Cambridge Assessment International Education

Cambridge IGCSE™

ECONOMICS **0455/22**

Paper 2 Structured Questions **March 2021**

MARK SCHEME

Maximum Mark: 90

Published

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

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

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the March 2021 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6: Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

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3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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PREPARATION FOR MARKING

1 Make sure that you have completed the relevant training and have access to the *RM Assessor Guide*.
2 Make sure that you have read and understand the question paper, which you can download from https://support.rm.com/ca
3 Log in to RM Assessor then mark and submit the required number of practice and standardisation scripts. You will need to mark the standardisation scripts to the required accuracy in order to be approved for marking live scripts. You may be asked to re-mark them, or to mark a second sample, if you do not meet the required accuracy on your first attempt.

MARKING PROCESS

1 Mark strictly to the FINAL mark scheme, applying the criteria consistently and the general marking principles outlined on the previous page.
2 If you are in doubt about applying the mark scheme, consult your Team Leader.
3 Mark at a steady rate through the marking period. Do not rush, and do not leave too much until the end. If you anticipate a problem in meeting the deadline, contact your Team Leader immediately and the Examiners' Helpdesk.
4 Examiners will prepare a brief report on the performance of candidates to send to their Team Leader via email by the end of the marking period. The Examiner should note strengths seen in answers and common errors or weaknesses. Constructive comments on the question paper, mark scheme or procedures are also appreciated.

MARKING SPECIFICS

Crossed out work

1 All a candidate's answers, *crossed out* or not, *optional* or not, must be marked.
2 The only response not to be marked is one that has been crossed out and replaced by another response for that exact same question.
3 Consequently, if a candidate has crossed out their response to an optional question and gone on to answer a different optional question then both attempts must be marked. The higher mark will be awarded by the system according to the rubric.

0 (zero) marks or NR (no response)

1 Award **NR** if there is nothing at all written in answer to that question (often the case for optional questions).
2 Award **NR** if there is a comment which is not an attempt at the question (e.g. 'can't do it' or 'don't know' etc.)
3 Award **NR** if there is a symbol which is not an attempt at the question, such as a dash or question mark.
4 Award **0** (zero) if there is any attempt at the question which does not score marks. This includes copying the question onto an Answer Booklet.

Annotation

1 Every question must have at least one annotation e.g. <NAQ> if it is an NR and <X> or <seen> if 0 marks are awarded.
2 Every mark awarded for a question (as shown in the mark input box to the right of the screen) must be indicated by a correctly positioned tick on the script. The number in the box below the tick annotation must be equal to the mark awarded in the input box.
3 Every page of a script must have at least one annotation e.g. <BP> for a blank page

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Question	Answer	Marks	Guidance
1(a)	**Calculate the number of Germans aged over 65 in 2017.** 17.82m / 17 820 000 (1).	**1**	Accept 17.8 m and 18 m.
1(b)	**Identify <u>two</u> measures of living standards.** Two from: • GDP per head / average income • HDI • quality of education / education	**2**	If more than two are given, consider the first two.
1(c)	**Explain <u>one</u> cause of globalisation.** Fall in transport costs (1) reducing costs of exporting and importing / increasing international trade (1). Improvement in communications (1) due to advances in technology / increasing growth in MNCs / encouraging consumers to buy from other countries / enabling branches in different countries to keep in touch (1).	**2**	One mark for the cause identified and one mark for the explanation.
1(d)	**Explain <u>two</u> advantages of an increase in the occupational mobility of labour.** Logical explanation which might include: Lower unemployment / increase employment (1) workers losing one job will find another job more quickly / find another job more easily / maybe more skilled / reduce frictional unemployment / reduce structural unemployment (1). Higher output / higher GDP / economic growth (1) firms experiencing higher demand will be able to expand more quickly / more elastic supply / quicker adjustment to changes in market conditions / workers may be able to multitask / change roles / may be more skilled / fewer unfilled vacancies / greater use of resources / fewer idle resources (1).	**4**	One mark each for each of two advantages identified and one mark each for each of two explanations. Do not credit ‘more skilled’ more than once.

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Question	Answer	Marks	Guidance
1(e)	**Analyse why the price of German luxury cars may have increased in 2018.** Coherent analysis which might include: Increase in demand (1) rise in incomes (1) people buy more luxury cars as they get richer / luxury cars become more affordable (1). rise in price of US luxury cars (1) these are substitutes to German luxury cars (1). Fall in the price of petrol / gas (1) petrol / gas is a complement to cars (1) firms can raise revenue / profits by increasing price (1). Decrease in supply (1) rise in wages (1) increasing costs of production (1).	**4**	

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Question	Answer	Marks	Guidance
1(f)	**Analyse whether the strength of German trade unions increased from 2013–2016.** Coherent analysis which might include: Overview Trade union membership fell (1) unemployment fell and / or wages rose (1). Analysis of why trade union strength may have fallen Trade union members represented a smaller proportion of labour force / proportion fell from 42.7% to 39.3% / number of members fell by approx. 5.6% (1). Fewer members so funds of / subscriptions to trade unions may have fallen (1) reduces ability to take industrial action / reduces collective bargaining strength (1). Lower unemployment / higher wages may mean workers feel less need to join a union (1). Analysis of why trade union strength may have increased Lower unemployment / higher wages may be the result of successful collective bargaining (1) firms would have found it more difficult to replace members asking for better wages / better working conditions / firms may be reluctant to dismiss staff (1) industrial action would have more effect / collective bargaining power may be stronger (1). Output / profits / demand for products may have increased (1) Comments. Other factors may have influenced trade union power e.g. government trade union legislation (1). Other factors may have influenced wages / unemployment e.g. national minimum wage / higher output /more skilled labour force (1).	**5**	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>1(g)</td><td>Discuss whether or not an ageing labour force will reduce productivity.

Award up to 4 marks for why it might:
May discourage investment (1) workers will have less capital equipment to work with (1).
Older workers may find it more difficult to adapt to new technology (1) may resist change (1) there may not be the time to train them (1) may be less mobile (1).
Older workers may be less fit (1) less able to do manual work (1) may have time off sick (1) may have less energy / get tired (1) work slower (1).
Award up to 4 marks for why it might not:
May encourage investment because of shortage of workers / desire to rely less on labour / help workers (1).
Older workers may have more experience (1) built up more skills / qualifications (1) may need less training / have received more training (1) may train young workers (1) make fewer mistakes / produce better quality output (1).
May be more reliable (1) e.g. better punctuality (1).
May stay with the employer longer / lower rate of labour turnover (1).</td><td>6</td><td>Apply this example to all questions with the command word DISCUSS
(1g, 1h, 2d, 3d, 4d and 5d)
Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is rewarded.

<table><tr><th>Generic example</th><th>Mark</th></tr><tr><td>Tax revenue may decrease…</td><td>1</td></tr><tr><td>...because of reason e.g. incomes may be lower.</td><td>1</td></tr><tr><td>Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument.</td><td>0</td></tr><tr><td>Tax revenue may increase because of a different reason i.e. <u>not</u> the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education.</td><td>1</td></tr></table></td></tr>
</table>

Question	Answer	Marks	Guidance
1(h)	**Discuss whether or not immigration will increase a country's budget surplus.** **Award up to 4 marks for reasons why it might:** • May increase size of the labour force (1) quality of the labour force may rise (1) employment may rise (1) more people with incomes (1) higher tax revenue (1) more income tax / direct tax revenue (1) more spending / higher total demand (1) more indirect tax revenue (1) higher profits may increase corporate tax revenue (1). **Award up to 4 marks for reasons why it might not:** • Some immigrants may be dependents (1) some may be unemployed (1) increase government spending on state benefits / unemployment benefits (1) pensions (1). • The government may have to spend more on education (1) healthcare (1) housing / infrastructure (1). • Labour force / population may not increase if matched by emigration (1), • Larger population size may result in the government having to spend more on measures to reduce pollution (1).	**6**	Increase in the size of the labour force linked to why it might.

Question	Answer	Marks	Guidance
2(a)	**Define *economic growth.*** An increase in the country's / economy's output (2). An increase in real (1) GDP (1) over time (1). An increase in output (1). An increase in a country's / economy's productive capacity (2). An increase in productive potential (1).	**2**	Allow one mark for higher income / average income / GDP per head.
2(b)	**Explain the possible opportunity cost to India of exporting more textiles.** Logical explanation which might include: Opportunity cost is the (next) best alternative (1) forgone (1). Textiles that have been exported might have been sold on the home market (1) may have increased choice (1) lowered price (1). Resources may have been moved to producing the textile exports / resources used to produce textiles could have been used to produce other products (1) output / exports of other products may have been reduced (1) these products may provide more revenue / lose revenue from not exporting these products (1).	**4**	

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Question	Answer	Marks	Guidance
2(c)	**Analyse how higher government spending could increase economic growth.** Coherent analysis which might include: Higher government spending can increase total (aggregate) demand / government spending is a component of GDP (1). Higher government spending on education and training / healthcare / infrastructure (1) can raise productivity / skills / efficiency / quality of labour (1) attract MNCs (1) increase productive potential (1) lower costs of production (1) increase employment / reduce unemployment (1) lower prices (1) increase output (1) increase exports (1). Government spending on benefits (1) will increase purchasing power of the poor (1) raising consumer expenditure (1). Increased government subsidies (1) could reduce costs of production (1) increase investment (1) increase profits (1) provide an incentive for firms to produce more (1).	**6**	A maximum of 3 marks for a list-like approach.

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<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>2(d)</td><td>Discuss whether or not a government can reduce unemployment without increasing inflation.

In assessing each answer, use the table opposite.

Why it might:
• workers who have been unemployed for some time may accept jobs without a rise in wages
• government spending on education and training may increase both total (aggregate) demand and total (aggregate) supply / may reduce costs of production
• government subsidies may encourage firms to produce more and take on more workers and lower prices
• tax revenue may be raised to finance any increase in government spending
• government may reduce trade union power which could encourage employers to take on more workers

Why it might not:
• may increase total (aggregate) demand causing demand-pull inflation
• inflation more likely to occur if economy is initially close to full employment
• may increase wages and costs of production, causing cost-push inflation
• cuts in taxes may not lead to higher consumer expenditure and investment if there is a lack of confidence
• government may instruct central bank to lower foreign exchange rate which could increase price of imports</td><td>8</td><td>
<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td><td>6–8</td></tr>
<tr><td>2</td><td>A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td><td>3–5</td></tr>
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<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>2(d)</td><td>Example of L3 Answer
Yes, a government can reduce unemployment without increasing inflation. If the government spends money on training and education more people would be skilled enough to do jobs and firms would hire more people due to the return from greater productivity. This would also increase the productive potential of the economy as it would enable firms to produce more goods per worker. Hence unemployment could reduce without inflation as it would be accompanied with an increase in the productive potential of the economy and greater output. Also, if there is spare capacity in the economy due to under-utilisation of resources, the increased income due to lower unemployment would not lead to inflation as there would be room for better, more efficient utilisation of resources. Hence a rise in the price level can be avoided by greater productive potential.
However, if the economy is operating close to full capacity, a reduction in unemployment could cause inflation if the rise in income and the money supply rise is greater than the increase in productive potential, Government spending to reduce unemployment might cause a much greater rise in total demand. This could lead to demand-pull inflation. It may also lead to cost-push inflation if the unemployment rate is so low firms have to compete for workers leading to a wage-price spiral. Workers tend to take up a greater proportion of costs of firms. Hence scarcity of workers could cause the costs of firms to greatly increase and so the total supply would reduce leading to cost-push inflation.</td><td></td><td><table><tr><th>Level</th><th>Description</th><th>Marks</th></tr><tr><td>1</td><td>There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td><td>1–2</td></tr><tr><td>0</td><td>A mark of zero should be awarded for no creditable content.</td><td>0</td></tr></table></td></tr>
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Question	Answer	Marks	Guidance
2(d)	Example of an L2 answer *Yes, the government can reduce unemployment without increasing inflation by using supply-side policy measure. This includes providing education and training to workers. Due to this the efficiency of workers who will be able to produce better quality goods in large amount reducing the average costs to the firm. This will also help in reducing the selling price or keeping it the same which might not cause inflation. Although if using measures like expansionary fiscal or monetary policy will raise the demand for workers, offering them higher wages could add to firms' average cost hence selling price might increase, causing inflation. Also, by using supply-side policy measure the improved skills and productivity will want them to charge higher wages to hire them. This will increase the average cost and the selling price of the firm, causing inflation.* Example of an L1 answer *Yes government can reduce unemployment without increasing inflation by attracting more MNCs. By keeping policies such as this, the amount of people you have to employ is increased. By providing subsidy of jobs, providing financial help to firms which are in a loss so that they can reduce the chances of increasing the rate of inflation when employing more workers.*		

Question	Answer	Marks	Guidance
3(a)	**Identify <u>one</u> difference between land and labour.** Land is a natural resource (1) labour is a human resource / people (1). Reward for land is rent (1) reward for labour is wages (1). Land is likely to be more geographically immobile than labour (2). Land may be more occupationally mobile than labour (2). Land may be in more fixed supply / scarcer than labour (2).	**2**	For human resource / people not accepting workers. Accept raw materials for natural resource,
3(b)	**Explain <u>two</u> reasons why demand for a product may be price-inelastic.** Logical explanation which might include: Lack of close substitutes (1) not able to switch to other products if the price of the product rises (1). A necessity (1) difficult to do without (1). Takes up a small part of income (1) change in price will not be significant (1). Addictive (1) people find it difficult to stop consuming it (1). New trend (1) brand loyalty being enforced by advertising (1). Time / short period of time (1) may take time to find an alternative (1).	**4**	One mark each for each of two reasons identified and one mark each for each of two explanations.

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Question	Answer	Marks	Guidance
3(c)	**Analyse why households in one country may borrow more than households in another country.** Coherent analysis which might include: A lower interest rate (1) reduces the cost of borrowing (1). Financial institutions may have more funds available to lend in one country (1) making it easier to borrow (1). Households / financial institutions may be more confident that they can repay (1) employment / income may be rising in one country (1). Borrowing may be more socially acceptable in one country (1) people may not mind getting into debt (1). Younger households (1) may be less worried about debt (1). Rise in unemployment / fall in GDP / recession in one country / lower income (1) may result in borrowing to buy basic necessities (1). Inflation (1) borrowers will gain if the rate is higher than the rate of interest (1).	**6**	Accept an approach that analyses why households in the other country borrow less. A maximum of 3 marks for a list-like approach. This might be in the form of e.g. lower, interest rate, more confidence and more culturally acceptable to borrow. Or In the form of e.g. difference in interest rates, differences in confidence, differences in cultural acceptability of borrowing.

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<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>3(d)</td><td>Discuss whether or not a government should encourage more people to cycle.

In assessing each answer, use the table opposite.

Why it should:
• reduce external costs
• improve the environment
• improve people’s health
• reduce traffic congestion
• may reduce need to import petrol

Why it should not:
• may involve costs e.g. building cycle paths
• may result in unemployment in car industry
• may lead to more imports of bicycles
• market forces will result in the most efficient allocation of resources

Example of an L3 answer
External benefits are benefits enjoyed by the third party who are neither involved in production or consumption of goods and services. The private benefit of cycling, enjoyed by cyclists, is their fitness will increase. But government can enjoy a more healthy labour force which means it can result in better quality of goods and services, which can be exported to increase export revenue. Moreover, cycling increases fitness, which could also mean that the government will not have to spend more on healthcare. This finance can be used somewhere else, like infrastructure. Lastly, increased cycling would mean that pollution levels will decrease, which not only promotes sustainability, but also reduces external costs such as traffic and noise.</td><td>8</td><td>
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<tr><td>3</td><td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td><td>6–8</td></tr>
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Question	Answer	Marks	Guidance
3(d)	*However. If cycling is promoted, the government will have to build cycling parks and parking, increasing the costs and opportunity cost as same money could be used for retraining and reskilling. In addition, if the land is used for cycling parks, opportunity cost will be high as land is scarce, and it could be used for housing. Finally, since cycles are 2-wheelers, they are less safe than cars. So, chances of accidents rises. This means the government will have to spend more on healthcare, which can reduce a budget surplus. Less cars may be bought and lower car production could increase unemployment.* Example of an L2 answer *If people in Netherlands buy cycles to commute, external costs such as pollution will be lower which means people will fall less ill and less money will be needed for healthcare. Lower pollution in a country means that tourists might also be attracted. If more people bought cycles in a country like Netherlands there will be less congestion on roads which might improve productivity.* *However, if the government does encourage cycling, it means that they will also have to spend building leisure parks and bike paths across the country which might outweigh costs such as pollution. Sale of low-priced cycles means that the government might also generate less indirect tax e.g. VAT, decreasing the surplus of the government.* Example of an L1 answer *They should as cars are polluting the world. If people are riding bikes it is good for their health and there will be fewer accidents and they will lose weight. But the government will have to build cycle parks and this will cost money.*		<table><tr><th>Level</th><th>Description</th><th>Marks</th></tr><tr><td>1</td><td>There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td><td>1–2</td></tr><tr><td>0</td><td>A mark of zero should be awarded for no creditable content.</td><td>0</td></tr></table>

Question	Answer	Marks	Guidance
4(a)	**Identify <u>two</u> qualities of a good tax.** Two from: • certainty / easy to understand / people know how much to pay • convenience / easy to pay • economy / cheap to collect • efficiency / not harm performance of markets • equity / fair / based on ability to pay • flexibility / easy to change	**2**	
4(b)	**Explain <u>two</u> reasons why governments tax cigarettes.** Logical explanation which might include: To raise revenue (1) demand for cigarettes is price-inelastic / smoking is addictive / to spend on e.g. education (1). To discourage consumption / to discourage production (1) they are a demerit good / cigarettes are more harmful than smokers realise / they cause health problems (1). To reduce external costs / they create external costs (1) impose a cost on third parties / cause pollution / health problems for non-smokers (1). To improve the current account position (1) cigarettes may be imported (1).	**4**	One mark each for each of two reasons identified and one mark each for each of two explanations.

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Question	Answer	Marks	Guidance
4(c)	**Analyse how a central bank could reduce inflation.** Coherent analysis which might include: A central bank could use contractionary monetary policy (1). A central bank could increase the rate of interest (1) increase saving (1) reduce borrowing (1) reduce consumer expenditure (1) reduce total (aggregate) demand (1) reduce demand-pull inflation (1). A central bank could reduce the money supply (1) print less money / sell government bonds (1) restrict bank lending (1) fewer loans may reduce investment (1) reduce consumer expenditure (1). Raising the exchange rate (1) may reduce the price of imports (1) lowering cost-push inflation (1). One effect of a lower interest rate might be to lower costs of production (1) reduce cost-push inflation (1).	**6**	Accept but do not expect reference to increasing reserve / liquidity ratio (1). Maximum of 3 marks for a list-like approach.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>4(d)</td><td>Discuss whether or not an increase in government subsidies will reduce a deficit on the current account of the balance of payments.

In assessing each answer, use the table opposite.

Why it might:
• reduce costs of production
• lower prices, making products more internationally competitive
• export revenue may rise
• import expenditure may fall

Why it might not:
• firms may not lower prices
• firms may be encouraged to be inefficient
• demand for exports may not rise if quality is poor
• demand for exports and imports may be price-inelastic
• other countries may retaliate by imposing trade restrictions / giving subsidies
• subsidies to consumers can increase demand for imports and divert exports to the home market
• subsidies to producers may increase demand for imports of raw materials and capital goods

Example of an L3 answer
An increase in government subsidies would reduce a deficit in the current account of the balance of payments as domestic firms could use the subsidy to lower the price of its goods, improve quality and hence make its products more internationally competitive. This would increase exports of the country’s products. It would also reduce imports as citizens would substitute the imported products with the more competitive domestically made goods.</td><td>8</td><td>
<table>
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<tr><td>3</td><td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td><td>6–8</td></tr>
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Question	Answer	Marks	Guidance
4(d)	*The increased government subsidies may also allow firms to make more profits and households to save more. The profits and extra savings may be invested abroad. This would increase the primary income on return on investments would come from abroad back to the home country. This would also reduce a current account deficit.* *On the other hand, government subsidies may not reduce the current account deficit if domestic industries become dependent on them and don't actually improve their methods of production and lower costs. This would not make their products more internationally competitive and demand for exports would not increase. It may not also improve the deficit in the short run if firms use the subsidies to import raw materials and capital goods from abroad. However, on the long run it would lead to better products and lower pricing, making the products of domestic firms more internationally competitive.* Example of an L2 answer *Current account deficit means import expenditure is more than export revenue. This happens when export prices are higher than import prices. Providing subsidies to producers can cause them to lower prices and export more. It can also increase firms' confidence and they may invest more. However, sometimes subsidy may increase imports. A subsidy may make firms more inefficient and produce lower quality products. The subsidy may also be given to firms making products not in demand and so the firms will not have the potential to grow.* Example of an L1 answer *Government subsidy refers to an incentive provided by the government to producers. Governments can reduce deficit on the current account of the balance of payments by increasing the total supply, it will also result in an increase in GDP and promote economic growth.*		<table><tr><th>Level</th><th>Description</th><th>Marks</th></tr><tr><td>1</td><td>There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td><td>1–2</td></tr><tr><td>0</td><td>A mark of zero should be awarded for no creditable content.</td><td>0</td></tr></table>

Question	Answer	Marks	Guidance
5(a)	**Define *a mixed economic system*.** One with a public / government sector (1) and a private sector / use of market forces (1) One which makes use of the price mechanism (1) and government directives (1).	**2**	
5(b)	**Explain the difference between a point inside a PPC and a point outside a PPC** Logical explanation which might include: A point inside indicates unemployed resources (1) inefficient use of resources / wasted resources (1) output is below potential output (1) an attainable point (1). A point outside is unattainable (1) not enough resources / beyond productive potential / only achievable with more resources / only achievable with better quality resources / not achievable with current resources / will be possible with future economic growth (1).	**4**	Maximum of 2 marks for point inside and a maximum of 2 marks for point outside.

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Question	Answer	Marks	Guidance
5(c)	**Analyse why an actor may decide to become a teacher.** Coherent analysis which might include: Wage rate may be higher (1) enable more goods and services to be purchased (1) higher living standards (1) demand for teachers may increase (1). Greater job security (1) actors often experience frictional/casual unemployment (1). More sociable/convenient working hours (1) may fit in more with having children (1) teachers may also enjoy longer holidays (1). Working conditions may be better (1) may be a safer environment (1) may have better pensions (1). May find they are better qualified / suited to be a teacher (1) more likely to be successful in the career (1). May gain more job satisfaction (1) enjoy helping children learn (1).	**6**	Maximum of 3 marks for a list-like approach.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>5(d)</td><td>Discuss whether all monopolies have low costs of production.

In assessing each answer, use the table opposite.

Why some have:
• may earn high profits and so may have incentive to reinvest
• may be small e.g. a local monopoly / low total costs
• may be large and so may experience economies of scale
• state-owned monopolies may be subsidised

Why some do not:
• lack of competition may reduce pressure to keep costs low
• may be small so do not benefit from economies of scale
• may be large so experience diseconomies of scale / high average costs
• may be producing in a country with a high inflation rate

Example of an L3 answer
Monopolies are firms that dominate the market for a particular product. They supply 100% of the market and usually there are no substitutes to the product it supplies. There is no competition for a monopoly.
A monopoly may not have a low cost of production as it may allocate resources inefficiently. Monopolies do have any competition as they may simply produce low quality products and earn large profits without working hard to lower costs of production.</td><td>8</td><td>
<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td><td>6–8</td></tr>
<tr><td>2</td><td>A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td><td>3–5</td></tr>
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<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>5(d)</td><td>A monopoly will usually require a large scale of production to operate and may soon grow too large and face diseconomies of scale. It may have supply constraints pushing up the cost of production. It may be subject to labour diseconomies as the workers feel alienated in such a large enterprise leading to extra cost of labour disputes. All this could promote increased costs of production. Furthermore, governments may implement regulations that the monopoly must rigidly follow increasing the cost of production at each step.
However, monopolies may be able to maintain a low cost of production as it grows. It can benefit from economies of scale. The advertising cost will be spread over a large base, lowering costs. Banks will provide loans easily due to available collateral and suppliers will also reduce costs as they can deliver bulk orders lowering their transport costs. These internal economies of scale help monopolies keep low costs of production.
Monopolies may invent new production methods, technologies and invest in R & D to keep their costs low to compete with international firms. They may also try to be efficient if there are high fines or high taxes in the economy.

Example of L2 answer
Monopolies might have low cost of production since the benefit from greater economies of scale such as purchasing economies which means buying in bulk and receiving discounts from the supplier. Another economies of scale could be technical economies which is investing with more capital goods, increasing the productive capacity and reducing average cost.</td><td></td><td>
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Question	Answer	Marks	Guidance
5(d)	*Although having higher economies of scale, there may be diseconomies of scale like managerial diseconomies, which means firms having problems in management of the company, which means firms having problems in management of the company, this will reduce productivity and hence increasing cost of production. Another diseconomy could be communication problems which might occur between the entrepreneur, the workers and the managers.* Example of an L1 answer *Monopolies are single firms where they don't have any other competitors. They might lose money often because it is very tough job to run a monopoly company. They could have low cost of production because if they produce more the price might be the same but if the consumers doesn't want the products would go to waste.*		