CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2012 series

0455 ECONOMICS

0455/32 Paper 3 (Analysis and Critical Evaluation), maximum raw mark 40

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.

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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.

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1 (a) (i) 1 mark each for each of two reasons stated e.g. more skilled, having greater bargaining power, more qualified, higher productivity, in higher demand, in lower supply, working in expanding industries, in promoted position, gender. [2]

(ii) 1 mark for men earned more than women in Japan.
1 mark for women earned more than men in Costa Rica.
1 mark for a wider pay differential in Japan than in Costa Rica. [2]

(b) 1 mark each for two costs identified:
- low life expectancy
- low labour productivity
- social division
- lack of basic necessities
- malnourishment
- children not finishing primary school
- lack of clean water
- lack of electricity.

1 mark for each explanation, e.g.:
- people who live in poverty may not enjoy good health
- people living in poverty are likely to receive less education and training and be less skilled/low labour productivity means low output per worker/worker hour
- the poor will not be able to enjoy the lifestyle of the rich/there may be social unrest
- the poor may not have access to adequate housing, food and clothing
- malnourishment may shorten life expectancy/reduce earning capacity
- children not finishing school will hinder their employment/earning opportunities
- lack of clean water will lead to diseases/reduce life expectancy
- lack of electricity reduces living standards. [4]

(c) (i) 1 mark for generally a direct relationship/countries with a high proportion of people living in poverty on MPI measure also have a high proportion living on less than $1.25.
1 mark for recognising that countries' figures on the MPI measure are not always higher than their figures on the income measure.
1 mark for exception(s) – Sierra Leone, Uzbekistan and/or Pakistan.
1 mark for recognising that only seven countries are shown so it difficult to draw a firm conclusion. [2]

(ii) 1 mark each for each of two reasons from:
- a lack of malnourishment/good nutrition
- children finishing primary school/better education
- access to clean water
- access to electricity.

Also allow low child mortality, good sanitation, non-dirt floors, good cooking fuel, ownership of consumer assets. [2]

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(d) Up to 5 marks why it might, e.g.:

- an increase in government spending on health care, result in workers being healthier, lose fewer days' work through illness, increase productivity, increase earnings
- an increase in government spending on education can increase skills/productivity, increase employment chances, raise wages
- an increase in government spending on benefits for the poor, raise their income, enable them to gain access to basic necessities
- an increase in government spending can raise total (aggregate) demand, increase employment opportunities, enable some of the poor to earn an income
- government spending on infrastructure/subsidies to firms, which can reduce firms' costs, encourage firms to expand, raise employment opportunities.

(Note: all 5 marks can be gained by commenting on one factor.)

Up to 5 marks for why it might not, e.g.:

- an increase in government spending may be on areas that do not benefit the poor e.g. repaying debt
- spending on education may not raise the skills of workers, the education may be of a poor quality, may be in areas that will not be in demand in the future, those educated may emigrate
- the increase in government spending may be too small to have much effect, may be offset by e.g. a fall in consumer expenditure
- an increase in government spending may raise total (aggregate) demand, cause inflation, higher prices may make it more difficult for the poor to buy basic necessities
- the increase in government spending may be matched by an increase in taxation, total demand may not change, impact on poverty will be influenced by whether progressive or regressive taxes are raised.

(Note: all 5 marks can be gained by commenting on one factor.)

Up to 4 marks for a list-like response. [8]

(2) (a) 1 mark each for each of two from:

- wages
- washing bed clothes
- buying food.

Note: if more than two costs are identified, mark the first two. [2]

(b) 1 mark for definition or formula of price elasticity of demand.
1 mark for it indicates elastic demand.
1 mark for this is because the figure is greater than 1 (ignoring the sign).
1 mark for indicates demand changes by a greater percentage than price/very responsive to change in price.
1 mark for it means e.g. a 10% change in price will lead to a 15% change in quantity demanded.
1 mark for price and total revenue move in opposite directions.
1 mark for negative sign shows price and demand move in opposite directions/price and demand move in opposite directions. [4]

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(c) 1 mark for each of two reasons identified:
- spending on advertising
- rival airlines increasing their prices
- lower hotel prices in Dubai
- more flights available.

1 mark for each of two explanations:
- a successful advertising campaign will attract new consumers and/or may encourage existing consumers to buy more
- consumers may switch to a substitute, in the form of another airline
- lower hotel prices will make holidays cheaper/hotel accommodation and flights are complementary goods
- flights may increase the flexibility of air travel/increase destinations/raise supply and so lower price. [4]

(d) 1 mark for recognising there are barriers to entry/not easy to enter the market.
1 mark for providing evidence of barriers to entry – shortage of landing slots.
1 mark for recognising there is a degree of brand loyalty.
1 mark for providing evidence of brand loyalty – reluctance to switch to new airlines.
1 mark for recognising there is a lack of information about market conditions.
1 mark for providing evidence of lack of information – not aware of price differences.
1 mark for some firms have a larger share of the market than others.
1 mark for providing evidence of some airlines having market power/gaining market power – e.g. Delta Airlines carried 105m passengers/merger taking place.
1 mark for recognising airlines are price makers and not price takers.
1 mark for providing evidence – Emirates/other airlines in the region changed prices. [4]

(e) Up to 4 marks for commenting on the possible benefits of the merger for passengers, e.g.:
- larger firm and so more able to take advantage of economies of scale, example/s of economies of scale [*credit best example*], and so may lower prices and raise quality
- may make larger profits, reinvest, improve quality
- may reduce wasteful duplication, e.g. flying two planes instead of three planes with empty seats, reduce costs, lower prices
- enable passengers to fly to more destinations, through ticketing.

(Note all 4 marks can be gained by commenting on one benefit.)

Up to 4 marks for commenting on possible disadvantages e.g.:
- risk of higher prices because of greater market power
- may experience diseconomies of scale, example/s of diseconomies of scale [*credit best example*], raise costs, increase prices
- lower competition may reduce quality, lack of incentive to innovate
- may concentrate on more profitable routes, reduce number of flights, reduce number of destinations.

(Note all 4 marks can be gained by commenting on one disadvantage.)

Up to 4 marks for a response that is not clearly linked to how air passengers would be affected.
Up to 3 marks for a list-like approach. [6]

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