CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2012 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.

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.

CAMBRIDGE
International Examinations

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:
- percentage change in the quantity demanded of a product/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]

© Cambridge International Examinations 2012

(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:

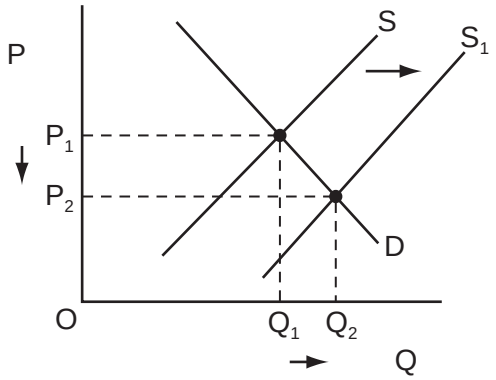
- the size of the population
- the age structure of the population
- unemployment in similar industries frees labour for this industry
- change in relative wage rates between industries
- the retirement age
- the school leaving age
- attitudes to working women
- the average number of hours worked
- the 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]

© Cambridge International Examinations 2012

(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]

© Cambridge International Examinations 2012

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]

© Cambridge International Examinations 2012

(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]

© Cambridge International Examinations 2012

(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]

© Cambridge International Examinations 2012

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]

© Cambridge International Examinations 2012

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]

© Cambridge International Examinations 2012

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 2012