Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2019**

MARK SCHEME

Maximum Mark: 90

Published

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.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6: Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks	Guidance
1(a)	**State a factor of production and identify an example of it from the extract.** land (1) scarce land in Manhattan / New York (1). labour (1) finance industry workers / wages (1). capital (1) stock exchange (1). enterprise (1) new business start ups (1)	**2**	
1(b)	**Explain, using information from the extract, <u>two</u> causes of economic growth in New York.** • good human capital (1) high skills / labour productivity (1) • economic freedom encouraging business start-ups (1) increased investment / innovation (1) • strong finance/manufacturing growth (1) increased investment/consumption/exports (1) • education (1) improved skills (1) increased productivity/growth of tertiary sector/greater GDP per capita (1) attracts students who spend on local goods and services (1) • falling unemployment (1) greater use of resources (1)	**4**	Two **causes** must be explained for maximum marks.
1(c)	**Calculate, using information from the extract, the total number of workers in New York city.** 2m (2). Correct working 1.6m × 100/80, or 80% = 1.6m, or 20% = 0.4m (1).	**2**	.

Question	Answer	Marks	Guidance
1(d)	**Analyse, using Table 1.1, the relationship between average weekly hours worked and average weekly wages.** **Expected relationship** – they would move in the same direction (1). **Reason** for expected relationship – more hours to produce more output (1). **Evidence in support** of expected relationship - data does **not** support expected relationship (1). **Evidence against** expected relationship – wages increase (1) hours fall / hours stay same (1) workers getting paid more per hour (1).	**5**	A **pattern of analysis** is expected in response to this type of question. If there is no expected pattern of analysis, the following may be worthy of some reward, e.g.: less hours worked will lead to workers becoming more productive; therefore earning more (1)
1(e)	**Explain, using information from the extract, one reason for differences in earnings between different jobs in New York.** • diiferent skills required / lower productivity (1) higher skill leads to higher pay (1) • discrimination (1) men paid more than women / male-dominance in the financial sector leads to higher pay for men (1) • different industries (1) finance paid more than in education (1)	**2**	

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Question	Answer	Marks	Guidance
1(f)	**Explain, using information from the extract, the possible negative effects of economic growth in New York.** • pay gap widening/inequality (1) creating more social tensions (1) reducing productivity due to dissastisfaction (1) • external costs / environmental problems (1) increased pollution (1) lack of green, open space (1) • risk of financial crisis / recession (1) bank runs/asset bubbles bursting (1) lack of job security (1) • more people move to New York for employment (1) increasing the shortage of affordable homes (1) increasing housing prices (1)	**4**	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>1(g)</td><td>Discuss the advantages and disadvantages of a city having a large tertiary sector.

Up to 3 marks for advantages:
Generates economic growth (1) high value output (1).
Generates jobs (1) leading to low unemployment (1).
Tertiary sector has high productivity (1) high pay (1) which can lead to increased consumer spending (1).
Encourages foreign investment (1) more capital spending (1) may also encourage financial investment (1).
Less pollution (1) no need for factories which creates lots of external costs (1).
Low transport costs (1) not having to move raw materials (1).
Can export services (1) improve the current account of the balance of payments (1).
More tax revenue (1) government can spend more on e.g. healthcare (1).

Up to 3 for marks for disadvantages:
Limited job choices (1) no manufacturing/agricultural jobs (1).
Risk of specialising (1) overdependence on other economies (1).
Inequality (1) not all will be able to get jobs in high-paying services such as finance (1) need high qualifications to get high pay (1).
Congestion/transport problems (1) overcrowding (1) high house prices/housing shortage (1).</td><td>5</td><td>Apply this example to all questions with the command word DISCUSS
(1g, 1h, 2d, 3d, 4d and 5d)

Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is rewarded.

<table><tr><th>Generic example</th><th>mark</th></tr><tr><td>Tax revenue may decrease…</td><td>1</td></tr><tr><td>because of reason e.g. incomes may be lower.</td><td>1</td></tr><tr><td>Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument.</td><td>0</td></tr><tr><td>Tax revenue may increase because of a different reason i.e. <u>not</u> the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education.</td><td>1</td></tr></table>
Application can be made to the financial sector, but it is not essential.</td></tr>
</table>

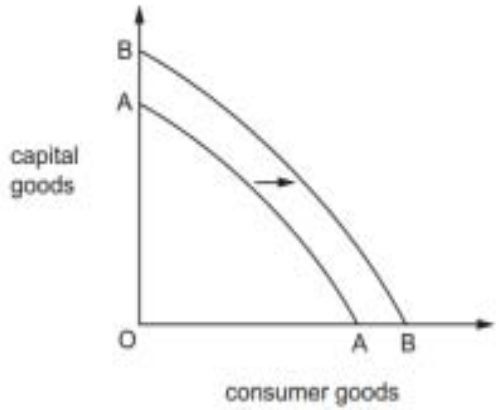
Question	Answer	Marks	Guidance
1(h)	**Discuss whether or not opening up to free trade benefits an economy.** **Up to 4 marks for how it might:** Opening up to free trade will increase choices from imports (1) obtain products cannot produce (1) reduce prices (1) standards of living increases (1). More competition from imports (1) improve quality (1) increase productivity (1). Encourage more foreign investments (1) increase employment / decrease unemployment (1) increase capital spending (1) increase innovation (1) May increase the opportunity of specialisation (1) increase exports (1) increase GDP/GDP per capita/income (1). Avoid retaliation (1) that can occur if trade restrictions are imposed (1). **Up to 4 for marks for how it might not:** Domestic producers might be adversely affected (1) can't compete with foreign firms (1) who might be more cost competitive (1) unemployment increases (1). Increase imports (1) will increase current account of the balance of payment deficit (1). May become dependent on other countries (1) they may gain monopoly power (1). Free trade may involve the removal of tariffs (1) reducing government revenue (1)	**6**	

Question	Answer	Marks	Guidance
2(a)	**Define *industry*.** Firms (1) that produce the same product (1) example (1)	**2**	
2(b)	**Explain <u>two</u> types of integration (merger).** • horizontal integration (1) firms from same industry and same level of production integrate (1) • vertical integration (1) firms from same industry but different levels of production integrate (1) • conglomerate integration (1) firms from different industries integrate (1)	**4**	Allow full marks if forward and backward vertical integration is explained accurately.
2(c)	**Analyse the advantages that an MNC has over a firm which only produces domestically.** Set up in economies where labour costs are less (1) and raw material costs are cheaper (1) which can give them cost advantage in the international markets (1). Greater market (1) easier access to foreign markets (1) greater profits (1) fewer trade barriers (1) production set up in countries which have lots of favourable trade agreements (1) bigger output (1) economies of scale (1). Reduction in risk (1) diversified markets (1). Locate operations near the potential market (1) which results in lower transportation cost (1). Wider access to more skilled workers (1) more productive (1).	**6**	

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether or not an economy benefits from firms which are monopolies.** **Up to 5 marks for how it might:** Monopolies can gain more profits (1) they will be able to reinvest more (1) more choices from the company (1) total demand increases (1) economic growth (1) expand production (1) employ more workers (1) unemployment decreases (1) more R&D (1) more innovation (1) higher quality (1) more productivity (1) more exports (1) improved current account position (1). **Up to 5 marks for how it might not:** Lack of competition (1) complacency (1) less productivity (1) less innovation (1) price is higher (1) inflation (1) exploitation of consumers (1) less choice (1) lower quality (1).	**8**	

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Question	Answer	Marks	Guidance
3(a)	**Identify <u>one</u> example of a direct tax and one example of an indirect tax.** Income Tax / Corporation Tax / National Insurance / Profit Tax (1). Value Added Tax (VAT) / Goods and Services Tax (GST) / Sales Tax / tax on product e.g. bar of chocolate (1).	**2**	
3(b)	**Explain <u>two</u> reasons why a firm may become more capital intensive as it grows.** • to increase output (1) capital more efficient/productive (1) • to reduce costs (1) labour costs becoming relatively higher than machines (1) increasing profits (1) • may be able to take advantage of technical economies of scale (1) specialist capital may become viable for a large firm (1)	**4**	Accept making more profit may allow a firm to afford more investment in capital.
3(c)	**Analyse, using a production possibility curve (PPC) diagram, the possible effects of faster internet speeds for economic growth.** **Up to 4 marks for the diagram:** • axes correctly labelled in terms of two different products or types of products (1) • the curve or downward sloping line is drawn to the axes (1) • second curve or downward sloping line is drawn to the axes (1) • an indication either by labelling or an arrow that the curve has shifted outwards / right (1) **Up to 2 marks for written analysis:** Faster internet speed increases productive capacity / the maximum quantity of products that can be produced within a certain time period (1) better communication infrastructure (1) e.g. labour can work faster, capital is better (1) lower costs of production (1) encourage more investments therefore increase financial capital (1) increased productive capacity results in (potential) economic growth / cause economic growth (1).	**6**	 ***Do not reward analysis marks for description of diagram e.g. PPC shifts to the right.***

Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not an economy would benefit from less government regulation.** **Up to 5 marks why it might:** More freedom (1) less red tape / bureaucracy (1) easier to set up new firms (1) more competition (1) decrease cost of production (1) decrease price (1) including exports (1) increase quantity demanded (1) increase total revenue (1) increase profits (1) more investments (1) increase demand for labour (1) less unemployment (1) decrease current account deficit (1) increase aggregate demand (1) increase economic growth (1). More control over prices (1) resulting from removal of e.g. a maximum price (1). **Up to 5 marks why it might not:** Less labour regulations would reduce job security (1) more exploitation of workers (1) e.g lower wages / longer working hours (1) more inequality (1). Less environmental regulations would increase pollution (1) e.g. air pollution / water pollution (1) health standards of society reduces (1) Less antitrust/anticompetitive regulations will create monopolies (1) small firms can't compete (1) higher prices (1). Less protection of domestic firms from e.g. embargo (1) domestic firms may go out of business (1). Discourage consumption of harmful products (1) e.g. smoking ban (1). External costs may be ignored (1) e.g. air pollution, noise (1). It may mean that there is less consumption of beneficial (merit) goods (1) e.g compulsory state education (1)	**8**	

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Question	Answer	Marks	Guidance
4(a)	**Identify <u>two</u> non-wage factors that could affect an individual's choice of occupation.** • opportunity for promotion • job security • satisfactory work • varied work • pleasant working conditions • fringe benefits • location • danger	**2**	
4(b)	**Explain <u>two</u> causes of inflation.** • demand-pull inflation (1) increase in *total* demand/ lower interest rate / increase business confidence / increase consumer confidence / depreciation of the currency / lower income tax / lower cost of borrowing / increase disposable income / increase exports (1) increase in money supply (1) • cost-push / increase in costs (1) increase price of commodities / increase cost of production / depreciation of the currency / increase indirect taxes (1)	**4**	
4(c)	**Analyse the impact of strikes on an economy.** Disrupted production (1) loss of output (1) decreased productivity (1) less economic growth (1) increased cost of firms (1) reduced profits (1) rising prices / inflation (1) unemployment (1). Better working conditions of the workers (1) higher wages (1). Exports decreasing (1) increase current account deficit / decrease current account surplus (1). Less investment by MNCs (1). There may be capital investment to replace workers (1).	**6**	

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Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not an increase in wages will reduce a firm's profit.** **Up to 5 marks for why it might:** Higher wages will mean a higher wage bill (1) if output does not increase by more than wages, labour costs per unit will increase (1) costs of production will increase (1) profit is revenue minus costs (1) with higher costs and the same revenue, profit will fall (1). Prices will rise (1) if demand is elastic, revenue will fall (1) **Up to 5 marks for why it might not:** Paying higher wages may prevent strikes (1) this can reduce costs of production (1). Higher wages may motivate workers (1) this can increase productivity (1) reduce costs of production (1). Higher wages may make it easier to recruit skilled workers (1) this will raise productivity (1) reduce costs of production (1) increase profits (1) Other costs may be falling (1) e.g. rent, corporation tax (1). Demand for the firm's products may be increasing (1) this will raise revenue (1). Higher wages may be paid to a smaller labour force (1) reducing the wage bill (1). Replace workers with machines (1) may leave costs unchanged (1).	**8**	2 marks could be awarded for an accurately drawn Demand and Supply diagram.

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Question	Answer	Marks	Guidance
5(a)	**Define *monetary policy*** Policy to control the supply of money / demand-side policy (1) by changing interest rates / influencing the price of money (1) exchange rates / Quantitative Easing (1).	**2**	
5(b)	**Explain <u>two</u> functions of money** • medium of exchange (1) avoids double coincidence of wants needed in barter/enables people to buy and sell products (1) • unit of account / measure of value (1) easy to compare value of products / putting a value on products (1) • store of value (1) for savings / future consumption / will not lose value (1) • standard of deferred payment (1) credit / instalments/enable people to borrow and lend (1)	**4**	
5(c)	**Analyse the consequences of an appreciating currency on the current account of the balance of payments of a country.** An appreciation in the exchange rate means a rise in the value of the currency (1) higher export prices (1) lower import prices (1) increase quantity demand for imports (1) decrease quantity demand for exports (1) increase value of imports (1) decrease value of exports (1) may reduce net exports (1) current account deficit increases / current account surplus decreases (1).	**6**	Reward but do not expect reference to outcome will be influenced by PED.

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Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not a reduction in taxes is beneficial for an economy.** **Up to 5 marks for why it is:** Reduction in taxes will attract investments (1) this creates new jobs (1) this could also improve the productivity of the economy (1) as there might be investments in R&D / technology (1) creating economic growth (1) Cut in income tax will increase disposable income (1) increase total demand (1) lower unemployment (1) Cut in corporation tax/indirect tax (1) may reduce costs of production (1) inflation decreases (1). Cut in tariffs will increase competition (1) improve e.g. product quality (1). **Up to 5 marks for why it is not:** Decreased government revenue (1) budget deficit (1) government can't spend on e.g. infrastructure (1) opportunity cost (1) foreign investment might increase the value of the currency further (1) exports become uncompetitive (1). Reduction in indirect tax (1) may increase consumption of harmful products/example (1) may reduce people's health (1). Reduction in tariffs may e.g. cause infant industries to go out of business (1) increasing unemployment (1). An increase in total (aggregate) demand may cause inflation (1)	**8**	2 marks could be awarded for an accurately drawn Demand and Supply Diagram showing tax reduction

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Question	Answer	Marks	Guidance
6(a)	**Define *Gross Domestic Product*.** GDP measures the (total) output/income/expenditure (1) of a country/economy (1).	**2**	
6(b)	**Explain <u>two</u> ways in which more affordable medicines can improve standards of living**. • more people can have medicines (1) improve health (1) raise productivity / enable people to work / not off work sick (1) • different choice of medicines (1) consumers can find what suits them best (1) • hospitals will have more medicines (1) easier to treat those who are ill/reduce death rate (1) • less spent on healthcare (1) can spend more on other things that can improve standard of living such as education, holidays (1) • higher productivity (1) higher incomes (1)	**4**	Accept higher HDI if linked to improved life expectancy (1). Do not accept birth control or birth rate explanation.
6(c)	**Analyse how investment in research and development can help a firm to grow in size.** More innovation (1) e.g. Faster machines (1) increase productivity (1) decrease cost of production (1) decrease price of products (1) increase demand (1) increase market share (1) increase profits (1) more reinvestments (1). New products produced (1) larger exports (1) enter new markets (1) at start no direct competition (1) may be high demand (1). More skilled workers needed (1) creating a bigger workforce (1) Provide information (1) influence what is produced (1).	**6**	

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether or not a reduction in imports is beneficial to an economy.** **Up to 5 marks for why it might be:** Reduction in imports may improve the trade in goods / trade in goods and services balance (1) this will improve the current account position / reduce a current account deficit (1) this may reduce a country's debts (1) avoid downward pressure on the exchange rate (1). Spending on imports may be replaced by spending on domestically produced products (1) this would increase the country's output / cause economic growth (1) this would increase demand for labour (1) raise employment / reduce unemployment (1) increase incomes and living standards (1). Fewer imports may enable infant industries to grow (1) may protect declining strategic industries (1). May prevent dumping (1) explanation of what is meant by dumping (1) Imports may be harmful products (1) might affect people's health (1). **Up to 5 marks for why it might not be:** Imports of capital goods / raw materials may decline (1) these might be cheaper / lower quality than domestically produced capital goods and/or raw materials (1) this will raise costs of production (1) make the country's products less internationally competitive (1) lower output/reduce economic growth (1) worsen the current account position (1) raise unemployment (1). Fewer imports may reduce choice (1) reduce competition (1) may raise prices (1) lower quality of people's lives (1). Exports may be falling by more than imports (1) so current account position may be worsening (1). Quantity of imports may be falling but value of imports may be rising (1).	8	

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Question	Answer	Marks	Guidance
6(d)	If the reduction is caused by protectionist measures (1) this would reduce benefits of free trade (1). Loss of tariff revenue (1) may be a major source of tax revenue/reduce amount that can be spent on e.g. education (1). Imports may be of beneficial products (1) not produced in the country (1).		

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Question	Answer	Marks	Guidance
7(a)	**Define *choice* and provide an example.** Two or more different alternatives that an economic agent may have OR the idea of sacrifice and opportunity cost (1) different coloured bicycle helmets / any example (1).	**2**	
7(b)	**Explain how the CPI is calculated.** CPI uses a basket of goods and services (1) weighted to account for the proportion of income (1) spent by the average household (1) found in a survey (1) uses a base year (1) for comparison (1) prices around the country surveyed (1) various types of firms / sources e.g. physical shops and also online (1) weights multiplied by price changes (1).	**4**	
7(c)	**Analyse the possible reasons for the increase in global demand for bicycle helmets.** Increase in popularity of cycling (1) helmets are complements to bicycles (1) quantity demanded for bicycles increasing would increase the demand for helmets (1). Increase in environmental awareness (1) less driving (1) more bicycles (1) thus, more demand for bicycle helmets (1). Increase in health and safety awareness (1) dangers of cycling (1) increased awareness of benefits of helmets (1). Increase in income (1) bicycle helmet is normal good (1) YED positive (1). Increase subsidies for bicycles (1) decrease price of bicycles (1). Increase demand for bicycles (1) increase demand for bicycle helmets Increase in population (1). Reduction in price of helmets (1).	**6**	2 marks could be awarded for an accurately drawn Demand and Supply diagram.

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Question	Answer	Marks	Guidance
7(d)	**Discuss whether or not increasing sales of a product will be beneficial to a firm.** **Up to 5 marks why it will be:** Increase sales revenue/income (1) increase profits (1) allowing firm to reinvest (1) into R&D (1) employ more labour (1) making new products (1) better quality products (1) profits increase even more (1). Revenue may increase if PED is elastic (1) as demand will rise by a greater proportion than price (1). Economies of scale (1) as output increases and average cost falls (1) efficiency arising from bulk buying / lower interest rates / indivisibility / division of labour (1). **Up to 5 marks why it will not be:** Price might be lower (1) revenue is lower (1) profit is lower (1) sales of product increase but sales of other products decrease (1) not enough to offset each other (1). Extra sales only achieved through higher costs of production (1) e.g. advertising (1). Diseconomies of scale (1) increase output and average costs increases (1) due to control and coordination problems (1).	**8**	

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