, particularly in emerging developing economies
- job security may be higher due to legislation/regulation/faster economic growth
- cost of living may be lower, even with the same wages

Maximum 4 marks if any country is covered and the answer is not related to developing countries.

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(c) Discuss whether GDP per head is the best way to compare living standards in different countries. [10]

**Up to 5 marks: Advantages of using GDP per head to measure living standards:**

- takes into account the value of all that has been produced in a country (1) over a period of time (GDP) (1)
- and the size of the country's population (1)
- the information is fairly readily available (1)
- it gives an indication of the value of the goods and services available to people (1)
- income/output/expenditure is a key determinate of their living standards (1)
- the information is available on every country (1).

**Up to 5 marks: Disadvantages of using GDP per head:**

- accounting techniques can vary (1)
- not all income may be declared (1), if there is a significant informal/hidden economy (1)
- needs to take inflation into account (idea of real, but candidates do not need to refer to that term) (1)
- need to take into account differences in climate (1)
- composition of output may vary, e.g. defence vs. education (1)
- distribution of income may vary a great deal (1), some people in the country may have good living standards, whilst others have poor living standards (1).

**Up to 5 marks: Discussion of possible alternatives, e.g. Human Development Index (HDI) and Human Poverty Index (HPI)/Multidimensional Poverty Index (MPI)**

- recognising that there are other ways to compare living standards (1)
- identification of HDI (1)
- composition of HDI (1)
- HDI covers more variables than GDP (1)
- living standards are influenced by not only income but also quality of life (1), although it's wider than GDP it doesn't cover everything (1)
- examples not covered by HDI including water quality/pollution, number of doctors per head, internet access, school class size (1)
- for a few countries the HDI figure is unavailable (1).

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

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7 Trade protection and changes in exchange rates are two ways a country can try to reduce a current account deficit of the balance of payments.

(a) Explain what is meant by ‘a current account deficit of the balance of payments’. [4]

Candidates could refer to:

- imports greater than exports (1)
- the composition of the current account in terms of trade in goods/visibles, trade in services/invisibles (1), income and/or current transfers (1) is negative
- the idea that when all these four sub-sections are added together, this will produce the current account balance (1)
- if the value of the debit items taken together is greater than the value of the credit items (1), there is a deficit (1)

(b) Analyse why the depreciation of its currency’s exchange rate may lead to a reduction in a country’s current account deficit. [6]

Up to 4 marks for:

- a fall in a country’s exchange rate leading to cheaper prices abroad (1), leading to an increase in demand for exports (1), export revenue will increase as long as the price elasticity of demand is elastic (1), which is likely to reduce the deficit (1)

Up to 4 marks for:

- a fall in a country’s exchange rate will make imports more expensive (1), leading to a fall in demand for imports (1), import expenditure will decrease as long as price elasticity of demand is elastic (1)
- this could reduce the deficit (1)

Up to 2 marks for recognising other factors influence the current account, e.g. changes in trade restrictions, changes in incomes abroad, changes in PED, changes in PES (1+1).

(c) Describe two methods of trade protection that a country could use. [4]

One mark for each of two methods identified:

- tariffs
- quotas
- subsidies
- administrative restrictions
- exchange controls
- boycott/ban/embargo

One mark for each of two descriptions, e.g.:

- a tariff is a tax on imports/exports
- a quota is a limit on the quantity of imports/exports

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(d) Discuss whether trade protection should always be preferred to free trade. [6]

**Up to 4 marks for why trade protection may be preferred:**

Up to 4 marks: protect infant/sunrise industries (1), because they can't take advantage of economies of scale/high set-up costs (1), long-run may become competitive (1) and (therefore) will no longer need protection (1)

Up to 3 marks: protect declining/sunset industries (1), to prevent a sudden rapid increase in unemployment (1), and so to allow time for retraining/reskilling (1)

Up to 4 marks: prevent dumping (1), that is selling products below cost (1), this will give advantages to consumers in the short-run (1), but in the long-run if domestic firms are driven out of business, prices rise (1)

Up to 3 marks: to raise revenue for the government (1), in a number of countries tariffs are an important source of income (1), higher government revenue could be spent to benefit the economy, e.g. spending on education and healthcare (1)

Up to 2 marks: to discourage imports (1) reducing the current account deficit (1)

**Up to 4 marks for why free trade may be preferred:**

Up to 4 marks: provide opportunities for specialisation (1), in products the country is good at producing (1), this would improve the allocation of resources (1) and lead to higher output (1) and so higher employment (1), and so higher living standards (1)

Up to 3 marks: encourages firms to be more competitive (1), resulting in lower costs (1), leading to lower prices for consumers (1)

Up to 2 marks: encourages more trade between countries (1), leading to a wider choice of products for consumers (1).

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

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

**MARK SCHEME for the October/November 2014 series****0455 ECONOMICS****0455/22**

Paper 1 (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.

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1 (a) Explain what is meant by ‘deflation’. [2]

Deflation refers to a fall (1) in the (general) price level (1).  
 Rise in the value (1) of money (1).  
 Rise in the purchasing power (1) of money (1).

N.B.: Do not reward a fall in the rate of inflation which simply means that prices are rising more slowly than before.

(b) Using information from the extract, calculate the level of government debt in U.S.\$ in Japan in 2011. [1]

200% of (U.S.)\$ 5069 bn = U.S.\$ 10 138 bn

(c) Using information from the extract, explain two reasons why Japan’s government debt, as a percentage of Gross Domestic Product, is so high. [4]

**Expenditure:**

Up to 2 marks: damage caused by earthquake and tsunami/natural calamity (1) cost of rebuilding and reconstruction (1).

Up to 2 marks: ageing population (1) large expense of paying for pensions and health care (1).

Up to 2 marks: unemployment (1) expenditure by the government on unemployment benefits/expenditure on measures to reduce unemployment/lower tax revenue (1).

Up to 2 marks: fall in GDP (1) so any given debt figure will become a greater % of GDP/lower tax revenue (1).

**Revenue:**

Up to 2 marks: fall in prices/deflation (1) has led to a fall in tax revenues (1).

Up to 2 marks: sales tax is low (1) compared with many other countries; e.g. EU average is about 20% (1).

(d) Discuss whether an increase in the rate of a sales tax will cause unemployment. [6]

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

It will increase costs of production (1), increase the price of products (1), this may reduce spending/demand (1), lower spending may reduce output/revenue (1), lower output may reduce demand for workers (1) to maintain profits, firms may seek to lower costs (1), may achieve this by dismissing workers (1).

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

Up to 3 marks: it will depend on what the government does with the tax revenue (1), if it spends all of it, the level of demand would be unchanged (may even be higher) (1), spending on education and health care could make people more employable (1).

Up to 2 marks: other costs of production may fall (1) leaving the price of products unchanged (1).

Up to 3 marks: firms may absorb the higher rate (1) leaving the price of products unchanged (1), firms are more likely to leave the price the same if demand is elastic (1).

If demand is inelastic, a rise in price will have less impact on demand and so on output and employment (1).



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- (e) Analyse how increased productivity and greater entrepreneurship could help an economy to get out of recession. [6]

**Up to 4 marks on increased productivity:**

Up to 3 marks: an increase in productivity (defined as output per factor per period of time) (1) means that more could be produced from a given set of factors (1) and this could contribute to an increase in output and economic growth (1).

Up to 3 marks: could lower costs of production (1), reduce prices (1), increase demand (1), this may encourage firms to produce more due to higher profits (1).

**Up to 4 marks on greater entrepreneurship:**

Up to 4 marks: greater entrepreneurship (defined as the ability to take crucial decisions/to take risks/organise the other factors) (1) could lead to development and innovation (1) and this could lead to new/better products (1), could increase demand (1) and this could contribute to an increase in output and economic growth (1).

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

- (f) Using information from the extract, explain two influences, other than interest rates, on how much people save. [4]

Up to 2 marks: knowledge that there is going to be an increase in the rate of sales tax (1), making products more expensive in the future (of course, this could be an argument for spending now) (1).

Up to 2 marks: Japanese people anxious and worried about the future (1), especially fearful of further increase in unemployment (1).

Up to 2 marks: the unemployment rate in Japan is already very high (1) and is above its ten-year average (1).

Up to 2 marks: a strong tradition of saving in Japan (1); a key element of Japanese culture (1).

Up to 2 marks: save in case of emergencies (1) e.g. an earthquake (1).

Up to 2 marks: for ageing population (1) explained in a relevant manner (1).

Up to 2 marks: for deflation (1), increase saving because products will be cheaper in the future (1).

- (g) Using Table 2, calculate the difference between average life expectancy in Japan and Kenya. [1]

Answer:  $83.7 - 56.9 = 26.8$  (1)

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(h) Discuss whether an ageing population is always a problem for an economy. [6]

**Up to 4 marks for stating that it is always a problem:**

Up to 2 marks: an increase in the dependency ratio (1) with fewer people working to support more older people (1).

Up to 3 marks: increased government spending on health care (1) and pensions (1) involves an opportunity cost (1), example (1).

Up to 2 marks: there may need to be higher taxes for those in work (1) which could cause a disincentive to effort effect (1).

Up to 3 marks: it could lead to a shortage of workers (1) which could push up wages (1) leading to inflation (1).

**Up to 4 marks for stating that it is not always a problem:**

Up to 2 marks: older people can be an economic asset (1), such as through their knowledge and experience (1).

Up to 2 marks: firms could be encouraged to give jobs to older people (1) through various government schemes (1).

Up to 2 marks: the government could increase the retirement age (1), and so control the extent of any problem (1).

Up to 2 marks: indicates a good health care system (1), increased life expectancy/improved living standards (1).

Up to 2 marks: dependency ratio may be falling (1) if the increase in average age is increasing the size of the labour force (1).

Up to 2 marks: may be importing labour (1) to overcome the potential fall in the supply of labour (1).

Maximum of 3 marks for a list or list-like answer.

**2 Factors of production, private and external costs and opportunity costs are all important concepts in Economics.**

(a) Using examples, define the factor of production, 'capital'. [4]

Up to 2 marks: capital can be defined as any human-made good (1) that is used to produce other goods and services (1), i.e. they are aids to production.

Up to 2 marks: examples (**two** needed) could include offices, factories, tools, machinery and equipment (1 × 2).

N.B.: Do not reward money that is used to buy equipment.

(b) Using examples, distinguish between a private cost and an external cost. [4]

**Two marks for the distinction, and two marks for the examples**

Up to 2 marks: private cost is the cost to the consumer or producer (1) e.g. the cost of borrowing the finance, building a factory, purchasing machinery and the cost of labour and raw materials (1), whereas ...

Up to 2 marks: ... external cost is a harmful effect/e.g. pollution, congestion (1), to a third party/people not involved in consuming or producing a product (1)

Or:

External cost is social cost minus private cost (1) so will include costs such as pollution, congestion (1).

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(c) Explain why scarcity gives rise to an ‘opportunity cost’. [4]

1 mark for explanation of the term ‘scarcity’ in terms of the finite resources.

1 mark for insufficient resources to satisfy the unlimited wants.

1 mark for stating that this gives rise to the need to make a choice.

1 mark for stating that this choice will involve an opportunity cost in terms of the (next) best alternative that is foregone.

(d) Discuss whether a decision to cut down trees for wood is an appropriate use of a scarce resource. [8]

**Up to 5 marks for stressing that it is an appropriate use of a scarce resource:**

Up to 2 marks: cutting down trees for wood will create employment (1) which will increase incomes in the economy (1).

Up to 3 marks: cutting down trees for wood can be used to build houses, bridges and furniture (1), improving the country’s infrastructure (1), satisfying people’s wants/demand (1).

Up to 3 marks: the wood can be sold (1), creating profit (1), leading to an increase in GDP (1).

Up to 2 marks: replacement trees can be planted (1) enabling trees to be harvested in the future (1).

Up to 2 marks: wood could be exported (1), improve current account/balance of payments

(1).

**Up to 5 marks for stressing that it is an inappropriate use of a scarce resource:**

Up to 2 marks: it could destroy the livelihoods of people who live and work in the forests (1), leading to a rise in unemployment (1).

Up to 3 marks: examples of environmental damage e.g. such as loss of wildlife habitats and cause global warming (1 + 1) causing negative externalities (1).

Up to 2 marks: there is a need to take into account the interests of future generations (1), and so there is an issue of sustainability (candidates do not need to use that particular term) (1).

**Up to 2 marks: decision may be informed by a C.B.A. (1) recommendation would depend on the relationship of social benefits and social costs (1).**

Maximum of 3 marks for a list or list-like answer.

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**3 Governments can influence economic behaviour in different ways, such as through taxes and regulations.**

- (a) Explain why, in a market economy, some goods and services are over-consumed and some under-consumed. [6]**

Up to 2 marks: explanation of how resources are allocated through a price mechanism without any government intervention (1) with the market price reflecting demand and supply.

Up to 3 marks: goods such as demerit goods/goods that have external costs are over-consumed (1) will have a relatively low market price (1) (compared to if there was government intervention)/consumers will not fully appreciate their harmful effects and so there will be over-consumption (1), e.g. tobacco or alcohol (1).

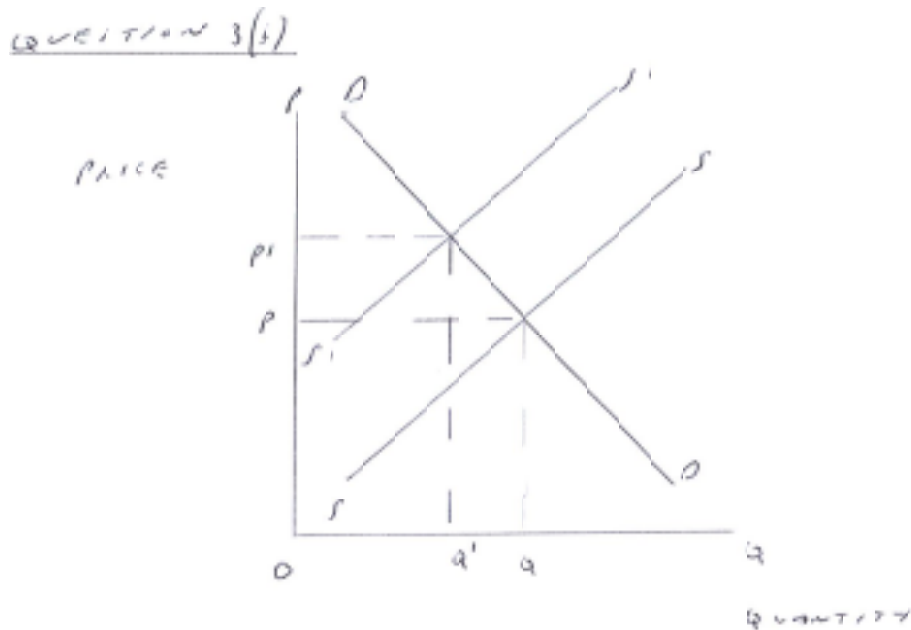
Up to 3 marks: goods such as merit goods/goods that have external benefits are underconsumed (1), will have a relatively high market price (1) (compared to if there was government intervention)/consumers will not fully appreciate their beneficial effects and so there will be under-consumption (1), e.g. education or health care (1).

Up to 3 marks: a monopoly may restrict output (1) pushing up the price (1) reducing the amount people can consume (1).

Up to 3 marks: private sector firms will have no incentive (1) to provide public goods (1) so these will not be consumed (1).

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- (b) Using a demand and supply diagram, analyse the effect of an imposition of an indirect tax on the equilibrium price and equilibrium quantity of tobacco. [6]



**Up to 4 marks for the diagram:**

1 mark for the correct labelling of D, S, P and Q.

1 mark for the shift of supply curve to the left.

1 mark for the increase in equilibrium price – shown by lines or equilibrium points e.g. E and E1.

1 mark for the decrease in equilibrium quantity - shown by lines or equilibrium points e.g. E and E1.

**Up to 2 marks for written analysis:**

Analysis of why the supply curve shifts to the left as a result of the tax imposing a cost on firms (1).

Analysis of why there is an increase in equilibrium price and a reduction in equilibrium quantity based on a decrease in supply (1).

Effect on price will depend on price elasticity of demand (1) as demand for tobacco is price inelastic most of the tax will be passed on to the consumer/consumer bears most of the tax (1).

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- (c) Discuss whether government regulations on private producers always achieve their intended aims. [8]

**Up to 6 marks supporting the view that government regulations always achieve their intended aims:**

Up to 2 marks: price controls (1), through maximum and/or minimum prices (1).

Up to 2 marks: competition policy (1), through action against companies with too large a market share that are acting against the public interest (1).

Up to 2 marks: control of negative externalities (1), such as through regulations on air pollution or noise pollution.

Up to 3 marks: consumer protection (1), such as through ensuring correct descriptions of products (1) and the quality/weight of food (1).

Up to 2 marks: discourage demerit goods (1) e.g. by bans on smoking in public (1).

Up to 2 marks: promote merit goods (1) e.g. by making education compulsory (1).

**Up to 6 marks criticising the view that government regulations always achieve their intended aims:**

Up to 2 marks: they do not always achieve their aims through action on prices because underground markets (1) can sometimes exist to bypass government regulations (1).

Up to 2 marks: they do not always achieve their aims through action on competition because firms can join together (1) to get round such regulations by pretending that they are separate companies.

Up to 3 marks: they do not always achieve their aims in relation to pollution because it is difficult to estimate the figure for this accurately (1) and the regulations are often difficult to enforce (1), pollution may be caused by firms in other countries (1).

Up to 2 marks: they do not always achieve their aims in relation to consumer protection because there may not be enough inspectors (1) to enforce the regulations effectively (1).

Up to 2 marks: it may be difficult to discourage the consumption of demerit goods as they are addictive/bans may be expensive to enforce (1) so people may break the law (1).

Up to 2 marks: it may be difficult to promote merit goods as making consumption compulsory may be expensive to enforce (1), will involve an opportunity cost (1).

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

Note: do not reward taxes and subsidies.

**4 Money, central banks and commercial banks all play a key role in economies.**

- (a) Explain how well money performs its function as a medium of exchange. [5]

**Up to 3 marks on general performance:**

Up to 2 marks: the advantage of money over barter (1), such as it does not require a double coincidence of wants (1).

Up to 2 marks: this function will depend on the degree of scarcity/portability/durability/divisibility of money (1 + 1).

**Up to 2 marks on 'how well' it performs this function:**

Up to 2 marks: e.g. money performs this function very well because it is so advantageous, compared to barter (1), that there is universal acceptability in all parts of the country/ money is generally acceptable (1).

Up to 2 marks: a high rate of inflation will affect its purchasing power (1) and this could contribute to making it less acceptable (1).

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**(b) Analyse the importance of a central bank in an economy. [7]**

**Up to 7 marks for analysis:**

Up to 5 marks: operates monetary policy (1), issues notes and coins/controls the money supply (1), sets interest rates (1), seeks to maintain price stability/control inflation (1), influencing saving/spending (1), controlling total demand (1), keeping inflation low is important in terms of e.g. maintaining competitiveness (1).

Up to 5 marks: regulates the banking sector (1), seeks to ensure commercial banks will pursue sound policies (1), acts as a lender of last resort (1) to prevent banks going out of business (1), a strong banking sector is important for e.g. promoting investment (1).

Up to 4 marks: acts as banker to the commercial banks (1), commercial banks can hold accounts at the central bank (1), these can be used to draw out cash when needed and to settle debts with other banks (1).

Up to 5 marks: acts as banker to the government (1), operates accounts which receive government tax revenue and from which the government can make payments (1), manages the national debt (1) by issuing government securities/bonds (1), paying interest on government securities (1).

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

**(c) Discuss whether a country's largest commercial banks should be nationalised and so become public corporations, and taken under government control. [8]**

**Up to 6 marks for stating that they should be nationalised:**

Up to 2 marks: the government would be able to provide financial support (1) and so there would be less risk of the banks collapsing (1).

Up to 3 marks: the government should do this because a collapse of some banks would undermine confidence in the whole financial system (1) and this could have damaging effects on the wider economy (1), e.g. making it difficult to obtain funds to finance investment (1).

Up to 3 marks: the government would reassure customers (1) by guaranteeing that a bank would be safe and that nobody would lose any money (1), which would make customers more willing to deposit funds in a bank, which could then be lent out to people, increasing the level of demand in the economy (1).

Up to 3 marks: the government may be more concerned with social costs and benefits/less motivated by profit (1), may provide banking services to the poor (1), protect jobs (1), charge borrowers a lower rate of interest and pay savers a higher rate of interest (1).

**Up to 6 marks for stating that they should not be nationalised:**

Up to 2 marks: banks should be allowed to remain in the private sector (1) so that they are run in the most effective way possible (1).

Up to 2 marks: the private sector will provide for more competition (1) and this should encourage them to aim to maximise profits (1).

Up to 2 marks: it is logical in a market economy that an inefficient bank should be allowed to collapse (1) and then the scarce resources can be reallocated to a more productive use (1).

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

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**5 There are many large firms in most economies, but this does not mean that all small firms will become large.**

**(a) Explain two reasons why a decision might be taken to change a private limited company into a public limited company.** [4]

Up to 2 marks: the ability to raise more finance by selling shares on a stock exchange/to the general public (1). This would enable a firm to finance expansion; this is different to a private limited company which cannot sell shares on a stock exchange (1).

Up to 2 marks: some public limited companies are listed on the stock exchange/several stock exchanges around the world (1) and this would enable them to raise funds from a large number of sources/become better known (1).

Up to 2 marks: there is no maximum number of shareholders in a public limited company (1); a private limited company is likely to have a lower maximum number of shareholders, which limits the potential for growth (1), necessary to get other shareholders' permission to sell shares in a private limited company (1).

**(b) Explain two reasons why production by a firm might be changed from capital-intensive to labour-intensive.** [5]

1 mark for definition of capital-intensive and labour-intensive production.

Up to 2 marks: labour has become relatively less expensive (1); this could be because of an increase in supply forcing wages down (1).

Up to 2 marks: the company could be moving away from mass production (1) towards more specialised production (1).

Up to 2 marks: the capital equipment could have become less reliable (1) and, therefore, more expensive to maintain (1).

Up to 2 marks: the power of the trade unions could be less than it was in the past (1), making it more difficult for them to have a significant effect on wages (1).

Up to 2 marks: disposal of capital equipment (1) due to financial problems (1).

**(c) Using examples, distinguish between vertical, horizontal and conglomerate integration.** [5]

Up to 2 marks: vertical integration is the joining of two firms at different stages of production in the same industry (1) e.g. a tea company taking over a tea plantation (1), or forward vertical integration, forwards towards consumers (later stage of production), e.g. a brewery taking over a public house (1).

Up to 2 marks: horizontal integration joins together firms at the same stage of production, e.g. two banks (1).

Up to 2 marks: conglomerate integration joins together firms in different areas of activity to spread interests and risks over different industries (1), e.g. the Indian company Tata which produces motor vehicles and tea (1).



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- (d) Discuss whether it is likely that the majority of small firms in an economy will remain small. [6]

**Up to 4 marks for stating that it is likely that the majority of small firms in an economy will remain small:**

Up to 2 marks: the small size of a market (1) will keep the level of demand low, so that firms will necessarily need to be small (1).

Up to 2 marks: small firms can provide components for larger businesses (1), such as in the car industry, where small firms can be more flexible (1).

Up to 2 marks: the owners may prefer to run a small firm (1) because they fear they do not have the expertise to run a large firm and do not wish to share decision-making (1).

Up to 2 marks: some firms specialise in different forms of personal services (1) and it is much better if this personal attention to detail is dealt with by a small firm (1).

Up to 2 marks: it may be difficult for a small firm to raise the necessary funds (1) to finance expansion (1).

Up to 2 marks: small firms may receive support by the government (1), firms may be dependent on subsidies etc. (1).

Up to 2 marks: to avoid diseconomies of scale (1), wishing to keep average costs of production low/examples (1).

**Up to 4 marks for stating that it is unlikely that the majority of small firms in an economy will remain small:**

Up to 2 marks: small firms may benefit from becoming larger (1), such as benefiting from such economies of scale as technical and administrative economies (1).

Up to 2 marks: if a small firm grew very large and became a multinational company, it could benefit from lower costs (1) in different parts of the world (1).

Up to 2 marks: it might make sense if there was just one firm in a market to avoid wasteful competition and duplication (1), such as with the existence of a natural monopoly (1).

Up to 2 marks: the market may be extremely large (1), meaning that a large firm might benefit from marketing economies of scale (1).

Up to 2 marks: if there are mergers and acquisitions, this will enable larger firms to be created (1) and smaller firms will then be squeezed out (1).

Maximum of 3 marks for a list or list-like response.

- 6 Inflation and unemployment are two economic problems that governments usually have to deal with.**

- (a) Distinguish between demand-pull and cost-push inflation. [4]

Up to 2 marks: demand-pull inflation is where the rising level of total (aggregate) demand in an economy/aggregate demand exceeds aggregate supply (1) pulls up the general level of prices in an economy (1). It is associated with higher output/GDP/incomes (1) caused by e.g. higher consumer spending (1).

Allow, but do not expect, up to 2 marks for an AD/AS diagram which shows the relevant curve shifting and the effect on the price level.

Up to 2 marks: cost-push inflation is where the costs of production rise (1) such as wages and raw materials (1) leading firms to increase prices in order to ensure the profitability of the business (1), it may be associated with falling output/GDP/incomes (1).

Allow, but do not expect, up to 2 marks for an AD/AS diagram which shows the relevant curve shifting and the effect on the price level.

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**(b) Explain three reasons why inflation is regarded as a serious economic problem. [6]**

Up to 2 marks: increases cost of living (1), people are worse off if incomes do not rise as much as prices (1) because purchasing power will be less (1).

Up to 2 marks: this is a particular problem for those on fixed incomes (1) compared to others who at least get some increase in their wages each year (1).

Up to 2 marks: lenders become more reluctant to lend money (1) and this can reduce the extent of liquidity in the economy/reduce investment (1).

Up to 2 marks: it can lead to uncertainty and a lack of confidence in the economic future of a country (1), making firms reluctant to invest (1).

Up to 2 marks: if the prices of exports go up, this will make them less competitive in foreign markets (1); this could lead to a reduction in demand and a consequent increase in unemployment (1) and may cause a current account deficit (1).

**(c) Distinguish between frictional and cyclical unemployment. [4]**

Up to 2 marks: frictional unemployment occurs when people are in between jobs/there is a mismatch between the demand for, and the supply of, labour (1), it tends to be short-term (1) and there are various types of frictional unemployment, such as search, casual and seasonal unemployment (1) whereas ...

Up to 2 marks: cyclical unemployment is unemployment on a larger scale (1) than frictional unemployment as it is linked to downturns in the trade cycle (1), it can also be called demand-deficient unemployment (1) as the level of aggregate demand is low in the economy, e.g. at a time of a recession (1).

**(d) Discuss whether there could be a conflict between the government aims of low inflation and low unemployment. [6]**

**Up to 4 marks on the possibility of a conflict:**

Up to 3 marks: a government expansionary policy measure e.g. increase in its expenditure, in order to reduce the rate of unemployment or, for example, there may be a consumer boom (1), higher total demand (1) and this leads to a situation of demand-pull inflation (1).

Up to 3 marks: a fall in the rate of unemployment, making labour scarcer/trade unions stronger (1), this will push up the wages of labour (1) and this could contribute to cost-push inflation (1).

Note: may alternatively examine how a government contractionary policy measure to reduce inflation or other cause of a fall in total demand may affect unemployment.

**Up to 4 marks on the possibility that there might not be a conflict:**

Up to 3 marks: supply side measures (1), examples (1) there may be increases in e.g. investment (1) could allow both to be achieved (1).

Up to 2 marks: reducing inflation could increase the competitiveness of exports (1) and this could lead to an increase in employment to supply those exports (1).

Up to 2 marks: reducing inflation could provide greater certainty (1) which may stimulate investment (1).

Maximum of 3 marks for a list or list-like answer.

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**7 Specialisation can lead to a significant increase in output and international trade.**

**(a) Explain what is meant by ‘specialisation’.** [4]

Up to 2 marks on the division of labour: the idea that specialisation involves the concentration on particular tasks, activities and products (1) carried out by individuals (1).

Up to 2 marks: the key aspect is concentration of what can be done best (1) and it can apply to firms and regions and countries as well (1).

**(b) Describe the benefits and disadvantages of specialisation at a regional level.** [6]

**Up to 4 marks on the benefits:**

Up to 2 marks: regions can concentrate or specialise in what they are good at (1) and this will involve making the most efficient use of the region’s factor endowments and climate (1).

Up to 2 marks: this will lead to an increase in output (1) and this will provide for an increase in incomes and living standards (1).

Up to 2 marks: may enable the region to develop a reputation for providing the product (1), this may increase demand (1).

**Up to 4 marks on the disadvantages:**

Up to 2 marks: such specialisation could lead to a depletion in the factor endowments (1) and so would not be favourable in the long-run (1).

Up to 2 marks: the region could be vulnerable (1) if new alternative products are produced/grown elsewhere more cheaply (1).

Up to 2 marks: there may be a change in world economic conditions (1), making a region that specialises in just a few products vulnerable, leading to a rise in unemployment (1).

**(c) Discuss whether an economy will always benefit from an increase in international trade.** [10]

**Up to 7 marks on the benefits of international trade:**

Up to 2 marks: the concentration on the most effective use of resources (1) can lead to greater output (1), supporting table (1).

Up to 2 marks: it can lead to a greater choice for consumers (1), improving standards of living (1).

Up to 2 marks: the opportunity to participate in international trade will force domestic firms to be efficient (1), they will need to be as competitive as possible and this will lead to a reduction in unemployment (1).

Up to 2 marks: it might be possible for such firms to benefit from economies of scale (1), reducing the costs of production (1).

Up to 2 marks: if the value of the exports exceeds the value of the imports, this could lead to a favourable balance of trade (1), bringing more money into the economy than goes out (1).

**Up to 7 marks on the disadvantages of international trade:**

Up to 3 marks: the domestic firms may be less efficient than foreign ones (1) and this could lead to some of them going out of business (1), leading to an increase in unemployment (1).

Up to 2 marks: the value of imports could be greater than the value of the exports (1), leading to a trade deficit (1).

Up to 3 marks: foreign firms may use certain tactics (1) to establish themselves in a market, such as dumping (1), which could lead to domestic firms being undercut (1).

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

**MARK SCHEME for the October/November 2014 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.

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

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- 1 (a) Explain what is the difference between the rate of unemployment and the level of unemployment. [2]

1 mark for the rate: the percentage of workforce unemployed

1 mark for the level: the number of people unemployed

- (b) Analyse three ways a government could reduce the rate of unemployment in a country. [6]

1 mark for identification **plus** 1 mark for development for any of the following ways

- Raising government expenditure e.g. education/health/infrastructure
- Providing subsidies to firms
- Encouraging MNCs
- Reducing corporation tax/income tax
- Protecting sunset industries/encouraging exports
- Reducing interest rates
- Increasing money supply
- Supply-side policies e.g. training/education/raising school leaving age
- Reduce benefits/increase minimum wage
- Changing definition of unemployment

Maximum of 3 marks for a list or list-like answer

- (c) Using information from the extract, calculate the percentage increase in migrant remittances sent home by Bulgarians between 2008 and 2012. [2]

Increase from US\$900m to US\$990m =  $\frac{US\$90m}{900m} = 10\%$

2 marks for a correct answer

1 mark for the correct method, but an incorrect answer

- (d) Using information from the extract, calculate what would have been the estimated size of the informal economy in Bulgaria in 2012 in US\$. [1]

Accept either

- $US\$48.0 \text{ billion} \times 30\% = US\$14.40 \text{ billion}$
- $US\$48.0 \text{ billion} / 70 \times 30\% = US\$20.57 \text{ billion}$  accept \$ and bn/b

- (e) Using information from the extract, explain why such a large percentage of the Bulgarian Gross Domestic Product goes unrecorded. [3]

1 mark each for:

- a great deal of economic activity in the hidden or informal economy
- not all income earned is declared for tax purposes
- there is some smuggling (illegal importing)
- much of agricultural output is subsistence farming

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- (f) Discuss whether the Human Development Index is a perfect measure to compare living standards in different countries. [6]

**Up to 4 marks for arguing that it is a perfect measure:**

Up to 2 marks each for:

- It includes GDP per capita (1), it actually uses gross national income at purchasing power parity per capita (1)
- It includes education (1), this is made up of a mean years of schooling index (years that a 25 year old person or older has spent in schools) and an expected years of schooling index (years that a 5 year old child will spend in education in his own life) (1)

1 mark for:

- It includes life expectancy (1) (it uses life expectancy at birth index)
- HDI value ranges from 0 to 1, the higher the value the higher the living standard

**Up to 4 marks for arguing that it is not a perfect measure:**

- Generally arguing that there are many things that it does not include (1)
- Giving examples such as quality of water (1), % of GDP spent on health (1), % of GDP spent on education (1), doctors per 1000 population (1), hospital beds per 1000 population (1), poverty index (1), gender empowerment (1) etc.
- Problems with GDP per capita being an average (1) and not reflecting income inequality (1)

Maximum of 3 marks for a list or list-like answer

- (g) Define the terms 'birth rate' and 'death rate'. [4]

- Birth rate: the number of live births per 1000 of the population (1) per year (1) (accept per period of time)
- Death rate: the number of deaths per 1000 of the population (1) per year (1) (accept per period of time)

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- (h) Discuss whether the Bulgarian Government should try to reverse the decline in the country's population size. [6]

**Up to 4 marks for arguing that the government should try to reverse the decline:**

Up to 3 marks each for:

- The decline in the population could lead to less demand in the economy (1) which could have a negative effect on the economy, e.g. a higher rate of unemployment (1) and a lower rate of economic growth/living standards (1)
- Action by the government to increase population results in larger labour force (1), greater demand/higher output/more employment (1) resulting in higher standard of living/economic growth (1)
- A falling population could lead to lower demand (1), less employment (1) and a further reduction in living standards (1)

Up to 2 marks for:

- Expenditure on health as a % of GDP (7.4%) is already much less than the EU average (1), suggesting that it needs to be increased (1)

**Up to 4 marks for arguing that it should not try to reverse the decline:**

Up to 2 marks each for:

- There is an opportunity cost (1), the allocation of resources in one area means that fewer resources can be allocated in other areas (1)
- The government may reallocate resources, such as through spending more on the health service (1), but there is no guarantee that this will lead to a substantial decrease in the death rate (1)
- Encouragements of an increase in the birth rate not likely to be that successful (1) given the pessimistic outlook on the economy discovered by the survey (1)
- It may not be worth reallocating resources to meet this objective (1) given that there is actually not much of a change in the size of population (1)

Maximum of 3 marks for a list or list-like answer

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**2 All market systems have both advantages and disadvantages.**

**(a) Explain how resources are allocated in a market system. [5]**

1 mark each for

- private sector
- consumer sovereignty plays a key role
- producers respond to consumer demand
- allocation of scarce resources in a market system is carried out through changes in the forces of demand and supply/price mechanism
- firms are driven by profit motive
- prices act as a signal indicating when resources should be reallocated
- excess demand will cause prices to rise
- attracting resources into this market
- excess supply will cause prices to fall
- resources are reallocated out of this market.

**(b) Analyse three reasons why a market system could fail. [7]**

**Up to 3 marks for identification of examples of market failure:**

1 mark for each example e.g.

- underproduction/consumption of merit goods (candidates do not need to refer to this term)
- overproduction/consumption of demerit goods (candidates do not need to refer to this term)
- non-production/consumption of public goods (candidates do not need to refer to this term)
- existence of negative externalities
- information failure
- existence of monopoly

**Up to 4 marks for analysis of market failure:**

1 mark each for any of the following:

- merit goods will be underprovided because fewer people will consume them if a market price is charged/people will not appreciate their true value
- demerit goods will be overprovided because more people will consume them if a market price is charged/people will not realise their full harmful effects
- public goods will not be provided because it will be impossible to charge a price for them
- negative externalities will be difficult to cost
- monopoly will have control over a market, denying market competition

Maximum of 3 marks for a list or list-like answer



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(c) Discuss whether government intervention in a market is always to be supported. [8]

**Up to 6 marks for arguing that government intervention in a market is always to be supported:**

Up to 2 marks each for a government can:

- supply merit goods (candidates do not need to use that term), such as education or health care (1), which will improve the standard of living (1)
- discourage consumption of demerit goods (candidates do not need to use that term), such as cigarettes or alcohol (1), which will improve the health of people (1)
- provide public goods, such as defence or law and order (1), which will provide a safe and secure basis for economic activity (1)
- use taxes/regulations to reduce negative externalities (1), such as pollution and congestion/improving the economic environment (1)
- use regulations/legislation to control monopoly where this is against the public interest (1), e.g. demonstrated by higher prices and lower quantity (1)
- use regulations relating to working conditions (1) e.g. minimum wage in labour market/to reduce discrimination
- apply maximum price controls (1) to influence prices for consumers (1)
- reduce income equality (1) by reducing gap between rich and poor (1)

**Up to 6 marks for arguing that government intervention in a market is not always to be supported:**

Up to 2 marks each for arguing that:

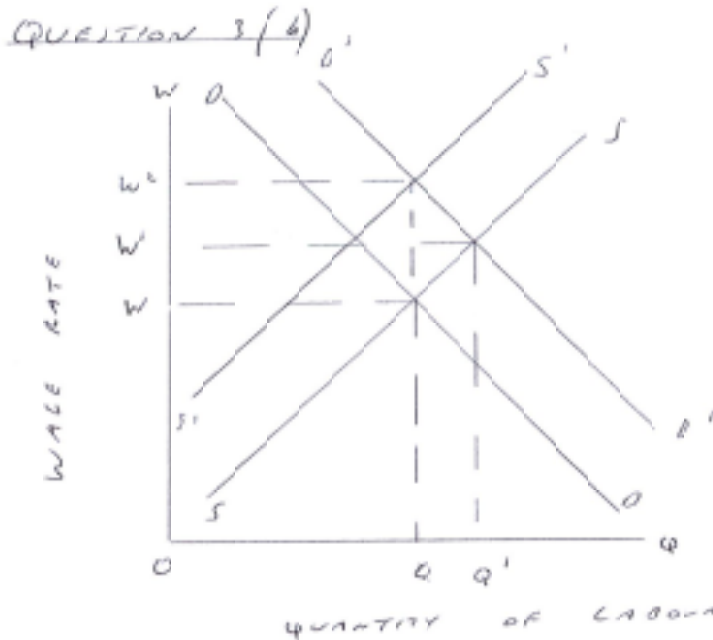
- intervention would disrupt the operation of free market forces (1), i.e. the idea that decisions about the allocation of scarce resources should be left to free market forces to achieve the greatest efficiency (1)
- intervention is often a subjective matter (1); how will the extent/form of intervention be determined? – normative economics (1)
- public money is likely to be needed, e.g. to finance the provision of merit goods (1); where is this money to come from? (1)
- the idea of opportunity cost (1); funds to provide merit or public goods would have alternative possible uses (1)
- a monopoly could actually be in the public interest, e.g. economies of scale could lead to lower costs and, possibly, lower prices (1); a monopoly may especially be in the public interest if it is an example of a natural monopoly (1)

Maximum of 4 marks for a list or list-like answer

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3 A government decides to increase the number of schools it operates, leading to an increase in the demand for teachers. At the same time, the government decides to increase the qualifications that a person needs to have to become a teacher.

(a) Using a demand and supply diagram, analyse the effect of these two decisions on the equilibrium wage rate and the equilibrium quantity of teachers. [6]



Up to 4 marks for the diagram:

1 mark each for:

- W, Q, D and S correctly labelled
- shift of demand curve to the right
- shift of the supply curve to the left
- increase in wage rate and the effect on quantity (indeterminate)

Up to 2 marks for the analysis:

1 mark each for analysis of

- why demand increases and supply decreases
- effect on equilibrium wage rate and equilibrium quantity

(b) Describe why the earnings of teachers can change over a period of time. [4]

1 mark for identification plus 1 mark for development for any of the following ways explaining why earnings may rise or fall:

- Low starting salary
- Salary rises with experience
- Salary rises with qualifications
- Salary rises with promotion/greater responsibility
- Salary rises with inflation awards
- Changes in demand
- Changes in supply
- Changes from part-time to full-time and vice-versa

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**(c) Consider whether teachers working in the private sector and in the public sector are likely to receive different earnings. [4]**

- There may be fiscal restraint in the public sector (1) with a government reluctant to increase taxes to pay for teachers' salaries (1).
- Private sector teachers, on the other hand, will be financed out of fees (1) and so there will be less restrictions than in the public sector (1)

Credit answers that state it is the other way round as this may be the case in some countries. Max 2 marks for descriptive answers with no attempt to apply economics.

**(d) Discuss whether highly-paid teachers are likely to spend more and borrow more than less well-paid teachers. [6]**

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

Up to 3 marks each for explaining that highly paid teachers:

- have greater ability to spend (1), likely to spend more in total (1), may feel more confident about the future and so may spend more (1)
- may borrow more as banks may be more willing to lend to them (1) as they will be relatively confident about being repaid (1), they may be likely to borrow to e.g. buy a house, go on an expensive foreign holiday (1)

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

Up to 3 marks each for explaining

- may spend less as a proportion (1) as may save more of their income (1), their promotion prospects may be less than some of the lower paid teachers (1)
- may borrow less due to less need for finance to buy basic necessities (1), may have former savings they can draw on (1), may live in richer households/may be older and have less need to borrow to e.g. buy a house or pay for children's education (1)
- other factors than income influence decisions to borrow (1) e.g. confidence in the economy/job security (1), rates of interest on loans and savings (1)
- it depends on age of teacher (1) e.g. older teachers may spend less/save more for retirement etc. (1), less family commitments(1)

Maximum of 3 marks for a list or list-like answer

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**4 Car production is an important economic activity in many countries. Much of this production is undertaken by large multinational companies. These firms aim to increase both productivity and production.**

**(a) Describe two reasons why car production is usually undertaken by large multinational companies. [4]**

Reward a maximum of two reasons identified and developed.

Up to 2 marks each for:

- high start-up costs (1) as most production is capital intensive (1)
- large multinational companies can benefit from economies of scale, especially technical economies (1), so that the cost of production is as low as possible (1)
- large multinational companies can benefit from purchasing/buying economies of scale and negotiate favourable prices on components and raw materials (1), taking advantage of bulk buying
- for other reasons such as financial economies of scale and significant capital investment is required to keep costs low/develop new models
- large multinational companies are able to locate in different parts of the world (1), so that they can take advantage of lower wage levels in certain countries (1)

**(b) Distinguish between productivity and production. [4]**

Up to 2 marks: Productivity is the output produced per factor/input, e.g. per worker, per machine, per hectare of land (1), per period of time, e.g. per hour, day, week or month (1)

Up to 2 marks: Production is the total output (1) per period of time, e.g. per hour, day, week, month or year (1)

**(c) Using an example of each, explain the difference between fixed costs and variable costs in car production. [4]**

Up to 2 marks: fixed costs are those costs of production that remain constant at all levels of output in the short-run (1); examples could include rent of car factory, interest payments on money borrowed to finance the car production or the salaries paid to the management of the car company (1)

Up to 2 marks: variable costs are those costs of production that are directly related to changes in output (1); examples could include the costs of raw materials or component parts needed in the production of cars and the wages paid to the car workers (1)

Examples need to be explicitly related to car production.

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- (d) Discuss whether the establishment of a multinational company in a country will always be beneficial for all the workers it employs. [8]

**Up to 6 marks for arguing that it will always be beneficial for all the workers it employs:**

Up to 2 marks each for:

- it provides employment, avoiding someone being without a job (1), and this will increase incomes (1)
- employees will acquire skills/receive training (1) which will improve their employment/wage prospects generally (1)
- employees may receive discounts on the products that the company produces (1), saving them money (1)
- the employment will enhance living standards (1), especially if the firm pays wages above a country's minimum wage (1)
- results in higher government tax revenue (1) which could be used to improve education/health services benefitting workers

**Up to 6 marks for arguing that it will not always be beneficial for all the workers it employs:**

Up to 2 marks each for:

- the multinational company may decide to relocate to another country in the future (1), making the employee redundant (1)
- some jobs may involve very little skills (known as 'screwdriver jobs')/may bring in skilled workers from abroad (1), so the benefit of working for the multinational company can be exaggerated (1)
- employees may have had to work there for a minimum number of years (1) to take advantage of any discounts (1)
- the remuneration may only be equal to a country's minimum wage (1) and the large profits made by the company will then be repatriated to the home country and not invested in the firm, e.g. the facilities provided (1)
- for comments about poor working conditions (1) due to lack of trade unions to protect workers(1)
- the multinational company seeks to maximise profits and may forgo environment (1) putting health of workers at risk (1)

Maximum of 4 marks for a list or list-like answer

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**5 Inflation is an economic problem faced by many economies, but governments differ in how they attempt to bring down the rate of inflation.**

**(a) Describe how changes in the price level are measured in an economy. [5]**

Award 1 mark each up to a maximum of 5 marks for describing

- use of a consumer or retail prices index
- recording of changes in prices over a period of time
- a basket of goods and services (usually about 600 products)
- use of a base year used as a 'starting point' to make comparisons over time (given the value = 100)
- weighting given to each product in the basket to reflect the percentage of average income that is spent on it
- creation of a weighted price index, multiplying the price index for different products by their weighting, to measure the change overall over a period of time

**(b) Explain how a situation of 'too much money chasing too few goods' can lead to inflation. [5]**

1 mark for idea of too much money; idea of monetary inflation; excessive growth of the money supply or specific mention of demand-pull inflation

1 mark for a precise definition of inflation: a sustained increase in the general level of prices over a period of time

Up to 4 marks: idea of chasing too few goods/not enough goods being produced (1) for the people who want to buy them (1), i.e. money supply has increased faster (1) than the increase in output (1), economy may be at full employment (1) prices rise (1)

Up to 2 marks for an AS/AD diagram showing shift in AD curve to right (1) and the effect on price level (1)

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- (c) Discuss whether fiscal policy, rather than monetary policy, is always a better way to bring down the rate of inflation in an economy. [10]

**Up to 5 marks for the advantages of fiscal policy:**

Up to 3 marks each for:

- an increase in taxes (1) can have a more immediate effect (1) than changes in interest rates which can take a while to have an effect in an economy (1)
- cuts in public expenditure (1) can have a major effect, given the number of people employed (1), and this can have a 'knock-on' effect in an economy (idea of multiplier effect, but candidates do not need to use that term) (1)

**Up to 5 marks for the disadvantages of fiscal policy:**

Up to 3 marks each for:

- there could be side-effects (1), e.g. an increase in income tax could act as a disincentive to effort (1), leading to a reduction in output (1)
- the cuts could take a while to have an effect (1) and they could lead to an increase in unemployment (1) and a reduction in output (1)

**Up to 5 marks for the advantages of monetary policy:**

Up to 3 marks each for:

- an increase in the rate of interest (1) can have a major effect by making the cost of borrowing more expensive (1), reducing the level of demand (1)
- the reduction of the money supply (1) could have a major effect by reducing the extent of liquidity in the economy (1), reducing the possibility of borrowing money (1)

**Up to 5 marks for the disadvantages of monetary policy:**

Up to 3 marks each for the impact of:

- a rise in the rate of interest may be limited (1), especially in the short-term (1), particularly where demand is interest-inelastic (1)
- a reduction in the money supply may take a while to have an effect (1) and banking institutions may find ways to get round the restrictions (1) making the effect very limited, especially in the short-term (1)

Maximum of 5 marks for a list or list-like answer

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**6 Developing countries have characteristics that are different from those of developed countries. One of these is the extent of poverty in such countries.**

**(a) Describe three features of a developing country.**

**[6]**

1 mark each for identification of three features:

- low incomes/low GDP per capita
- low Human Development Index/low standard of living
- low life expectancy
- low school enrolment/education
- high level of absolute poverty
- high level of malnutrition/starvation
- high rate of population growth
- high birth rate
- high death rate
- high infant mortality rate
- may have a large primary/small tertiary sector

1 mark each for descriptions, for example:

- low GDP per capita: Gross Domestic Product of a country is low when divided by the number of people living in that country
- low standard of living: means low wages/unemployed can only afford necessities/poor quality housing/education/health
- low life expectancy: the number of years, on average, that the people in a country can expect to live, relative to the number of years a person, on average, is expected to live in a developed country
- high level of absolute poverty i.e. the basic needs for food, clothing and shelter are not being met, is much higher than in developed countries
- high death rate, i.e. the number of people dying in a developing country per thousand of population is higher than would be the case in a developed country

**(b) Describe the changes that are likely to occur as a country becomes more developed, in: (i) its occupational structure, and (ii) the geographical distribution of its population.**

**[4]**

Up to 2 marks on changes in occupational structure:

- fall in percentage of primary sector/growth and then decline in secondary sector/growth of tertiary sector
- fewer people working on farms/more people working in factories and in construction and then falling/more people working in services
- economic growth and increases in incomes and living standards likely to be encouraged

Up to 2 marks on changes in geographical distribution of its population:

- migration away from rural to urban communities
- more/wider employment opportunities, leading to higher incomes, but can lead to overcrowding in urban areas and deterioration in certain aspects of rural areas



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(c) Explain what is meant by ‘absolute poverty’. [2]

- a situation where certain people do not receive enough income to meet even basic needs (1), such as food and shelter or may give a numerical value e.g. \$1.25 a day (1)
- this can be contrasted with relative poverty where certain people are poor in relation to others, but this does not necessarily mean that they are poor in absolute terms (1)

(d) Discuss whether government policies can always reduce poverty in a developing country. [8]

**Up to 6 marks for the argument that government policies can always reduce poverty in a developing country:**

Up to 2 marks each for the following:

- redistribution of income, e.g. through progressive taxation and through benefits (1), could increase the incomes of poorer people (1)
- the provision of employment opportunities/employment creation schemes (1), encouraging a higher rate of economic growth (1)
- an improvement in education provision/increase in literacy rate (1) will help to make people more employable (1)
- reskilling/retraining measures (1) will make people more employable, increasing their incomes (1)
- provision of subsidies, e.g. on food (1), will help to keep down the cost of living (1)
- subsidised or zero-cost housing (1) will mean that people will not have to pay very much (or nothing at all) for housing (1)
- the introduction of minimum wage legislation (1) will ensure that everybody in work is paid a minimum level of remuneration (1)

**Up to 6 marks for the argument that government policies cannot always reduce poverty in a developing country:**

Up to 2 marks each for the following:

- progressive taxation and benefits will still leave a lot of people very poor (1) and more fundamental policies may be needed, such as very high levels of subsidies (1)
- the reskilling/retraining/education initiatives will have no effect if the level of demand in the economy is so low (1) that there are no jobs to be applied for (1)
- the effect of the introduction of a minimum wage will ultimately depend on the rate at which it is set (1); if it is set at too low a rate, the impact will be negligible (1)
- it is less an issue of whether particular policies can have an effect (1); it is linked to the extent of the policies, i.e. how far-reaching are they? (1)
- there may be government failure e.g. in form of corruption (1) which prevents funds reaching the poor (1)

Maximum of 4 marks for a list or list-like answer

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**7 Many countries have a deficit in the current account of their balance of payments, but some countries, such as China, Germany and Japan, regularly have a surplus in their current account.**

**(a) Explain two consequences of a current account deficit. [4]**

Up to 2 marks for the following:

- if a country is spending more on imports than on exports, this will result in money leaving a country (1) making the country less well-off (1)
- output and employment are lower than they would otherwise be (1), because too few exports are being demanded and too many imported goods are entering the country (1)
- the deficit will put downward pressure on a country's exchange rate (1), leading to a depreciation of its value/fall in internal inflation (1)
- if one country has a deficit (1), it means that another country will have a surplus (1)

**(b) Analyse what can cause a surplus in the current account of the balance of payments. [8]**

Up to 6 marks for a surplus in:

- visible balance (1): depreciation/devaluation of exchange rate would make exports cheaper and imports dearer; this would contribute to a surplus if PED was elastic (1). A country's exported goods have a reputation for quality/reliability (1), other countries rate of economic growth is higher (1) inflation rate is lower – making goods relatively cheaper (1), higher productivity (1) reducing prices and/or raising quality of goods(1)

Up to 4 marks for a surplus in:

- invisible balance (1): country is very good in particular services, e.g. banking or insurance (1); shipping services can bring in a lot of money (1); tourist expenditure by people visiting a country (1)

Up to 2 marks each for a surplus in

- income, a net positive investment income (1), e.g. money from dividends, would contribute to a surplus (1)
- current transfers (1), e.g. net surplus from gifts, charitable donations and payments from one government to another (1), workers' remittances (1)

Maximum of 4 marks for a list or list-like answer

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(c) Discuss whether a current account surplus is always to be regarded as desirable. [8]

**Up to 6 marks on the argument that it is always to be regarded as desirable:**

Up to 2 marks each for the following:

- the surplus can be used to increase foreign exchange reserves (1), strengthening the economic position of a country (1)
- if there is a surplus, a government will not need to borrow money to finance a current account deficit (1), meaning that the money can be spent on other, more productive, uses (1)
- the purchasing of a country's exports, and/or the lower rate of purchase of imports, means that there is higher output (1), resulting in a higher level of employment (1)

**Up to 6 marks on the argument that it is not always to be regarded as desirable:**

Up to 3 marks for:

- a surplus can lead to an appreciation/revaluation of a country's exchange rate (1), making its exports more expensive (1) and this could damage the competitiveness of the exports (1)

Up to 2 marks for:

- one country's surplus is another country's deficit; the country with the deficit may introduce protectionist measures (1) which would ultimately be bad for world trade, affecting all countries (1)
- less goods available in domestic market (1) lowers standard of living for consumers (1)
- high exports of raw materials may result in depletion of resources (1) having an adverse impact on economy in the long-run (1)
- if exports become less competitive, this will affect output (1), leading to a lowering of living standards (1)

Answers that state that the current account surplus can be used to spend on government projects/use when in recession etc. are incorrect.

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

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

**MARK SCHEME for the October/November 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, calculate the value of Cambodia's clothing exports in 2012. [2]

US\$4.8bn or \$4 800 000 000 (2)

80/100 x US \$6bn (1)

(b) Explain two reasons why demand for Cambodia's rice may increase in the future. [4]

- lower price (1) due to lower transport costs (1)
- better quality (1) due to e.g. more skilled workers (1)
- higher incomes (1) increasing their ability to buy the rice (1)
- rise in population (1) more people to buy the rice (1)
- rise in the price of rice produced by other countries (1) some people switch to Cambodian rice (1)
- fall in the value of the Cambodian currency (1) making their rice relatively cheap (1)
- rise in price of competing products (1) e.g. other staple foods such as wheat (1)

(c) (i) Explain why high economic growth can increase investment. [4]

- high economic growth involves an increase in output (1) to produce more, firms are likely to spend more on capital goods (1)
- high economic growth involves an increase in incomes (1) this will lead to an increase in demand for firms' products (1)
- high economic growth means an increase in output (1) this may encourage firms to expand their capacity (1)
- high economic growth may mean that profits are high (1) high profits provide the finance to buy capital goods (1)
- high economic growth can increase firms' confidence (1) being more optimistic may mean that firms will be more willing to invest (1)
- high economic growth attracts overseas investors (1) because of prospect of secure returns (1)
- high economic growth increases tax revenues (1) this allows the government to spend more on e.g. investing in infrastructure (1)

(ii) Using Table 1, comment on whether the information supports the view that high economic growth leads to a high rate of investment. [3]

**One mark for decision:**

- yes/generally yes

**One mark for supporting evidence e.g.:**

- four countries are in the same ranking order (China, India, Malaysia and Pakistan)
- two examples e.g. China has the highest for both categories whilst Pakistan has the lowest

**One mark for exception:**

- exceptions – Cambodia or Indonesia

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(d) Using information from the extract, explain whether Cambodia experienced an increase or a decrease in population in 2012. [2]

Increase (1) as the birth rate exceeded the death rate and its difference (natural increase) was greater than the net migration (1).

(e) Discuss whether building more roads and ports would increase Cambodia's exports of rice. [5]

**Up to 3 marks for why it might:**

- may reduce transport costs (1) reduce costs of production (1) reduce prices (1) make rice more price competitive (1)
- enables more rice to reach the coast/easier distribution of rice/easier access (1) and enables more rice to be shipped abroad (1) increase quality of exports (1) make rice more quality competitive (1) open up new markets (1)

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

- costs other than transport costs may rise (1)
- demand for road space may increase more than supply (1) increasing congestion (1) increasing transport costs (1)
- there is no guarantee that farmers would use the new roads (1)
- there will be no increase in exports if agriculture lacks investment to increase output (1)
- the quality of the roads and ports built may be poor (1) particularly if there is a lack of skilled workers to build them (1)
- there may be a lack of associated capital equipment e.g. vehicles to use roads and ports (1)
- demand for rice may fall (1) due to e.g. changes in tastes (1) costs and prices falling more in other countries (1)
- supply of rice may fall (1) due to e.g. bad weather (1)

(f) Explain two functions of a stock exchange. [4]

- provides a market for the sale and/or purchase of shares (1) enabling firms to raise finance (1)
- allows members of the public to own part of a company (1) which may enable them to influence the behaviour of the company (1)
- provides a market for the sale of government securities (1) enabling governments to raise finance/borrow (1)
- enables firms to grow (1) by merging or taking over other firms (1)
- channels savings (1) for financial investment (1)
- acts as a source of information on share prices (1) enabling transactions to be carried out more effectively (1)
- protects buyers of shares/supervises brokers (1) as listed firms have to meet set standards and provide information (1)

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(g) Discuss whether a company will have to raise wage rates to attract more workers. [6]

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

- wages are a key influence on people's choice of where to work (1)
- there may be a shortage of workers (1)
- companies compete for workers (1)
- to attract workers from other companies, wages may have to be raised (1)
- higher wages could attract workers from a long distance away who otherwise would not be able to afford the transport costs (1)

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

- unemployment may be high (1) so the offer of a job may be sufficient to attract workers (1)
- the company may already be paying more than other companies (1) so again just the offer of jobs may be sufficient (1)
- the company can offer non-wage (non-pecuniary) benefits/fringe benefits (1) e.g. better promotion chances, longer holidays, good pensions, job security (up to 2 marks)

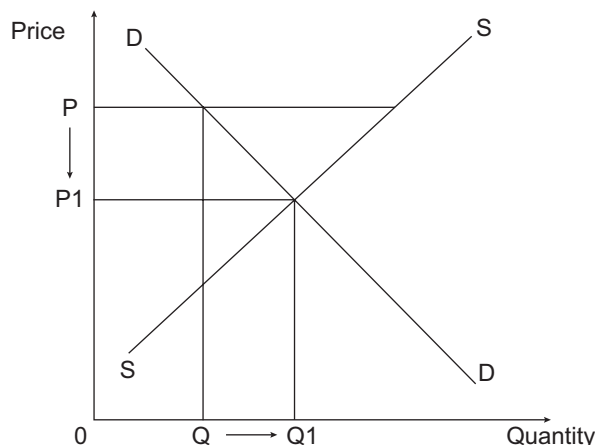
2 (a) Define 'demand'. [2]

- the willingness (1) and ability to buy a product (1)

(b) Explain what impact an imbalance between supply and demand is likely to have on price and the quantity traded. [4]

- if supply exceeds demand (1), there will be a surplus (1)
- the equilibrium position in the market will change (1)
- price will fall/be driven down (1)
- the quantity traded will rise (1)

Accept a diagrammatic approach for up to 2 marks.

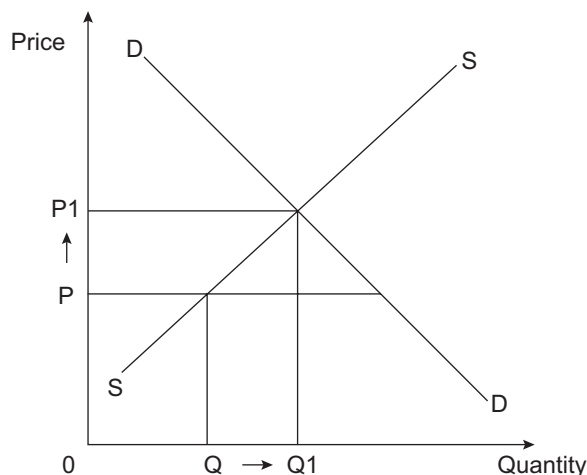


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OR

- if demand exceeds supply (1) there will be a shortage (1)
- the equilibrium position in the market will change (1)
- price will rise/be driven up (1)
- the quantity traded will rise (1)

Accept a diagrammatic approach for up to 2 marks.



(c) Analyse why economic growth may increase demand for electricity. [6]

- economic growth will increase income (1) higher income will increase demand for e.g. televisions and laptops (1) electricity is a complement to televisions etc./used to operate televisions (1)
- with higher income, some people may switch from other fuels to electricity (1)
- economic growth involves higher output (1) electricity is used in the production of a variety of products (1) higher output will require more electricity (1)
- economic growth involves investment in capital equipment (1) e.g. new machines will require electricity to run them/electricity is a complement (1)
- economic growth often involves new technologies (1) which use electricity to function (1)
- with economic growth more people will now have access to electricity (1) more towns and villages may now be on the grid/electricity may have reached more areas (1)

(d) Discuss whether the social costs of operating power stations are likely to be greater than the social benefits. [8]

Either Social costs = private costs + external costs or social benefits = private benefits + external benefits (1)

Up to 3 marks for explaining social costs:

- private costs are costs to producers/consumers (1) examples: labour costs, rent, insurance (up to 2)
- external costs are harmful effects on third parties/social costs minus private costs (1) examples: air pollution, noise pollution, risk of accidents, fall in price of nearby houses (up to 2)



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**Up to 3 marks for explaining social benefits:**

- private benefits are benefits to producers/consumers (1) examples: revenue, satisfaction gained from consuming the fuel generated, reduction in risk of power outages (up to 2)
- external benefits are beneficial effects on third parties/social benefits minus private benefits (1) examples: rise in employment in the area, improved transport links in the area (up to 2)

**Up to 3 marks for coming to a conclusion e.g.:**

- may be influenced by whether the power stations are run by the state or the private sector (1) state sector may be more inclined to base decisions on social costs and benefits (1)
- may be influenced by the government policy measures (1) designed to reduce market failure (1) external costs may be minimised by e.g. taxes, laws (1)
- may be influenced by the age of the equipment used (1) old equipment may be more likely to cause external costs (1)
- private costs are likely to be very high for a power station (1) because of the large and expensive capital equipment involved (1)

**3 (a) Identify two functions of an entrepreneur. [2]**

- bearing (uninsurable) risks (1)
- organising the other factors of production (1)
- making key business decisions (1).

**(b) Explain two ways a government could redistribute income from the rich to the poor. [4]**

- taxing the rich (1) imposing progressive taxes (1) reducing regressive taxation (1)
- using government spending to benefit the poor (1) e.g. providing free healthcare / education for the poor (1)
- using government spending to generate jobs for the unskilled/introduce a minimum wage (1) make it easier for people to gain employment/increase earnings of low paid workers (1)

**(c) Analyse why price may be higher and output lower in a monopoly than in a more competitive market. [6]**

- a monopoly may restrict output (1) to drive up price (1)
- monopolies are price makers (1) and can therefore charge high prices if they wish (1)
- there are barriers to enter into a monopoly (1) this causes lack of competitors/substitutes (1) meaning that consumers have no choice (1) so have to pay the higher price (1)
- a firm in a more competitive market will have less influence on price (1) if they raise price (1) consumers will switch to rival firms (1)
- firms in (perfectly) competitive markets are price takers (1) and so have no influence on price (1)
- firms in competitive markets have to keep their costs low (1) in order to remain competitive (1)

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(d) Discuss whether workers benefit from specialising. [8]

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

- their specialism may be in high demand (1) leading to good employment opportunities (1) high wages (1)
- specialisation allows workers to develop their skills (1) increasing their productivity/efficiency (1) which enables employers to pay them more (1) for the value of their extra output (1)
- enable workers to concentrate on areas they most enjoy (1) e.g. history lecturers specialising in particular periods of history (1)
- specialised jobs may be less demanding (1) may need less training (1)

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

- demand for specialism may decrease (1) leading to unemployment (1) may be difficult to get another job (1) specialists have low occupational mobility (1)
- time has to be spent acquiring specialist skills (opportunity cost) (1) this time could have been spent earning money (1)
- doing the same task may be boring (1) reducing the quality of life (1)
- alienation reduces productivity (1) reducing the amount firms are able to pay workers (1)
- may not find out what other talents they have (1)
- specialist tasks can depend heavily on other workers (1) if those workers perform badly then productivity falls (1) and wages may fall (1)

4 (a) Identify two features of a sole proprietor. [2]

- a business owned by one person (1)
- has unlimited liability (1)
- lack of continuity (1)
- takes all of the profits/bears all of the risks/losses alone (1)

(b) Explain how government subsidies can increase the size of firms. [4]

- government subsidies are payments to producers (1) they effectively reduce firms' costs of production (1) this encourages an increase in supply (1) the resulting lower price will raise demand (1) producing more will increase the size of firms (1)
- subsidises to domestic producers make them more internationally competitive (1) enabling them to capture more of foreign and domestic markets (1)
- subsidises can be used to buy capital equipment/invest in new technology or research (1) expanding productive capacity (1)
- subsidies can be used to increase wages or reduce wage costs (1) this can lead to more workers being employed (1) a larger workforce increases the size of firms (1)

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**(c) Analyse three advantages of small firms. [6]**

- flexible (1) can adjust quickly to changes in market conditions as fewer people to consult (1)
- better communication with workforce (1) because of simple structure of firm (1)
- can provide a more personalised service (1) more contact with consumers so can meet specific needs (1)
- can specialise in niche markets (1) demand for particular products/types of products may be low and a large firm may not cater for such a small market (1)
- may have low transport costs (1) located close to customers (1)
- may receive government subsidises (1) to encourage new firms/because they generate jobs (1)
- may be charged a lower rate of tax (e.g. corporation tax) (1) reducing the firm's costs (1)
- easy to set up (1) initially not much capital may be involved in the form of e.g. factory buildings (1)
- less likelihood of trade unions (1) wage costs will be lower (1)

**(d) Discuss whether imposing tariffs will benefit an economy. [8]**

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

- will raise revenue for the government (1) this could be spent on e.g. healthcare / education (1)
- may reduce demand for imports (1) improve the trade in goods position (1) and so improve the current account position (1)
- may protect infant industries (1) these may grow and take advantage of economies of scale (1) become internationally competitive (1) create output and employment (1)
- may protect declining industries (1) preventing unemployment (1)
- may prevent dumping (1) foreign firms selling at below cost price (1) prevent domestic firms being driven out of business (1)
- may protect consumers from harmful products (1)

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

- raise prices to consumers (1) may not have domestic products to switch to (1) any domestic substitutes may be of a lower quality (1) reduces variety for consumers (1)
- raise costs of imported raw materials (1) raise costs of production (1) cause cost-push inflation (1)
- reduction in competitive pressure on domestic firms (1) may lead to inefficiency (1)
- there may be retaliation (1) with other countries imposing tariffs on the country's exports (1)
- there may not be domestic substitutes for imports (1) consumers may not stop buying imports (1) because of inelastic demand (1)

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5 (a) Identify **two** causes of an increase in the size of a country's labour force. [2]

1 mark for each of **two** causes identified:

- rise in retirement age
- fall in school leaving age
- immigration
- rise in birth rate (some years before)
- fall in death rate
- greater acceptability of women working

(b) Explain how a country's inflation rate is measured. [4]

- CPI/RPI (1)
- base year selected (1)
- survey of spending patterns undertaken (1)
- a basket of goods and services selected (1)
- weights selected (1) based on proportion of total spending devoted to the items (1)
- price changes monitored in a number of outlets (1)
- weights are multiplied by price changes (1)
- price level compared with previous year's price level (1)

(c) Analyse how free trade can reduce firms' costs of production. [6]

- can allow a country to specialise in what it's best at (1) use resources more efficiently (1)
- no tariffs charged on exports/imports (1)
- increase competition (1) may force firms to reduce costs/increase productivity (1)
- larger market (1) firms may be more able to take advantage of economies of scale (1) example(s) (1)
- more sources of raw materials/capital goods (1) lower price or better quality (1)

(d) Discuss whether unemployment always harms an economy. [8]

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

- lower output/incomes (1) lower living standards (1) increased poverty (1)
- lower demand (1) from consumers who are now unemployed (1)
- loss of tax revenue (1) lower expenditure on e.g. transport infrastructure (1)
- increased government spending on benefits (1) involves an opportunity cost (1)
- not using factors of production efficiently (1) waste of resources/opportunity cost (1) output below potential output (1)

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

- unemployment may be low (1) frictional unemployment is always present (1)
- duration of unemployment may only be short term (1)
- some unemployment provides flexibility (1) enables firms to expand (1)
- may put downward pressure on inflation (1) lower demand (1) workers more reluctant to ask for wage rises (1)

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- 6 (a) Define 'regressive tax'. [2]  
 A tax that takes a higher proportion of the income of the poor. (2)  
 A tax that falls more heavily on the poor. (1)

- (b) Explain two influences on the amount firms spend on capital goods. [4]

- the amount of profits earned (1) high profits provide the finance and incentive to invest (1)
- the size of the firm (1) large firms are able to finance large scale capital investment (1)
- the type of firm (1) e.g. a steel producing firm will use a higher value of capital goods than a flower seller (1)
- interest rates (1) low interest rates allow firms to borrow cheaply for investment (1)
- inflation (1) a low rate of inflation gives firms confidence to invest (1)
- economic stability (1) a stable economy gives firms confidence to invest (1)
- corporation tax (1) a lower rate of corporation tax provides the finance and incentive to invest (1)
- advances in technology (1) may encourage firms to replace existing machines (1)
- expectations (1) if firms anticipate selling more in the future, they may expand (1)
- price of labour (1) a rise in wages may cause firms to replace labour with capital (1)

- (c) Analyse how monetary policy could increase the price level. [6]

- a decrease in the rate of interest (1) may increase borrowing (1) reduce saving (1) increase demand (1) cause demand-pull inflation (1)
- increase money supply (1) raise spending/total demand (1) cause demand-pull/monetary inflation (1)
- reduce the exchange rate (1) increase price of imported materials (1) reduce pressure on domestic firms to keep costs down (1) cause cost-push inflation (1)
- reducing the exchange rate will reduce export prices (1) increase total demand (1) cause demand-pull inflation (1)

- (d) Discuss whether an increase in the rate of a sales tax would benefit an economy. [8]

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

- may provide more government tax revenue (1) enable the government to spend more (1) e.g. may raise educational standards (1)
- may discourage consumption of harmful products (1) those that cause external costs (1) may reduce e.g. healthcare costs from smoking (1)
- may discourage the purchase of imports (1) improve current account position (1)
- could be used to reduce a budget deficit/increase a surplus (1)
- could be used to reduce (aggregate) demand (1) thus reducing inflation (1)

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

- likely to fall more heavily on the poor (1) increase income inequality (1)
- increases firms' costs of production (1) raises price of products (1) causing cost-push inflation (1)
- may reduce spending (1) reducing output (1) increasing unemployment (1)
- may be placed on products that are already under-consumed (1) increase inefficiency (1)

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7 (a) Define 'mixed economy'. [2]

- an economy with a private sector (1) and a public sector (1)
- a mix of both free market (1) and planned economies (1)
- resources allocated by both the price mechanism (1) and government decisions/consumers and government deciding what is produced (1)
- some prices determined by market forces (1) and some by directives/the government (1)

(b) Explain two reasons why the world population in 2050 may be more than forecast. [4]

- birth rate may be higher than expected (1) due to e.g. lack of education, children needed to work because of poverty (1)
- death rate may be lower than expected (1) due to e.g. healthcare provision being of a higher quality/more widely available (1)
- economic forecasts are often inaccurate (1) the further ahead a forecast is the less accurate it tends to be as more can change (1)

(c) Analyse how the population structure of a developing country is likely to differ from that of a developed country. [6]

- a developing country is likely to have a younger population (1) may have a higher birth rate (1) due to e.g. lower cost of raising children/need for children to support their parents later in life (1)
- a developing country may experience net emigration whereas a developed country may experience net immigration (1) due to differences in living standards (1)
- a developed country is likely to have small families (1) due to e.g. social attitudes (1)
- a developed country is likely to have more awareness of contraception (1) due to greater educational/healthcare provision (1)
- a developed country is likely to have an older population (1) a developed country may have a lower death rate (1) due to e.g. better healthcare/nutrition (1)

Up to 2 marks for a correctly labelled population pyramid(s)

(d) Discuss the effectiveness of possible government policy measures to reduce the growth of population. [8]

**Up to 5 marks for why policy measures may be effective:**

- improved/increased education (1) raise the cost of having children (1) people in education tend to delay having children (1) more educated women are likely to work and have fewer children (1) increase information about contraception (1) lower birth rate (1)
- improved/increased healthcare (1) lower infant mortality rate may reduce number of children people have (1) as more expected to survive (1)
- improved/increased state provision of healthcare and pensions (1) reduce need to have children to support adults in old age (1)
- tighter immigration restrictions (1) may reduce inward migration (1)
- remove state benefits for having children (1) may increase the cost to families of bringing up children (1)
- adopt a "one child per family" policy, such as in China (1) directly reducing population growth (1)

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**Up to 5 marks for why policy measures may not be effective:**

- improved/increased education may also lower death rate (1) is more likely to lead to healthier lives e.g. eat more nutritious food (1) have higher incomes and so better living standards (1) may also reduce emigration (1) as may be more job opportunities (1)
- improved/increased healthcare is also likely to reduce death rate (1) if death rate falls by more than birth rate, population may continue to increase (1)
- tighter immigration restrictions may make it difficult for firms to obtain skilled labour (1) may increase dependency ratio (1) may be difficult to stop people entering the country (1)
- remove state benefits for having children may increase poverty (1) as poor families may have a large number of children/be less able to afford to raise children (1) this may increase infant mortality (1) and as a result people may have more children (1)
- adopting a “one child policy” causes problems with population structure (1) e.g. lack of young people to support the elderly population (1)

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

**MARK SCHEME for the October/November 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, calculate what percentage of Mexico's labour force was employed in the tertiary sector in 2012. [2]

65% (2)

$100\% - 35\%/62\% + 1\% + 2\%$  (1)

Also accept: 62.64% (2)

$12\% - 1\% = 11.88\%$

$26\% - 2\% = 25.48\%$

$100\% - 37.36\%$

- (b) Using information from the extract, explain two benefits of free trade for Mexican firms. [4]

**One mark each for each of two benefits identified:**

- ability to buy raw materials from abroad/a wide choice of sources for imported raw materials (1)
- a large market/a large international market in which to sell their products (1)

**One mark each for each of two explanations given:**

- raw materials may be of higher quality or lower price/reduce firms' costs of production (1)
- a large market may increase potential revenue/increase profits/allow greater advantage to be taken of economies of scale (1)

Note: explanation marks dependent on identification marks.

- (c) (i) Explain why people in countries with a higher GDP per head have a longer life expectancy than people in countries with a lower GDP per head. [2]

- higher income is likely to mean better nutrition (1)
- people will be able to afford more/better quality healthcare (1)
- higher income is likely to mean better housing (1)
- higher income is likely to mean better education (1)
- higher income may raise living standards (1)
- countries with higher incomes may have better sanitation (1)
- higher income may increase government tax revenue (1) and so greater ability to provide good quality healthcare (1)

Note: any of these points may be developed for the second mark e.g. better healthcare can reduce the illnesses people experience.

- (ii) Using Table 1, comment on whether the information supports the view that countries with a higher GDP per head have a longer life expectancy than countries with a lower GDP per head. [3]

**One mark for decision:**

- yes/generally yes (as an overall judgement)

**One mark for supporting evidence e.g.:**

- Canada has highest income and longest life expectancy

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- the four countries with the highest GDP per head (Canada, Portugal, Mexico and Peru) have the longest life expectancy

**One mark for conflicting evidence e.g.:**

- South Africa has a higher GDP per head than Bangladesh but a lower life expectancy
- Peru has lower GDP per head than South Africa but a longer life expectancy
- Bangladesh does not follow the trend

**(d) Using information from the extract, explain two reasons why emigration from Mexico has fallen. [4]**

- improved economic performance/expected to be one of the top ten economies (1) likely to increase employment opportunities/incomes (1)
- higher incomes/reduced poverty (1) improved living standards (1)
- improved healthcare/longer life expectancy (1) improved quality of life (1)
- falling unemployment in Mexico/rising unemployment in USA (1) increased employment opportunities/living standards in Mexico (1)

**(e) Discuss whether rises in costs of production in China will benefit the Mexican economy. [5]**

Up to 3 marks for why it might:

- price of Chinese exports may increase (1) this may make Mexican exports/Mexican products relatively more price competitive (1) Mexico may be able to capture some of China's share of foreign markets/domestic firms may gain (1) improve current account/balance of payments position (1) reduce unemployment (1) increase GDP (1)
- may encourage Chinese MNCs to set up in Mexico to take advantage of lower costs (1) may raise GDP in Mexico (1) increase employment in Mexico (1)

Up to 3 marks for why it might not:

- imports from China will be more expensive (1) if there are not domestic substitutes (1) this may cause inflation in Mexico (1) due to higher raw material costs (1) and less pressure on domestic firms to keep prices low (1)
- any Chinese MNCs based in Mexico may experience lower profits/losses in plants in China (1) this may lead to a reduction in investment in their plants in Mexico (1) and/or cause them to raise prices in Mexico to compensate for their losses in China (1)
- costs may rise in China but these may reflect higher quality (1) if quality of Chinese products does rise, demand for Chinese products may remain high (1)

**(f) Explain two ways in which a monopoly differs from perfect competition. [4]**

- many firms in perfect competition (1) but only one in monopoly (1)
- barriers to entry into and exit from the industry in monopoly (1) none in perfect competition but high in monopoly (1)
- perfectly competitive firms are price takers (1) whereas monopolists are price makers (1)
- homogeneous product in perfect competition (1) whereas unique in monopoly (1)
- perfect information in perfect competition (1) but not monopoly (1)

Note: maximum of 2 marks for two or more characteristics identified with no explicit comparison.

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**(g) Discuss whether selling a state monopoly, such as Pemex, to the private sector would benefit consumers in Mexico. [6]**

Up to 4 marks for why it might:

- may introduce more competition (1) this may lower prices (1)
- may provide a greater profit incentive (1) this may raise efficiency (1) encourage firms to produce what consumers want (1) lower costs of production (1)
- may increase investment (1) this could improve the quality of products (1)
- firms knowing they will not be supported by the government (1) may be forced to be more efficient (1)
- may be easier to raise finance (1) can sell shares (1)

Up to 4 marks for why it might not:

- a private sector monopoly may abuse market power (1) may restrict supply (1) raise price (1) reduce quality (1)
- private sector firms are unlikely to charge prices below cost to help poor consumers (1)
- private sector firms may not take into account external costs and benefits/welfare (1) so they may under or over-produce (1)
- the state may have financial resources (1) be able to invest on a larger scale (1).

**2 (a) Define 'resources'. [2]**

- factors of production/inputs (1) used to produce goods and services (1)
- identification of type of factor of production – land (natural resource), labour (human resource), capital, entrepreneur (1)

**(b) Explain how international travel may create external costs. [4]**

- external costs are harmful effects (1) imposed on third parties (1) social costs minus private costs (1)
- reason why international travel may cause negative externalities e.g. planes burning fuel creating carbon dioxide (1)
- examples of external costs caused by international travel e.g. air pollution, noise pollution, visual pollution, congestion, damage to wildlife and damage to the health of those not travelling (up to 2 marks)

**(c) Analyse how an increase in international travel may influence incomes. [6]**

- likely to increase incomes (1)
- more jobs are likely to be created in the tourist/travel industry (1) previously unemployed people who gain jobs will now have an income (1) people already in the industry may gain higher wages (1)
- more jobs are likely to be created in industries linked to the tourist/travel industry e.g. insurance, banking, retailing (1)
- the increased spending of people in the tourist/travel industry (1) is likely to increase demand for a range of other goods and services (1) leading to higher employment and incomes in other industries (1)
- increases geographical mobility of labour (1) workers can move in search of higher incomes (1)
- more people visiting a country may raise government tax revenue (1) enabling the government to pay higher wages to workers in the public sector (1).

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- holidays/business at home may be a substitute for holidays/business abroad (1) if e.g. more people holiday abroad, incomes at home may fall due to fall in demand for domestic holidays (1).

**(d) Discuss whether demand for international travel is likely to continue to increase. [8]**

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

- if incomes rise (1) international travel is a luxury good (1) business travel as well as tourism is likely to rise (1)
- if the price of international travel falls (1) demand is likely to rise/extend (1)
- a rise in population (1) more people to travel (1)
- a fall in the price of complements (1) for instance, hotel prices (1)
- people may travel for a better future (1) in search of better employment opportunities (1)

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

- incomes may fall (1) there may be a global recession (1)
- price may rise (1) causing a contraction in demand (1)
- population may fall (1) fewer people to travel (1)
- a rise in the price of complements (1) for instance taxi fares to airports/holiday insurance (1)
- accidents or fear of terrorism may dissuade people from travel (1)
- rise in availability of substitutes e.g. Skype, videoconferencing (1)

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

The willingness (1) and ability to sell a product/good(s) or service(s) (1)

The idea of making a product available/putting it on the market/producing a product (1)

**(b) Explain two ways a government could influence the price of a product. [4]**

**One mark each for each of two ways identified:**

- a subsidy
- a tax/indirect tax/tariff
- the setting of a maximum price
- the setting of a minimum price
- changing the price of product produced by the public sector

**One mark for each of two explanations:**

- a subsidy will be likely to lower price (as a payment is given to producers)
- a tax/tariff will be likely to raise prices (as an extra cost is imposed on firms)
- a firm would not be able to charge more than a maximum price
- a firm would not be able to charge less than a minimum price
- the government may produce a range of products e.g. energy

**(c) Analyse why demand for a product may become more price-elastic. [6]**

- there may be closer substitutes (1) making people more willing to switch between products (1)
- the price may rise (1) as products more expensive, people become more sensitive to price changes (1)

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- the product may become less of a necessity/more of a luxury (1) this would mean a change in price would have more impact on demand (1)
- the product may be taking up a larger proportion of people's income (1) this would mean that a change in the price would be more noticeable (1)
- the product has become less addictive (1) this would mean that people will become more willing to alter their demand (1)
- it may become easier to postpone buying the product (1) this would mean that a rise in the price of the product would cause a greater percentage fall in demand (1)
- a longer time period (1) gives people more time to find substitutes (1)

Note: maximum of 3 marks for a static approach e.g. luxuries, and products with a high number of substitutes, and products whose purchase would take up a large proportion of income would be likely to have elastic demand.

**(d) Discuss whether the wages of all workers will increase during a period of economic growth. [8]**

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

- output will be increasing (1) this will raise demand for labour (1) putting upwards pressure on wages (1)
- higher demand for labour will reduce unemployment (1) this will increase competition for workers (1) firms may have to raise wages (1) to attract workers (1) unions will have stronger bargaining power (1)
- higher output will increase the wages paid to workers on piece-rates (1) pay linked to output (1)
- economic growth may be associated with higher profits/higher revenue (1) increasing firms' ability to pay higher wages (1)

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

- whilst total demand may be increasing (1) demand for certain products/skills may be falling (1) structural unemployment may lower the bargaining power certain group of workers (1)
- economic growth may arise due to advances in technology/higher investment (1) this may increase the demand for skilled workers relative to unskilled workers (1) this may reduce the wages of unskilled workers (1)
- economic growth may be combined with inflation (1) workers' wages may not rise in line with inflation (1)
- some workers may have long term contracts with set wages (1) it may take time for their wage rates to adjust (1)
- the supply of some workers may increase by more than others (1)
- economic growth is likely to involve change (1) workers who are geographically or occupationally immobile may have to stay in low paid jobs (1)
- may just increase employment (1)

**4 (a) Define 'productivity'. [2]**

Output per worker/factor (1) per hour/time period (1)

Note: second mark is dependent on the candidate gaining the first mark.

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**(b) Explain two reasons why productivity may increase. [4]**

**One mark each for each of two reasons identified:**

- improved education/training
- increased investment /advances in technology
- increase in wages
- increase in monetary rewards
- shorter working hours
- higher unemployment
- greater specialisation

**One mark for each of two explanations given:**

- improved education/training may raise skills and more skilled workers can produce more
- increased investment /advances in technology – more up to date capital goods are likely to produce more
- increase in wages may motivate workers to work harder
- provision of e.g. a free car/good pension scheme may motivate workers to work harder
- shorter working hours may mean that workers may have more energy
- higher unemployment may mean that those who retain their jobs may be more the more skilled workers
- greater specialisation may make workers more efficient

**(c) Analyse why a country may have a high HDI value. [6]**

- a good healthcare system/high spending on healthcare (1) high investment in hospitals (1) will increase people's life expectancy (1)
- a good education system/high spending on education (1) high income/more schools enabling families to send their children to school for a number of years (1) positive attitudes to education (1) may lead to higher mean/expected years of schooling (1)
- a high level of total demand (1) good quality of resources/high productivity (1) sound economic policies (1) can result in a high GDP per head/high income (1)

Note: no marks for just stating the three components of the HDI – must relate to an increase in HDI.

**(d) Discuss whether a country would benefit from having full employment. [8]**

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

- efficient use of resources (1) working at full capacity/producing on the production possibility curve (1) making as much output as possible/increase output (1) high living standards (1) low poverty (1)
- low spending on unemployment benefits (1) high tax revenue (1) government spending on other areas e.g. healthcare and education can increase (1)
- government policy measures do not have to be used to lower unemployment (1) they can concentrate on other areas e.g. a balance on the current account of the balance of payments (1)
- may reduce crime rates (1) lower government spending on e.g. prisons (1)

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

- productivity may fall (1) the last people employed may not be as skilled (1)

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- inflation may occur (1) shortage of workers can raise wages (1) cause cost-push inflation (1) high incomes will lead to high demand (1) cause demand-pull inflation (1)
- firms may find it difficult to expand (1) as hard to recruit extra workers (1) supply constraint (1) rising demand with a supply constraint may result in more imports (1) worsening the current account position (1)
- resulting high incomes may increase demand for imports (1) which may cause a current account/balance of payments deficit (1)
- full use of resources may result in environmental damage (1) depletion of natural resources (1)

5 (a) Define 'medium of exchange'. [2]

A form of money (1) that is used to buy and sell products (1) generally acceptable (1)

(b) Explain two ways in which a central bank differs from a commercial bank. [4]

- it is one of the functions of a central bank to issue notes and coins (1) a commercial bank is usually not allowed to issue notes and coins (1)
- the customers of the central bank are commercial banks and the government (1) people and firms are the customers of commercial banks
- the central bank implements monetary policy (1) commercial banks are affected by monetary policy (1)
- the central bank is government owned (1) commercial banks are usually in the private sector (1)

(c) Analyse how an increase in the money supply may cause inflation and a fall in saving. [6]

- an increase in the money supply may increase spending (1)
- may increase the circular flow (1)
- spending may increase by more than output (1)
- too much money chasing too few goods (1) causing demand-pull inflation/monetary inflation (1)
- people may spend more now before prices rise (1) also less income may be available to save with higher prices (1)
- the rate of interest may rise by less than inflation (1) and so people will lose by saving (1)
- an increase in the money supply usually reduces the rate of interest (1) a lower interest rate reduces the incentive to save (1)

(d) Discuss whether price stability should be a government's main economic aim. [8]

Up to 5 marks for why it might:

- price stability is the avoidance of fluctuations in the price level
- price stability can lessen the chance of purchasing power being eroded (1) meaning people will be able to buy fewer goods and services with the same amount of money (1) protecting living standards (1)
- price stability can give firms confidence (1) this will encourage them to invest (1)
- price stability can give people confidence (1) this will encourage them to save (1)
- price stability can increase international competitiveness (1) improve the current account position (1)

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- price stability can discourage people and firms from acting in ways that will cause inflation (1) e.g. asking for wage rises (1)
- price stability can encourage MNCs to set up in the country (1) creating output and employment (1)
- price stability can benefit those on fixed incomes (1) as their purchasing power will not be eroded (1)
- price stability reduces menu costs (1) firms will not have to change prices so frequently (1)
- price stability lowers shoe leather costs (1) firms will not have to move money in search of the highest interest rate (1)

Note: candidates may approach this by examining the problems of inflation e.g. inflation may discourage MNCs setting up in the country.

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

- inflation can have benefits (1) may stimulate output (1) if demand-pull inflation (1) may reduce debt burden (1) may cut real wage bill (1)
- policy measures designed to reduce inflation may cause unemployment/slow economic growth (1) e.g. high interest rates may discourage spending and investment (1) lower demand (1)
- pursuing other aims may bring benefits (Up to 2 marks for identifying other aims). Up to 2 marks for developing another aim e.g. economic growth can create employment (1) raise living standards (1)
- what should be the main aim will be influenced by the level of economic activity (1) e.g. if unemployment is very high that may be causing significant problems (1)

**6 (a) Define ‘capital good’.** [2]

A human-made good (1) used to produce other goods and services (1) example e.g. machinery (1).

Note: do not accept money as an example.

**(b) Explain two reasons why a country’s export revenue might increase when export prices rise.** [4]

**One mark each for each of two reasons identified:**

- inelastic demand for exports
- fall in exchange rate
- increase in demand
- rise in investment
- removal of trade restrictions abroad
- inflation in other countries

**One mark each for each of two reasons given:**

- inelastic demand for exports would mean demand falling by less than the rise in price
- fall in exchange rate would make exports relatively cheaper
- demand may increase as a result of e.g. a rise in incomes abroad
- rise in investment may make exports more quality competitive
- removal of trade restrictions abroad may make exports cheaper in foreign markets
- prices may rise by more in other countries



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(c) Analyse how a government could increase the surplus on the country's current account of the balance of payments. [6]

- reduce the value of the currency (1) lower export prices (1) raise import prices (1) increase demand for exports (1) decrease demand for imports (1)
- impose trade protection (1) e.g. a tariff would increase the price of imports (1) which is likely to reduce the demand for imports (1)
- subsidise domestic output (1) lower price of exports (1) increase demand for exports (1) lower demand for imports (1)
- increase income tax (1) lower demand for imports (1) put pressure on domestic firms to export due to lower demand at home (1)
- improve education and training (1) raise productivity (1) cut costs of production (1) make domestic products more internationally competitive (1)
- reduce inflation (1) may make domestic products more internationally competitive (1)

(d) Discuss whether new airports should be built and operated by governments or the private sector. [8]

**Up to 5 marks for why governments should:**

- more likely to take into account social costs and benefits/welfare (1) will not base decisions just on private costs and benefits (1) will consider external costs and benefits (1) e.g. lowering pollution (1)
- a government may set price relatively low (1) in order to allow more people to use it (1) to lower costs for domestic firms (1) to increase international competitiveness (1)
- a government may have the finance available (1) tax revenue (1)

**Up to 5 marks for why the private sector should:**

- may be more efficient (1) keep costs low (1) quality high (1) due to the desire to make a profit (1)
- may have experience of building and operating an airport (1) increase efficiency (1)
- a government spending money on an airport involves an opportunity cost (1) if the private sector builds and operates an airport, the government can spend money on other areas (1)

7 (a) Identify two characteristics of a developed country. [2]

1 mark for **each** of **two** of the following e.g.:

- high GDP per head/high average income
- high living standards
- high life expectancy/low death rate
- high proportion of the labour force in the tertiary sector/low proportion in the primary sector
- low infant mortality rate
- high labour productivity
- high level of saving
- high investment
- high level of literacy
- low birth rate
- good infrastructure
- good healthcare

Note: do not accept high GDP.

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**(b) Explain two reasons why people may spend most of their income.** [4]

**One mark each for each of two reasons identified:**

- low income
- low interest rate
- may be confident about the future
- may be a lack of sound financial institutions in the country
- tax rates
- high cost of living/inflation/fear of inflation/ low prices

**One mark each for each of two explanations given:**

- buying basic necessities may take up most of the income of the poor
- low interest rate would mean it is not financially rewarding to save
- if people expect higher income in the future, they may start spending more now
- a lack of sound financial institutions in the country may mean that people may not have the ability or willingness to save
- high tax rates may mean low disposable income and so people have to spend a high proportion to buy necessities/cut in tax rates may allow people to spend a higher proportion of total income
- high cost of living/inflation would mean people would have to spend more to purchase products or fear of inflation may encourage people to spend more now or low prices may encourage people to spend more

**(c) Analyse how an increase in investment may increase a country's economic growth rate.** [6]

- higher investment adds to total demand (1) higher demand for capital goods will encourage the capital goods industry to produce more (1)
- higher investment can enable firms to take advantage of advanced technology (1) raise productivity (1) reduce costs of production (1) lower costs can reduce prices (1) lower prices can raise expenditure (1) this will encourage firms to raise output (1)
- higher investment in education/training (1) can raise labour productivity (1) increase productive capacity (1)
- higher investment in healthcare (1) can raise labour productivity (1) reduce absenteeism (1)
- higher investment on infrastructure (1) can facilitate greater production by lowering costs (1)
- higher investment can increase international competitiveness (1) raising demand for domestically produced products (1)
- higher investment will increase the amount of goods and services that can be produced (1) increasing productive capacity (1)

**(d) Discuss whether fiscal policy measures will reduce poverty.** [8]

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

- increased government spending on education and healthcare (1) can raise people's skills (1) increase their opportunity to gain employment (1) raise earning potential (1) this may be financed by increased taxation (1)
- increased government spending will add to total demand (1) this will encourage firms to produce more (1) increasing employment (1)

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- increased government spending on benefits (1) can raise the income of some of the poor (1) increase ability to buy basic necessities (1)
- lower indirect taxes (1) will provide the poor with the opportunity to buy more products (1)
- lower direct taxes (1) may increase consumer expenditure and investment (1) creating job opportunities (1) increase incentive to work (1)
- government subsidies (1) may lower prices faced by the poor (1) increase output (1) create jobs (1)

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

- increased government spending and lower taxes may benefit the rich more (1) this will increase relative poverty (1)
- reduced government spending may lower demand (1) reduce output (1) increase unemployment (1)
- increased taxation may lower demand (1) reduce spending power of the poor (1) may act as a disincentive to work (1).
- expansionary fiscal policy can cause inflation (1) this can reduce the purchasing power of the poor (1)