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ECONOMICS **0455/22**

Paper 2 Structured Questions **October/November 2016**

MARK SCHEME

Maximum Mark: 90

Published

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1 (a) Using information from the extract, explain how the Mints illustrate the economic problem. [2]

What people would like to consume/wants (1) exceeding the maximum output the countries are capable of producing (1).

Note. no marks for just a definition of the economic problem.

(b) Calculate how many children were born in Turkey in 2014. [2]

1 275 000 or 1.275m (2).

Correct working: 17 × 75m/1000 or version of 1275 (1).

(c) Using information from the extract, explain two reasons why the earnings of workers in Nigeria are likely to increase. [4]

1 mark for each of 2 reasons identified and 1 mark for each of 2 explanations.
Rising productivity (1) workers being able to produce more per hour/will become more attractive to employers (1).
More MNCs setting up in the country (1) may increase demand for labour/may pay higher wages than domestic producers (1).
Expanding markets (1) higher demand for products leads to higher demand for labour (1).
Inflation (1) workers may press for wage rises to keep up with inflation (1).

(d) Explain whether the extract suggests that Mexico operates a market economic system or a mixed economic system. [3]

A mixed economy (1).
Has private sector and public sector firms (1).
Health care is provided by both the public and private sector (1).
The government intervenes in the economy in the form of monetary policy (1).

Note. 1 mark for identifying mixed economy. Up to 2 marks for relevant evidence on factors that influence the type of economic system.

(e) Analyse how the change in Indonesia's exchange rate in 2014 is likely to have affected the country's import expenditure. [4]

The value of the rupiah fell (1) more of the currency had to be exchanged to obtain a US dollar (1) a lower exchange rate would increase the price of imports (1) this is likely to have reduced demand for imports (1) import expenditure is likely to have fallen (1) if PED >1.

NOTE. OFR: if a candidate identifies a rise in the value of the rupiah, award a maximum of 2 marks for a good **analysis** based on this interpretation but no marks for just stating that the rupiah rose in value.

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(f) Discuss whether the Human Development Index is a good measure of living standards. [5]

Up to 3 marks for why it is:
It is a wider measure than GDP per head (1).
It covers three important influences on living standards (1) income, education and health care (1).
Produced by a reputable body (1) the United Nations (1).

Up to 3 marks for why it is not:
It does not take into account all the factors that influence living standards (1) examples, e.g. distribution of income, environmental factors (up to 2).
The weightings may not reflect the relative contribution of the indicators to living standards (1), e.g. some might argue life expectancy should be given a greater weighting than GDP per head (1).
Do not expect other measures but reward appropriate ones such as the Multidimensional Poverty Index which includes more indicators (1), e.g. access to sanitation (1).

(g) Using information from the extract, explain two functions of a trade union. [4]

Collective bargaining/protecting rights/negotiating (1) to improve wages and/or working conditions (1).
Taking industrial action, i.e. strikes (1) in pursuit of higher wages and/or better working conditions (1).
To influence government policy (1) on, e.g. a minimum wage (1).

(h) Discuss whether countries with high population growth have high economic growth. [6]

Up to 4 marks for why they might:
Population growth resulting from net immigration/natural increase (rise in birth rate/fall in death rate) (1) may increase the labour force (1) increasing productive potential/ability to produce products will rise (1).
The quality of the labour force may increase (1) if the high population growth is the result of the immigration of skilled workers/more young people who have received better education than their elders (1) this will increase productivity (1) increasing productive potential/ability to produce products will rise (1).
A growing population increases total demand (1) this will encourage firms to increase their output (1) may attract MNCs to set up in the country (1).
A higher population may make better use of resources (1) allow firms to take advantage of economies of scale (1).

Up to 4 marks for why they might not:
A higher population may increase economic growth in terms of output but not GDP per head (1) if population grows at a greater rate than GDP (1).
A higher population may put pressure on resources (1) may be less capital/land per worker (1) reducing productivity (1) resources may be diverted from increasing productive capacity to coping with more dependents (1).
A rise in birth rate/fall in death rate/immigration of the elderly or children will increase dependents (1) the very young and the old are not economically active (1).

Reward but do not expect reference to the optimum population.

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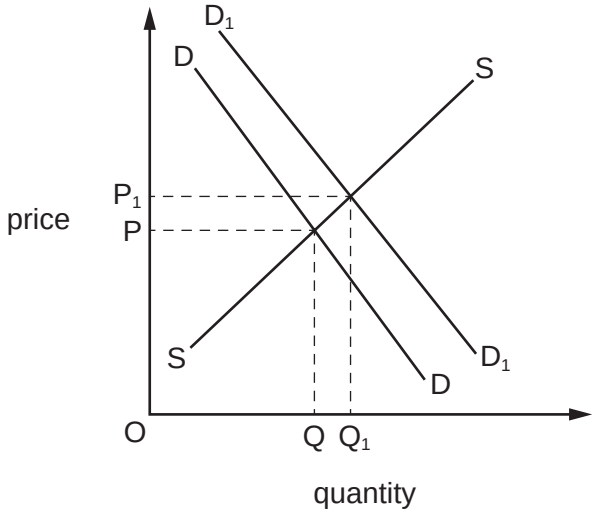
2 (a) What is meant by a price elasticity of demand of – 2.5? [2]

It means that a 1% rise in price (1) would cause a 2.5% fall in demand (1).
It means demand is elastic (1) a change in price results in a greater percentage change in demand (1).

(b) Explain the importance of price elasticity of demand for a government. [4]

Knowledge of PED would help a government estimate how much tax revenue (1) it may earn from indirect taxes/changes in indirect taxes (1) may earn more on products with inelastic demand (1).
Knowledge of PED may help a government to estimate how much of a subsidy to give (1) a subsidy will have more of an impact on quantity (1) if demand is elastic (1).
Knowledge of PED will help a government estimate how successful it may be in reducing consumption of a product (1) example, e.g. cigarettes (1) more likely to be successful if demand is elastic (1).
Knowledge of PED may influence the price the government charges for the products it supplies (1) example of a product (1).

(c) Using a demand and supply diagram, analyse the effect of a rise in the price of Firm X's jeans on the market for Firm Y's jeans. [6]



Up to 4 marks for the diagram:
- axis correctly labelled – price and quantity or P and Q (1)
- demand and supply curves correctly labelled (1)
- demand curve shifted to the right (1)
- correct equilibrium points clearly identified, e.g. E and E1 (1).

Up to 2 marks for written explanation:
- the two types of products are substitutes (1)
- people switch demand between substitutes (1)
- increase in demand will increase price of Y's jeans (1).

In terms of written explanation, reward but do not expect reference to positive cross elasticity of demand.

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(d) Discuss whether long-established and well-known firms are likely to be more successful than firms that are new to an industry. [8]

Up to 5 marks for why they might be:
May have built up brand loyalty (1) their names and products may be well known (1) this may attract more customers (1).
May have built up market power (1) may be a monopoly or moving towards a monopoly (1) may enable the firms to earn more profit (1).
May have lower average cost of production (1) due to economies of scale (1) example (1).

Up to 5 marks for why they may not be:
May have become complacent/new firms may have more drive (1) not spending money on R & D and innovation/new firms may introduce new versions of the product (1).
May have out of date capital equipment/new firms may have new capital equipment (1) low labour productivity/high labour productivity in new firms (1).
May have higher average cost of production/new firms may have lower costs of production (1) due to diseconomies of scale experienced by old firms (1) example (1).
New firms are likely to be small and so may be more flexible (1) have more/better contact with customers/give more personal attention (1) specialise in a particular part of the market (1).
New firms may be subsidised (1) and so may enjoy lower costs of production (1).

3 (a) Define 'productivity'. [2]

Output per worker/factor (1) hour/time period (1).

Note: second mark is dependent on the candidate gaining the first mark.

A measure of efficiency (1).

(b) Explain the difference between average fixed cost and average variable cost. [4]

Average fixed cost is total fixed cost divided by output/fixed cost per unit (1) costs that fall with output/may be illustrated on a diagram/example of a fixed cost (1).
Average variable cost is total variable cost divided by output/variable cost per unit (1) costs that may fall or rise with output/may be illustrated on a diagram/example of a variable cost (1).

(c) Analyse the advantages that a country may gain from specialising in a product such as smartphones. [6]

Output/GDP/GDP per head may be higher (1) resulting in higher living standards (1) as a country can concentrate on what it is best at producing (1) make best use of resources (1).
Providing a product in a large quantity (1) may lower average cost/ enable advantage to be taken of economies of scale (1) example of an economy of scale (1).
World demand for smartphones is high/increasing (1) smartphones are increasing in popularity/becoming more of a necessity (1).
May gain a good reputation for producing the product (1) which will increase demand (1).
Specialising encourages countries to trade (1) providing consumers with more variety/cheaper products (1).

Reward but do not expect analysis of comparative advantage.

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(d) Discuss whether protectionism saves jobs. [8]

Up to 5 marks for why it might:
Tariffs raise the price of imports (1) quotas places a limit on imports/other method of protectionism described (1) higher price of imports/lower quantity (1) may make imports less competitive (1) consumers may switch from imports to domestic products/reduce quantity of imports produced (1) maintain domestic production (1) stop unemployment occurring in domestic firms (1).
Protectionism may stop declining (sunset) industries closing quickly (1) causing structural unemployment (1).

Up to 5 marks for why it might not:
Foreign products might still be cheaper (1) better quality (1).
There may be retaliation (1) with governments of other countries imposing trade restrictions (1) which may reduce exports (1) causing unemployment in the export industries (1).
Tariffs may increase raw material costs (1) domestic firms may have to switch to more lower quality imported raw materials (1) domestic firms' international competitiveness could fall (1) causing unemployment in, e.g. car industry dependent on imported steel (1).
Demand for labour may fall for other reasons (1), e.g. introduction of new technology by domestic firms may result in structural unemployment (1).
May protect jobs in the home country but create unemployment in other countries (1) by making their products less price competitive (1).

Note. if a candidate refers to two or more methods of protection, e.g. tariffs and quotas but does not explain how they work, award only one mark.
Note. maximum mark of 4 if there is not an explicit link to jobs.

4 (a) Define 'deflation'. [2]

A fall (1) in the price level (1)

Or:

An increase in the value (1) of money (1).

(b) Explain the difference between demand-pull inflation and cost-push inflation. [4]

Up to 2 marks for demand-pull inflation:
Demand-pull inflation is caused by excess demand (2).
Demand-pull is caused by total demand increasing more rapidly (1) than total supply (1).
Higher demand may be the result of higher consumer spending/higher government spending/higher investment/ higher net exports (1).
An AD/AS diagram showing AD increasing (1).

Up to 2 marks for cost-push inflation:
Cost-push inflation is caused by increases in the costs of production (1), e.g. higher wages/higher raw material costs/higher import costs/higher indirect taxes (1).
Firms pass on higher costs in the form of higher prices to maintain profit levels/margins (1).
An AD/AS diagram showing AS decreasing (1).

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(c) Analyse how a central bank might reduce household borrowing. [6]

It might increase the rate of interest (1) this would increase the cost of borrowing (1) this may discourage households from buying items/encourage saving (1) that would require them to take out a loan (1).
It might impose restrictions on the amount that banks can lend (1) these may limit the size of a loan a household can get (1) or increase the conditions that have to be met before a loan is given (1).
It might reduce the money supply (1) which may reduce spending (1) and so may reduce demand for loans (1).

(d) Discuss whether a government should encourage an increase in saving. [8]

Up to 5 marks for why it should:
Would provide funds for bank lending (1) this may increase investment (1) leading to economic growth (1).
May enable people to save for their retirement (1) which may reduce the need for state pensions (1).
May enable people to save in case of financial difficulties in the future/avoid getting into debt (1) which may reduce their dependency on the state should unexpected events/problems occur (1).
May reduce inflation (1) by reducing consumer expenditure (1).
May correct a current account deficit (1) lowering spending on imports (1).

Up to 5 marks for why it should not:
Lowering consumer expenditure (1) may increase unemployment (1) cyclical unemployment (1).
May lower economic growth/cause a recession (1) a government may need to encourage spending rather than saving (1).
If there is deflation (1) higher saving could drive the price level lower (1).

5 (a) Define 'unemployment'. [2]

People without jobs (1) who are willing and able to work (1).

Or:

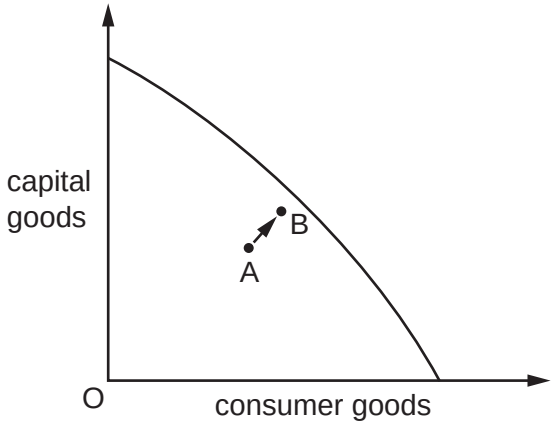
Resources not being used (1) to produce goods and services (1).

(b) Explain two benefits that a firm may gain from producing in another country. [4]

Avoid trade restrictions (1), e.g. will not have to pay tariffs imposed on products (1).
Lower transport costs (1) enabling the firm to sell at a lower price (1).
Access to cheaper/more skilled labour (1) lowering costs of production/ improve the quality of the products produced (1).
Access to cheaper/better quality raw materials (1) lowering costs of production/improve the quality of the products produced (1).
Closer contact with foreign consumers (1) enabling the firm to pick up more quickly on changes in demand (1).
Possible government subsidies (1) to set up in areas of high unemployment (1).
Lower taxes (1) which may increase profits (1).

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(c) Using a production possibility curve diagram, analyse the effect of a decrease in unemployment on an economy's output. [6]



Up to 4 marks for the diagram:
- axis correctly labelled in terms of two different products or types of products (1)
- the curve or downward sloping line drawn to axes (1)
- a production point inside the PPC (1)
- a production point on or moving closer to the frontier (1).

Up to 3 marks for written comments:
- unemployed resources mean an economy is producing inside the PPC (1)
- a decrease in unemployment means more resources are being used (1)
- greater use of resources increases output (1).

(d) Discuss whether it is better to work in the public sector or the private sector. [8]

Up to 5 marks for why it may be better to work in the public sector:
There may be greater job security (1) a government may be reluctant to dismiss workers (1) as it will increase unemployment (1) greater job security may put less pressure on workers (1).
Working conditions may be better (1) and wages higher (1) as the government is not profit motivated (1).
May be able to enjoy longer holidays (1) if the government is a generous employer (1).
Promotion chances may be higher (1) if there is a large public sector (1).
May be more able to join a trade union (1) to protect rights (1).
May be paid higher pensions (1).

Up to 5 marks for why it may be better to work in the private sector:
Working conditions/wages may be better in the private sector (1) if firms are competing for workers (1).
Private sector firms may earn high profits (1) enabling them to pay high wages/provide good working conditions (1).
There may be greater diversity of jobs in the private sector (1), e.g. could work for a small firm (1).

6 (a) Identify who owns a public corporation and who owns a public limited company. [2]

The government (state) owns a public corporation (1).
Shareholders own a public limited company (1).
A public corporation is owned by the public sector whereas a public limited company is owned by the private sector (1).

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(b) Explain why fixed costs are high in the aircraft-making industry. [4]

Fixed costs are costs that do not change with output (1).
There is a considerable value of capital equipment used in making aircraft/it is a capital intensive industry (1) loans may have to be taken out to pay for capital equipment (1) interest on loans have to be paid even if no output is made (1) the equipment may have to be rented (1) rent has to be paid even if no output is made (1).
Aircraft making factories have to be very large (1) high rental costs (1) high business rates (1).

(c) Analyse what determines a firm's demand for capital goods. [6]

The expected demand for the product produced (1) the higher the output, the more capital goods needed (1).
Advances in technology (1) new capital equipment is likely to be more productive (1).
The price of the capital equipment (1) the cheaper the price, the more capital equipment that is likely to be bought (1).
The rate of interest (1) firms often borrow to buy capital equipment (1).
The level of profits (1) higher profits increase firms' willingness and ability to buy capital goods (1).
Corporation taxes (1) lower taxes will increase firms' willingness and ability to buy capital goods (1).
Government subsidies (1) these provide funds for firms to buy capital goods (1).

Note. a maximum of 3 marks for a list-like approach.

(d) Discuss whether the quality of products is likely to be higher in a monopoly or in a perfectly competitive market. [8]

Up to 5 marks for why it might:
A monopoly can earn higher profits (1) some of the higher profits could be spent on research and development (1).
A monopoly knows it can protect any profits it makes (1) due to high barriers to entry and exit (1) this may encourage it to produce high quality products (1).
A monopoly may enjoy economies of scale (1) including R & D economy (1).

Up to 5 marks for why it might not:
A monopoly may lack competitive pressure to produce a good quality product (1) consumers may still buy the product even it is of a poor quality (1) as they have no choice (1).
A monopoly may experience diseconomies of scale (1) management problems (1) poor industrial relations (1) may result in lower quality products (1).

Note. a candidate may answer the question the other way around, i.e. why the quality may and may not be higher in a perfectly competitive market.

7 (a) Define 'a progressive tax'. [2]

A tax that takes a higher proportion as income rises (2).
A tax that falls more heavily on the rich (1).

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(b) Explain the difference between direct and indirect taxes. [4]

Direct taxes are taxes on income (1) the burden of the tax cannot be passed on/they are paid directly to the government by those on whom the taxes are levied/example of a direct tax (1).
Indirect taxes are taxes on spending (1) the burden or some of the burden can be passed on to others/example of an indirect tax (1).

(c) Analyse how a fall in unemployment can increase tax revenue. [6]

A fall in unemployment will increase income (1) more people working and people earning higher wages (1) this will increase income tax revenue (1).
Spending will increase (1) more products will be purchased (1) which will increase indirect taxes (1) example (1).
Higher spending will increase firms' revenue (1) this may increase firms' profits (1) which will increase corporation/direct tax revenue (1).

(d) Discuss whether a government should increase tax rates. [8]

Up to 5 marks for why it should:
Higher tax rates may increase tax revenue (1) this would enable the government to spend more on, e.g. education and health care (1).
Higher tax rates may reduce demand (1) this could lower demand-pull inflation (1).
Higher tariffs could reduce imports (1) improve the current account position (1) demand for imports may also fall when income tax rates are raised (1).
Higher tax rates on, e.g. cigarettes and alcohol (1) could improve people's health (1).
Higher taxes on products that create external costs/demerit goods (1) may result in a better allocation of resources (1).
Higher taxes on monopolies (1) may encourage competition. (1).

Up to 5 marks for why it should not:
Higher direct taxes may act as a disincentive to work (1) reducing employment (1).
Higher direct taxes may act as a disincentive to enterprise (1) reducing output (1).
Higher taxes may encourage tax evasion (1) and this may cause tax revenue to fall (1).
Higher corporation/indirect tax rates increase firms' costs of production (1) causing cost-push inflation (1).
Higher tax rates may reduce total demand (1) causing unemployment (1).
Higher income tax rates may cause workers to press for wage rises (1) this may increase labour costs (1) or may provoke industrial action (1) which can disrupt production (1).

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