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Cambridge International General Certificate of Secondary Education

**ECONOMICS** **0455/21**

Paper 2 Structured Questions **October/November 2017**

MARK SCHEME

Maximum Mark: 90

**Published**

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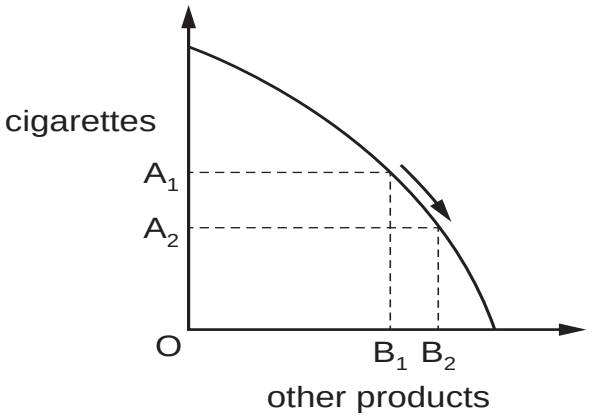
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| Question | Answer | Mark |
|---|---|---|
| 1(a) | **Identify, from the extract, <u>two</u> factors of production employed in producing cigarettes.**<br><br>Workers/labour (1) capital (1). | **2** |
| 1(b) | **Explain <u>two</u> reasons why firms merge.**<br><br>**1 mark each for each of two reasons identified:**<br><br>• to take advantage of economies of scale / reduce costs of production<br>• to gain greater market share / market power / reduce competition<br>• to gain access to market outlets<br>• to gain access to raw materials / resources / better methods of production<br>• to diversify<br>• to prevent one firm going out of business<br>• to increase profit<br>• to grow / expand / become larger<br><br>**1 mark each for each of two explanations:**<br><br>• a merged firm will be larger and due to economies of scale, average costs may be lower, example<br>• a merged firm eliminates a competitor<br>• a vertical merger forwards gives the firm control of the sale of its product<br>• a vertical merger backwards may ensure an adequate supply of a raw material<br>• a conglomerate merger will increase the range of products produced<br>• a combined, larger firm will be able to survive<br>• the combined profit of two merged firms might be greater than the profit of two individual firms<br>• one of the key business goals is growth | **4** |
| 1(c)(i) | **Calculate, using information from the extract, the percentage decrease in the number of cigarette firms in China from 2009 to 2014**<br><br>80% (2).<br><br>Correct working e.g. 160/200 × 100 (1). | **2** |
| 1(c)(ii) | **Calculate, using information from the extract, the total tax revenue that the Chinese government received in 2014.**<br><br>16 000 billion yuan (2).<br><br>16 000 billion OR yuan (1).<br><br>Correct working i.e. 800 billion × 100/5 (1).<br>Note: 16 000 billion = 16 000 000 000 000 or $1.6 \times 10^{13}$ | **2** |

| Question | Answer | Mark |
|---|---|---|
| 1(d) | **Analyse, using a production possibility curve diagram, the effect of moving factors of production from producing cigarettes to producing other products.**<br><br>**Up to 3 marks for the diagram**:<br><br>Axes correctly labelled (1).<br><br>Curve / downward-sloping straight line drawn to the axes (1).<br><br>Movement along curve from cigarettes to other products (1) shown by an arrow on the curve or by change in combinations.<br><br><br><br><br>**Up to 2 marks for explanation**:<br><br>Opportunity cost of producing more other products / devoting more resources to other products (1) means producing fewer cigarettes (1). | **5** |
| 1(e) | **Discuss whether people in countries with a high HDI always enjoy a high standard of living.**<br><br>**Up to 3 marks for why they might:**<br><br>Indicates high income per head / high purchasing power / high ability to buy goods (1) high life expectancy / low death rate / good healthcare (1) good education / high literacy (1).<br><br>1 mark for a general idea of what the HDI includes.<br><br>**Up to 3 marks for why they might not:**<br><br>May be uneven distribution of income / GDP figure is an average (1) so that not everyone enjoys a high standard of living / there may still be many poor people (1) unemployment may still be high (1) healthcare may still be poor for some (1) literacy levels may be high but there may be no suitable jobs (1).<br><br>There are other influences on living standards (1) working hours may be long (1) working conditions may be poor (1) there may be high levels of pollution (1). | **5** |

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| Question | Answer | Mark |
|---|---|---|
| 1(f) | **Explain, using information from the extract and Fig. 1, what happened to the market for fruit in the UK in 2015.**<br><br>The diagram shows demand increasing (1) price rising (1) revenue increasing (1) supply extending / quantity of fruit consumed increasing (1).<br><br>This is due to the information campaign / people being better informed about the benefits of fruit (1).<br><br>Inelastic demand (1) inelastic supply (1). | **4** |
| 1(g) | **Discuss the arguments for and against the Chinese Government increasing the tax on cigarettes.**<br><br>**Up to 4 marks for why it should:**<br><br>Demand for cigarettes is price-inelastic (1) so may increase tax revenues (1) which government could spend on public services, e.g. health and education (1).<br><br>Smoking is harmful (demerit good) (1) tax will raise the price (1) may discourage cigarette smoking / reduce consumption (1) improve smokers' health (1) prevent early deaths from smoking related diseases (1) reduce external costs (1) e.g. air pollution, passive smoking (1) reduces health costs (1) increases productivity of workers (1).<br><br>**Up to 4 marks for why it should not:**<br><br>May not be very effective in reducing consumption (1) smoking is addictive / demand is price-inelastic (1) and tax will therefore not reduce smoking significantly (1).<br><br>May reduce output of cigarettes in the country / tobacco firms may close (1) may increase unemployment (1).<br><br>May lead to an illegal market in cigarettes / cheap alternatives (1) people not paying the tax (1). | **6** |

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| Question | Answer | Mark |
|---|---|---|
| 2(a) | **Define 'equilibrium price'.**<br><br>The price where demand and supply are equal (2).<br><br>Market clearing price (1) which ensures no surplus or shortage (1).<br><br>The price which will not change (1) unless market conditions change (1).<br><br>Note: award 2 marks for correctly drawn diagram. | **2** |
| 2(b) | **Explain <u>two</u> reasons why a worker may continue in a job despite a cut in pay.**<br><br>**1 mark each for each of two reasons identified:**<br><br>• pay may be lower elsewhere<br>• no alternative employment is available / high local unemployment<br>• job satisfaction<br>• promotion chances<br>• working conditions may be good<br>• working hours may be low<br>• fringe benefits may be good<br>• job security<br>• location<br>• qualifications / specific skills<br>• pension scheme.<br><br>**1 mark each for each of two explanations given:**<br><br>• the pay gap may be smaller but the worker may still earn more in the job<br>• the firm the only one employing locally / it is a monopoly employer<br>• workers find the work interesting / challenging / rewarding<br>• higher pay in the future<br>• the job may provide an attractive working environment<br>• the job may allow the workers to enjoy a lot of leisure time<br>• fringe benefits, such as subsidised meals<br>• maybe greater risk of losing job elsewhere<br>• the job may be close to home – convenient and low transport costs<br>• may not have the qualifications needed to get another job<br>• the job may provide a good pension scheme / may have paid into the pension scheme. | **4** |

| Question | Answer | Mark |
|---|---|---|
| 2(c) | **Analyse how employing specialised workers may reduce a firm's average costs of production.**<br><br>Workers can concentrate on the task they are best at (1) gain practice in performing the task (1) higher productivity / better efficiency (1).<br><br>May contribute ideas (1) on, e.g. production methods (1).<br><br>Fewer mistakes may be made (1) leading to less waste / greater productivity (1).<br><br>It can be quicker (1) and cheaper to train workers (1) as only learning one task/function (1).<br><br>Less equipment may be needed per worker (1) reduce capital costs (1).<br><br>Time can be saved (1) with the worker having to move less from one production point to another (1). | **6** |
| 2(d) | **Discuss whether consumers would benefit if a firm became a monopoly.**<br><br>**Up to 5 marks for why they might:**<br><br>A monopoly may enjoy economies of scale (1) lower average costs of production (1) example (1) lower prices (1).<br><br>A monopoly may reduce wasteful duplication of resources (1) e.g. water pipes (1).<br><br>A monopoly may have more funds to invest (1) innovate more / spend on R&D (1) better quality products (1).<br><br>Security of supply (1) if the government runs / regulates the monopoly (1).<br><br>Monopolies may compete internationally (1) keeping prices down (1).<br><br>**Up to 5 marks for why they might not:**<br><br>Lack of competition / too much market power (1) inelastic demand (1) may mean it will charge a higher price (1) price maker (1) reduce supply (1) innovate less (1) lower quality products (1) lack of choice for consumers (1).<br><br>May experience diseconomies of scale (1) example/s (1) higher average costs (1) higher prices (1). | **8** |

| Question | Answer | Mark |
|---|---|---|
| 3(a) | **Define 'perfect competition'.**<br><br>Very high level of competition (1) firms are price takers (1) many buyers and sellers (1) free entry and exit (1) homogeneous / same product (1) perfect information (1) | **2** |
| 3(b) | **Explain <u>two</u> influences on the size of firms.**<br><br>**1 mark each for each of two influences identified:**<br><br>• size of market<br>• availability of finance/capital<br>• type of business organisation<br>• influence of government policies<br>• age of firms<br>• skills of entrepreneurs<br>• goals of entrepreneurs.<br><br>**1 mark each for each of two explanations given:**<br><br>• the higher the demand for the product/greater the value of sales, the larger the firm is likely to be<br>• firms that can borrow, sell shares or have high profits are able to expand<br>• a MNC will be larger than e.g. a sole trader<br>• a government may run large state-owned enterprises/operate restrictions on mergers<br>• older firms tend to be larger than younger firms<br>• firms run by skilful entrepreneurs are likely to be larger than those run by less skilful entrepreneurs<br>• entrepreneurs may want the firm to remain small to keep control / may want it to be large to e.g. gain economies of scale. | **4** |
| 3(c) | **Analyse the causes of an increase in labour productivity.**<br><br>Improved education/training (1) workers will be skilled/specialised (1) capable of producing a higher output per hour (1).<br><br>Advances in technology (1) better quality of capital goods (1) with more and better capital goods workers can produce more (1).<br><br>Better working conditions (1) contented workers may be more productive (1).<br><br>Better health (1) healthier workers can produce more (1)<br><br>Higher wages (1) may motivate workers more (1).<br><br>Fall in employment (1) the less productive workers tend to lose their jobs first (1) the more productive workers will remain (1). | **6** |

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| Question | Answer | Mark |
|---|---|---|
| 3(d) | **Discuss whether a country which engages in free trade is likely to have a higher economic growth rate than one which uses trade protection.**<br><br>**Up to 5 marks for why it might:**<br><br>It may enable countries to concentrate on what they are best at (1) making best use of their resources/specialisation (1).<br><br>Greater exports bring in foreign revenue (1) contributing to economic growth (1).<br><br>Unrestricted competition may improve efficiency of firms (1) increase sales (1) increase output (1).<br><br>Firms will have more sources of raw materials (1) may lower production costs (1) lower prices (1) increase international competitiveness (1) make firms more price competitive (1).<br><br>Capital equipment / new technology can be imported (1) gaining new ideas (1) improving production (1).<br><br>Firms may be able to grow (1) take advantage of economies of scale (1) lower average costs (1).<br><br>May attract MNCs (1) that contribute to economic growth (1).<br><br>*Note*: reward but do not expect reference to comparative or absolute advantage.<br><br>**Up to 5 marks for why it might not:**<br><br>May make it difficult for infant industries to grow (1) unable to compete (1) because too small to take advantage of economies of scale (1).<br><br>May result in declining industries going out of business (1) no longer contributing to output/GDP (1).<br><br>Foreign firms may dump products in the country (1) selling at less than cost price (1) may drive domestic firms out of business (1). | **8** |

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| Question | Answer | Mark |
|---|---|---|
| 4(a) | **What is used to measure a country's inflation rate?**<br><br>CPI / RPI / other relevant named measure (2)<br><br>A weighted (1) price index (1) | **2** |
| 4(b) | **Explain <u>two</u> reasons for conserving resources.**<br><br>**1 mark each for each of two reasons identified:**<br><br>• scarcity / economic problem<br>• protect them for future generations<br>• to achieve sustainable growth<br>• demand may increase in the future<br>• risk of becoming too dependent on one product.<br><br>**1 mark each for each of two explanations given:**<br><br>• unlimited wants but limited resources<br>• conserving resources may mean output, income and employment can be higher in the future / habitats can be saved for future generations<br>• there is a continuous need for resources<br>• a higher revenue may be earned / prices may rise in the future<br>• exploiting resources may mean that other products are not produced. | **4** |
| 4(c) | **Analyse how subsidies given to farmers could raise living standards.**<br><br>May increase supply (1) as extra payment received (1) higher supply will reduce price (1) lower price will make food more affordable (1) food is a basic necessity (1).<br><br>Reduced costs for farmers (1) increases their profits/income (1).<br><br>Subsidies for capital equipment e.g. tractors (1) improve productivity (1) increasing farm outputs / incomes (1).<br><br>More/better quality food may make the poor healthier (1) increasing their earning capacity (1).<br><br>The poor may be able to spend less on food (1) allowing them to buy other basic necessities (1).<br><br>Note: reward increase in supply (1) lower price (1) if shown on a diagram. | **6** |

| Question | Answer | Mark |
|---|---|---|
| 4(d) | **Discuss whether a rise in direct taxes will reduce economic growth.**<br><br>**Up to 5 marks for why it might:**<br><br>A rise in income tax will reduce disposable income (1) this may reduce consumer expenditure (1) lower total demand (1) reduce firms' output (1).<br><br>A rise in income tax will reduce incentives to work (1) increase tax avoidance (1) leaving less revenue for government spending on e.g. health and education (1) reducing productive potential of workers (1).<br><br>A rise in corporation tax (1) will increase costs of production (1) will reduce the profits firms can keep (1) reduce the incentive to produce (1) reduce the funds available for investment (1) to expand output (1).<br><br>**Up to 5 marks for why it might not:**<br><br>A rise in income tax may not reduce consumer expenditure if savings fall (1) wages increase by more than tax rise (1).<br><br>A rise in corporation tax may not reduce investment if firms reduce savings/dividend payments (1).<br><br>A rise in income tax may reduce spending on imports (1) this would reduce a current account deficit (1) increase net exports (1).<br><br>The extra tax revenue earned (1) may increase government spending (1) this could offset any fall in consumer expenditure and investment (1). | **8** |

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| Question | Answer | Mark |
|---|---|---|
| 5(a) | **Define a 'subsidy'.**<br><br>A payment by e.g. a government (1) to reduce production costs (1) to increase output (1) to improve quality (1) reduce prices for consumers (1). | **2** |
| 5(b) | **Explain <u>two</u> causes of a decrease in demand for oil.**<br><br>**1 mark each for each of two reasons identified:**<br><br>• fall in price of another fuel / reduction in its availability<br>• decrease in car driving<br>• change in fashion/taste e.g. electric cars<br>• greater concern for the environment<br>• decrease in output / manufacturing of goods<br>• decrease in population<br>• decrease in income.<br><br>**1 mark each for each of two explanations:**<br><br>• if the price of e.g. coal falls, some firms and households may switch from a substitute such as oil<br>• oil/petrol is a complement to a car<br>• e.g. electric cars are substitutes for petrol driven cars<br>• people may use cars less because they are concerned about e.g. pollution<br>• lower output will require less fuel to produce it / fewer people will be using fuel to get to and from work<br>• lower population will mean there are fewer people to consume products that require fuel to produce or use them<br>• decrease in income will decrease demand for products, e.g. car driving which requires fuel.<br><br>Note: accept an increase in the price of oil as a possible reason. | **4** |
| 5(c) | **Analyse the advantages of being a sole trader.**<br><br>Flexible / can respond quickly to changes in demand (1) as one person makes all the decisions (1).<br><br>Easy to set up (1) limited finance / limited paperwork needed (1).<br><br>Can provide a personal service (1) get to know customers personally (1).<br><br>Profit incentive (1) owner will get all the profits (1).<br><br>Sole trader has total control (1) can decide e.g. hours of work, holidays (1)<br><br>May have good relationships with staff (1) less industrial disputes (1). | **6** |

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| Question | Answer | Mark |
|---|---|---|
| 5(d) | **Discuss whether a government should be concerned about a growing deficit on the current account of its balance of payments.**<br><br>**Up to 5 marks for why it should:**<br><br>Imports exceeding exports (1) country will be living beyond its means (1) consuming more than it produces (1) net exports will be making a negative contribution to output (1) output will be lower than possible (1) employment lower than possible (1) unemployment (1) may lead to increased government spending on benefits (1).<br><br>May indicate a lack of international competitiveness (1) may suggest that the price of domestically produced products is too high (1) quality of domestically produced products too low (1).<br><br>Country may be dependent on foreign products (1) causing security concerns (1).<br><br>May put downward pressure on the exchange rate (1) increase the value of exports that have to be exchanged to gain a certain value of imports (1).<br><br>Need to cover the deficit with e.g. borrowing/attracting investment from abroad (1).<br><br>**Up to 5 marks for why it should not:**<br><br>Deficit may only be temporary (1) more raw materials (1) capital goods may be imported (1) in the longer run these may be turned into exports (1).<br><br>The deficit on current account may be balanced out by a surplus elsewhere (1) e.g. direct investment (1).<br><br>The deficit may have been caused by a fall in incomes abroad (1) these may rise in the future, increasing exports (1).<br><br>If the country has a floating exchange rate (1) a fall in the exchange rate resulting from the deficit will lower export prices (1) raise import prices (1) and so move the current account position towards a balance (1).<br><br>A deficit reduces total demand (1) and this can reduce demand-pull inflation (1).<br><br>Note: reward but do not expect reference to other parts of the balance of payments. | **8** |

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| Question | Answer | Mark |
|---|---|---|
| 6(a) | **Identify <u>two</u> ways in which a high rate of unemployment may affect firms.**<br><br>Low demand for products (1) falling prices / lower revenue (1).<br><br>Good supply of workers (1) downward pressure on wages (1).<br><br>Trade union action (1) to protect workers' jobs (1). | **2** |
| 6(b) | **Explain <u>two</u> causes of deflation.**<br><br>**1 mark each for each cause identified**:<br><br>• fall in total demand<br>• rise in unemployment<br>• drop in consumer confidence<br>• drop in business confidence<br>• banking crisis<br>• an increase in total (aggregate) supply<br>• fall in costs of production<br>• advances in technology.<br><br>**1 mark each for each of two causes explained:**<br><br>• lower demand may cause firms to reduce their prices in order to attract more consumers<br>• lower costs of production / advances in technology will enable firms to lower their prices and maintain/increase profits. | **4** |

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| Question | Answer | Mark |
|---|---|---|
| 6(c) | **Analyse the <u>disadvantages</u> of a very high rate of inflation.**<br><br>Fall in international price competitiveness (1) currency rapidly devalues (1) worsening current account position / reduced exports (1) if inflation rate is higher than rival countries (1).<br><br>Discourages saving / savers lose (1) if inflation rate is higher than interest rate (1) redistribution of income from lenders to borrowers (1).<br><br>Those on fixed incomes are disadvantaged (1) e.g. pensions do not buy as many goods and services as they did before (1).<br><br>Inflationary expectations increase (1) discouraging investment (1) uncertainty created by inflation (1).<br><br>Inefficient choices (1) due to difficulty in judging relevant prices (inflationary noise) (1).<br><br>The cost of changing prices (menu costs) (1) e.g. price tags, menus (1).<br><br>Costs of moving money around in search of the highest interest rate (1).<br><br>People's income dragged into higher tax brackets (fiscal drag) (1) reducing their disposable income (1).<br><br>Unemployment (1) if caused by higher costs / cost-push inflation (1).<br><br>Lower purchasing power / fall in values of money (1).<br><br>Note: maximum 3 marks for a list-like approach. | **6** |

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| Question | Answer | Mark |
|---|---|---|
| 6(d) | **Discuss whether increased government spending on training will always reduce inflation.**<br><br>**Up to 5 marks for why it might:**<br><br>Training may increase workers' skills / specialisation (1) raise productivity (1) lower production costs (1) increase total supply (1) reduce cost-push inflation (1).<br><br>Training may make workers more mobile (1) speed up adjustments to changes in demand (1) reduce shortages (1) lower demand-pull inflation (1).<br><br>**Up to 5 marks for why it might not:**<br><br>Training may be in the wrong areas (1) and not increase productivity (1).<br><br>Government spending on training will increase total demand (1) if total demand rises by more than total supply (1) price level will rise (1) causing demand-pull inflation (1).<br><br>Trained workers will find employment / better paid work (1) spend their wages and increase total demand (1).<br><br>More highly trained workers may demand higher wages (1) if wages rise by more than productivity (1) costs will increase (1) cost-push inflation (1). | **8** |

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| Question | Answer | Mark |
|---|---|---|
| 7(a) | **Identify <u>two</u> ways in which the expenditure patterns of the poor and the rich are different.**<br><br>The rich spend more / the poor spend less (1).<br><br>Poor spend a higher proportion on basic necessities / needs e.g. food (1) rich spend a higher proportion on luxuries / wants (1).<br><br>Poor spend a higher proportion (1) of their income than the rich (1) or the reverse argument. | **2** |
| 7(b) | **Explain <u>two</u> reasons why a commercial bank may prefer to lend to the rich rather than to the poor.**<br><br>**1 mark each for each of two reasons identified:**<br><br>• greater expectation that they will repay<br>• greater collateral<br>• rich may borrow more / more profitable<br>• it takes a longer time for the poor to repay loans.<br><br>**1 mark each for each of two explanations of the reasons:**<br><br>• rich will have more income/wealth to repay<br>• rich will have more assets to sell if necessary<br>• more interest can be earned from lending large sums<br>• the poor have less income with which to repay. | **4** |
| 7(c) | **Analyse the effects that an increase in the labour force will have on an economy.**<br><br>An increase in the labour force will increase the quantity of resources (1) increase productive potential (1) enable more products to be produced (1) raise economic growth (1).<br><br>An increase in the labour force may reduce inflation pressure (1) enable supply to increase to match higher demand (1).<br><br>An increase in the labour force may increase total wages paid (1) increasing total spending/demand (1) causing demand-pull inflation (1).<br>An increase in the labour force available may reduce wages (1) reducing cost-push inflation (1).<br><br>An increase in the labour force may increase employment (1) if the number of jobs available increases (1) increasing income tax revenue for the government (1).<br><br>If not employed, will increase unemployment rate (1) higher spending on benefits (1). | **6** |

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| Question | Answer | Mark |
|---|---|---|
| 7(d) | **Discuss whether providing loans to the poor will reduce poverty.**<br><br>**Up to 5 marks for why it might:**<br><br>Loans will enable the poor to buy more basic necessities (1) e.g. housing, food, clothing (1) reduces absolute poverty (1).<br><br>Loans will enable the poor to spend more on education/training (1) increase their skills (1) increase the chances of them gaining a job (1) increase wage rate (1) increase education of children (1) reduce poverty in the future (1).<br><br>Loans will enable the poor to set up small businesses (1) become entrepreneurs (1) receive income/profit (1) may employ other previously poor people (1) reduce unemployment (1).<br><br>Loans may enable the poor to spend more on healthcare (1) raising living standards (1).<br><br>**Up to 5 marks for why it might not:**<br><br>Loans may be spent on items that do not increase earning potential (1) e.g. cigarettes (1).<br><br>The poor may get into debt / may be unable to repay the loan (1) lose their collateral/home (1).<br><br>Paying interest (1) may reduce the ability to buy basic necessities (1) high interest rates (1) may be charged to the poor (1).<br><br>Loans may not be large enough (1) to pay for e.g. education/training (1). Loans may not be a long-term solution to poverty (1) only improving living standards in the short-term. | **8** |

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