UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIO

International General Certificate of Secondary Education

MARK SCHEME for the May/June 2011 quest

for the guidance of teachers

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.

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

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

Cambridge is publishing the mark schemes for the May/June 2011 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 **(a)** An entrepreneur is a person who organises the other thr decisions (1) and, in doing so, takes a risk (1).

(b) Main functions of a stock exchange:
- it helps companies sell their stocks or equities
- this helps them to raise finance
- it helps the public buy such stocks
- this buying and selling of shares through the stock excha
- it provides an indicator of how generally an economy is d

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

(d) Possible financial incentives:
- a tax break/holiday
- a lower rate of tax, e.g. Corporation Tax
- a grant
- provision of infrastructure. [4]

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

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

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

2 **(a)** A subsidy is:

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

(b) Diagram:

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

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

(c)

- what to produce?
- how to produce?
- for whom to produce? [3]

(d) Advantages of a market economy:

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

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

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

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

3 **(a)** Factors affecting the demand for a product:

- the price of the product
- the price of substitute goods/services
- the price of complementary goods/services
- changes in income
- changes in tastes and preferences of consumers
- the impact of an advertising campaign.

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

(b) Explanation of PED:

- percentage change in the quantity demanded of a good or service divided by the percentage change in the price of the good or service
- different values from perfectly elastic, through elastic, unitary elastic, inelastic to perfectly inelastic
- explanation of mathematical figures for these from 0 to infinity. [6]

(c) Potential usefulness:

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

Application:

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

Answers which discuss the potential usefulness of PED to firms in general, making no reference at all to magazines, can gain no more than 5 marks. [8]

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

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

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

(b) This will depend on:

- experience
- skills
- training
- promotion.

A maximum of 3 marks if a candidate states that it is always true. [4]

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

- collective bargaining to improve pay
- working on behalf of members in terms of working conditions, pension entitlement
- protecting the rights of members, e.g. in a legal dispute
- acting on behalf of members in discussions with government. [4]

(d) Potential disadvantages:

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

Potential advantages:

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

A maximum of 4 marks if entirely one-sided. [6]

5 **(a)** Sole proprietor:
- unlimited liability
- may be difficult to raise finance
- the business is owned by one person only, so decision-m
- requires a lot of skills from one person.

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

(b) Possible reasons:
- to gain more finance as shares can be issued to more people
- shares are advertised and sold publicly
- there is an unlimited number of shareholders
- they can be quoted on the stock exchange
- this should enable the business to grow
- this would enable the firm to benefit from economies of scale. [6]

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

External growth:
- horizontal integration
- vertical integration
- conglomerate integration.

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

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

Diseconomies of scale:
- internal, e.g. poor communications, low morale
- external, e.g. congestion, higher transport costs.

Advantages of small firms:
- cater to tastes and preferences of consumers
- greater flexibility.

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

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

6 **(a)** Inflation can be defined as a persistent/sustained (1) increas
level of prices (1) over a given period of time (1). An answer
the purchasing power of money can gain no more than 2 mar

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

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

(c) Demand-pull inflation:
- too high a level of demand in the economy
- supply unable to meet demand. [4]

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

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

Not such a problem:
- could lead to higher profits for firms
- may encourage firms to expand
- borrowers may benefit.

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

7 **(a)**
- changes in real (1) GDP (1) per capita (1)
- changes in the Human Development Index which is m living (real GDP per capita), one-third longevity (li knowledge (adult literacy and mean years of schooling).

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

(c) Possible policies in relation to:
- fiscal policy
- education
- housing
- minimum wage
- health/diet
- increased food production
- irrigation
- sanitation
- birth control
- aid
- change in balance of industrial sectors.

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