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

0455/21 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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