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

0455/22 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]

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