Cambridge Assessment International Education

Cambridge IGCSE™

ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2020**

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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

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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.

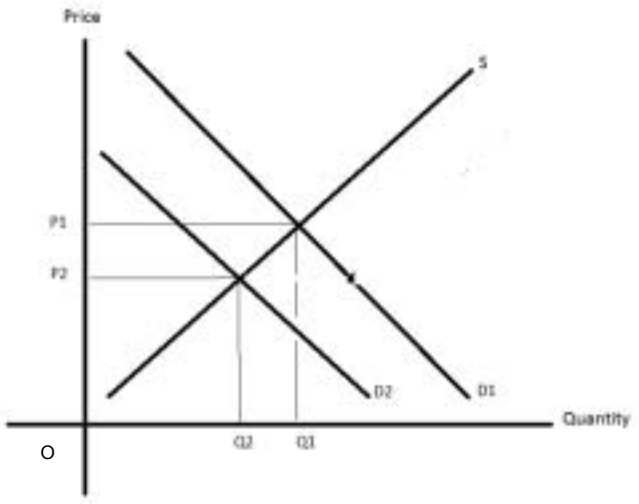
GENERIC MARKING PRINCIPLE 4:
Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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)	**Calculate Turkey's total output.** $320 billion	**1**	
1(b)	**Identify <u>two</u> factors that affect borrowing in an economy**. • interest rates • confidence levels • wages / incomes	**2**	
1(c)	**Explain the relationship between the growth of Istanbul's service sector and its growth in total output.** Logical explanation which might include: Higher growth in service sector leads to higher total economic growth (1). This is expected as countries become more developed, the share of services increases (1) and the share of primary sector decreases (1). For example, in 2011, the service industry grew most rapidly at 28.16% and the total economic growth was 21.9% (1). However, although growth of service sector was lowest in 2010 at 11.9%, total growth was 14.38% (1), higher than in 2014 where growth of service sector was higher (1).	**3**	
1(d)	**Explain <u>two</u> reasons for Istanbul's increased population.** Logical explanation which might include: People moving from rural areas to the city centre (1) e.g. for higher wages / more employment opportunities / better housing / low cost of living / good transport links (1). Improved healthcare (1) longer life expectancy / lower infant mortality / higher quality of life (1).	**4**	One mark for each of two reasons identified and one mark for each of two explanations.

Question	Answer	Marks	Guidance
1(e)	**Analyse how good transport links have contributed to Istanbul's economic growth.** Coherent analysis which might include: Good roads could lead to reduction in commute time (1) good roads / air transport leads to faster transport of goods and services (1). Workers can move easily / higher labour mobility (1) reduce unemployment (1). More competition in the labour market (1) more competition in the product market (1) could lead to fall in cost of production (1) increase in productivity (1). Easy to conduct business internationally due to good air transport links (1) access to huge international market (1) e.g. 1.5 billion people within a flight time of 4 hours (1) may have attracted MNCs (1). Contributed to the growth of the transport industry (1) allowing transport firms to take greater advantage of economies of scale (1).	4	
1(f)	**Draw a demand and supply diagram to show the effects on flights to Turkey of greater worries about safety for tourists.** **Up to 4 marks for the diagram:** Axes correctly labelled – price and quantity or p and q (1) Original demand and supply curves correctly labelled (1) Demand curve shifts to the left (1) Equilibriums – shown by lines P_1 and Q_1 and P_2 and Q_2, or by labelling equilibrium points as E_1 and E_2 (1).	4	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>1(g)</td><td>Discuss whether or not Istanbul benefits from investment by MNCs.

Up to 4 marks for why it may be beneficial:
Increased investment leads to increased total demand (1) leads to economic growth (1).
Increase demand for workers in Istanbul (1) decreasing unemployment rates (1) increasing incomes (1) and increasing standards of living (1).
Bring new / better technology (1) increase productive capacity / productivity (1)
Increase variety of products on sale (1) produce new products (1)
Increase tax revenue (1) allowing local government to spend more on e.g. roads (1).

Up to 4 marks for why it may not be beneficial:
Replace domestically owned firms in Istanbul / decrease demand for domestic firms (1) MNCs may be more efficient than domestic firms (1) leading to failure of domestic firms / decrease demand for domestic firms (1) monopoly of MNCs (1).
Profits leave the country (1) not reinvested domestically (1).
MNCs may exploit workers (1) such as low wages (1) poor working conditions (1).
MNCs may exploit environment (1) e.g. pollution (1).</td><td>6</td><td>Apply this example to all questions with the command word DISCUSS (1(g), 1(h), 2(d), 3(d), 4(d) and 5(d))

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></td></tr>
</table>

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Question	Answer	Marks	Guidance
1(h)	**Discuss whether or not competition is beneficial for airlines.** Up to 4 marks why it is beneficial: Competition will lead to airline being forced to be more efficient (1) productivity increase (1) use latest technology (1) reduce wasteful spending (1) quality increases (1) cost of production goes down (1) prices become more affordable (1) increase in quantity demanded (1) total revenue and profit increases (1). Up to 4 marks why it is not beneficial: Too much competition means less market share for each airline (1) less quantity demanded (1) airlines may have to advertise more (1) increase cost of production (1) total revenue and profit decreases (1) airlines who can't compete may go bankrupt / leave the market (1). Too much competition may result in the airline being small (1) cannot take advantage of economies of scale (1). An airline may not benefit from becoming more competitive (1) because of brand loyalty (1) lower demand for air travel (1).	**6**	

Question	Answer	Marks	Guidance
2(a)	**State <u>two</u> components of the current account.** Any two from: • trade in goods • trade in services • primary income • secondary income	**2**	Any two components. Accept exports and imports for 1 mark.
2(b)	**Explain why inflation may fall even if there is an increase in total demand.** Logical explanation which might include: There may have been an increase in total supply (1) which may be greater than the increase in total demand (1). There could be an improvement in productivity (1) better technology / capital (1). Costs of production could have gone down (1) e.g. lower taxes / lower costs of raw material, stronger exchange rates (1).	**4**	
2(c)	**Analyse how a country's current account deficit might be reduced if its firms become internationally competitive.** Coherent analysis which might include: Being internationally competitive e.g. high productivity, low inflation, low exchange rates (max 2) increases production (1) reduces cost of production (1) decreases price of exports (1) increases quality of exports (1) increases demand for exports (1) increases value of exports / net exports (1). Imports relatively more expensive / other countries products more expensive (1) lower relative quality of imports (1) decreases imports (1).	**6**	

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether or not lower taxes on firms will be beneficial for an economy.** In assessing each answer, use the table opposite. Why it might be beneficial: • will increase after tax profits • increase ability and incentive to invest • firms may expand output leading to higher employment and economic growth • higher investment may increase innovation and productivity which may improve the current account • will reduce cost of production. This may reduce inflation Why it might not be beneficial: • firms might not invest more and just keep the profits to themselves • government will get less revenue from firms, reducing ability to spend to improve the economy • may attract MNCs which may replace domestic firms • capital goods may replace labour, causing unemployment • higher output may result in external costs e.g. pollution.	8	**Level** / **Descriptors** / **Mark** **3** — A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. — **6–8** **2** — A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. — **3–5** **1** — There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. — **1–2** **0** — A mark of zero should be awarded for no creditable content. — **0**

Question	Answer	Marks	Guidance
2(d)	Example of L3 answer: *Lower taxes on firms will be beneficial for an economy, as this will reduce the production costs for firms and increase their profits. With greater profits, firms may invest in labour, which will decrease unemployment, and allow the firm to increase its output. With greater output, a firm's exports may increase, and this will improve the current account position. Furthermore, lower taxes may allow for lower prices as the reduced production costs may be passed on to consumers. Also, lower taxes may allow a firm to increase its wages which not only increase average incomes, but also increase productivity and so economic output.* *On the other hand, low taxes may not be beneficial, as firms may use their increased income for expansion, but may also increase external costs such as pollution when they do this. Furthermore, lower taxes may allow firms to become monopolies, which will hurt competition and the potential for new firms. Moreover, with increased income, firms may choose to become capital-intensive rather than labour-intensive, which would increase unemployment.* Principal Examiner comment: Strong on one side and reasonable on the other side.		

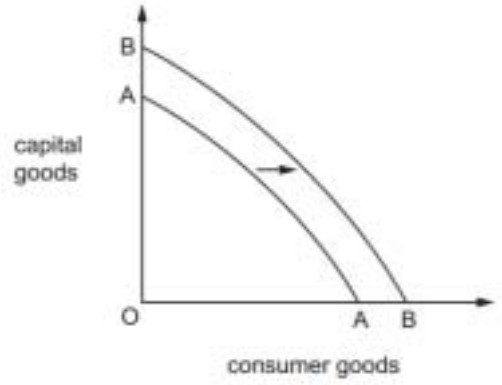
Question	Answer	Marks	Guidance
3(a)	**State <u>two</u> sectors, other than the primary sector, in an economy.** Secondary sector (1) Tertiary sector (1)	**2**	Reward but do not expect the quaternary sector.
3(b)	**Explain <u>two</u> possible reasons for a fall in the price of a product such as natural rubber.** Logical explanation which might include: Decrease in demand for natural rubber (1) emergence of substitutes (1) decrease in future expected price or any other relevant examples (1). Increase in supply of natural rubber (1) due to increase in number of producers / good yield / relevant example (1).	**4**	
3(c)	**Analyse the influences on spending.** Coherent analysis which might include: Income (1) higher income increases the ability to spend / increases purchasing power (1). The rate of interest (1) a change in the rate of interest influences the proportion of income that is spent and saved (1) and affects borrowing (1). Confidence (1) people spend more when they are optimistic (1) about future income / job security (1). Wealth (1) people can spend some of their wealth (1) e.g. sell shares (1) use it as collateral to borrow (1). Inflation (1) spending may fall if prices rise more than money wages (1) spending may rise as people seek to buy products before they increase in price even further (1). Expansionary fiscal / monetary policy may increase spending (1).	**6**	

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Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not the growth of the primary sector is beneficial to a country.** In assessing each answer, use the table opposite. Why it is beneficial: • can increase total output of the economy, increasing economic growth • can provide employment opportunities that are accessible to all / requires low skill / requires low technology • could increase standards of living in rural areas • provide raw materials for secondary sector • could ensure that country has food security, reduce imports of necessities, if prices of primary sector products are high e.g. high oil price which this could bring huge export revenue to the country. This could reduce current account deficit. Why it is not beneficial: • productivity may be low in the primary sector, very low value added • may be low wages and poor working conditions • overdependence on primary sector may restrict growth of secondary and tertiary sectors • some primary industries may be disrupted by weather conditions and natural disasters • supply and demand are inelastic so there may be considerable price fluctuations • natural resources e.g. copper may be depleted.	8	**Level** / **Descriptors** / **Mark** **3** — A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. — **6–8** **2** — A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. — **3–5** **1** — There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. — **1–2** **0** — A mark of zero should be awarded for no creditable content. — **0**

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Question	Answer	Marks	Guidance
3(d)	Example of an L1 answer: *Growth of the primary sector may benefit an economy because it uses renewable and non-renewable resources. It provides the raw materials needed by other sectors. Consumers' demands cannot be fulfilled without the primary sector as it is needed to produce all goods and services. It may not be as beneficial as other sectors as wages are lower and natural resources may eventually become depleted.* Principal Examiner comment: A few relevant identifications.		

Question	Answer	Marks	Guidance
4(a)	**Define *tariffs*.** Tariffs are a tax (1) on imports/exports (1) which increase the price of imported/exported goods (1).	**2**	
4(b)	**Explain <u>two</u> non-tariff methods of protection.** Logical explanation which might include: Quotas (1) quantitative restriction on the amount of imports that can enter a country (1). Subsidies (1) grants given to domestic firms to reduce domestic cost of production and reduce demand for imported goods (1). Embargoes (1) total restriction on a certain product from a certain country (1).	**4**	Also accept other non-tariff barriers such as rules and regulations, exchange controls, etc. One mark for each of two reasons identified and one mark for each of two explanations.
4(c)	**Analyse, using a production possibility curve (PPC) diagram, the beneficial effects for a country of the growth of its small and medium-sized firms.** Up to 4 marks for the diagram: Axes correctly labelled (1). Initial curve drawn as a curve or downward sloping line to the axes (1). New curve drawn as a curve or downward sloping line to the axes (1). Shift to the right indicated by arrow or lettering (1). Up to 2 marks for coherent analysis which might include: The growth of its small and medium-sized firms will lead to an increase in the number of firms in the economy (1) this will increase productive potential / increase productive capacity / cause economic growth (1).	**6**	 Also accept a tilt outward of the new PPC curve.

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<tr><td>4(d)</td><td>Discuss whether or not increased international trade can promote economic growth.

In assessing each answer, use the table opposite.

Why it may:
• increase size of the market for domestically produced goods, increase exports, increase total demand
• firms can specialise and achieve economies of scale, decrease cost of production, increase demand for goods and services produced domestically
• increase competitive pressure (1) making firms more efficient (1)
• increase access to products not available domestically, e.g. raw materials to produce other goods, increase output of an economy (1).

Why it may not:
• Increase amount of imports, decrease total demand of the economy
• domestic firms may not be able to compete causing less revenue, less profits, more unemployment,
• may result in shortages of e.g. rice in the domestic market
• make the economy more subject to sudden changes in demand and supply.</td><td>8</td><td>
<table>
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<tr><td>3</td><td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td><td>6–8</td></tr>
<tr><td>2</td><td>A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td><td>3–5</td></tr>
<tr><td>1</td><td>There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td><td>1–2</td></tr>
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Question	Answer	Marks	Guidance
4(d)	Example of L2 answer: *Increased international trade may not benefit a country because the country may be in a trade deficit as the cost of a country's imports exceed the total value of its exports. Consumers may purchase more goods and services from abroad than from domestic firms which may reduce economic growth as they make less profit. The value of the currency may fall eventually because more goods and services are being imported instead of exported.* Principal Examiner comment: Limited on one side.		

Question	Answer	Marks	Guidance
5(a)	**State the rewards for labour and capital.** Wages (1) for labour Interest (1) for capital	**2**	
5(b)	**Explain the <u>two</u> types of poverty.** Logical explanation which might include: Absolute poverty (1) is when someone cannot afford the basic necessities of life (1) less than $1.90 per day at PPP (1). Relative poverty (1) is when someone earns less than is needed to participate in the normal activities of society (1) when there is inequality (1).	**4**	One mark for identifying absolute poverty and one mark for an explanation. One mark for identifying relative poverty and one mark for an explanation.
5(c)	**Analyse how firms can benefit from specialisation.** Coherent analysis which might include: Improve skills of workers (1) save time (1) lead to invention of new technology (1) increase productivity (1) raise quality (1) decrease average cost of production (1) decrease prices (1) increase demand (1) enable advantage to be taken of economies of scale (1) increase profits (1).	**6**	

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>5(d)</td><td>Discuss whether or not supply-side policy measures can reduce unemployment.

In assessing each answer, use the table opposite.

Why they can:
• decrease corporation / profit tax, more profits, more investments, more demand for labour, reduction in cyclical unemployment
• decrease interest rates, more borrowing, more investment, more demand for labour, reduction in cyclical unemployment
• decrease income tax, increase disposable income, more spending / demand for goods and services, more production, increase demand for labour
• government subsidies can encourage firms to expand and take on more workers, reduce cyclical unemployment
• increase spending on education and training, increase skills / productivity of labour, increase demand for labour, decrease structural unemployment.
• provide more information on jobs / job centres, easier for workers to find jobs, decrease frictional unemployment
• reduce unemployment benefit to reduce the time workers are between jobs, decrease frictional unemployment.

Why they cannot:
• may be a time lag
• more investments could lead to increased technological development, less demand for workers
• education programmes not according to market needs</td><td>8</td><td>
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Question	Answer	Marks	Guidance
5(d)	• privatisation could lead to firms cutting amount of workers • decrease in minimum wage could decrease incentive to work • may be a lack of total demand. Example of L2 answer: *Supply-side measures such as training and education can help to reduce unemployment as they allow people to become more skilled and therefore increase their opportunities to become hired. Also, when a firm is subsidised by the government, it may have more money to invest in labour, and this would reduce unemployment. Privatisation can also cause a reduction in unemployment, as the private sector may be willing to invest more capital to labour to increase its output and this would reduce unemployment.* *On the other hand, supply-side measures may not reduce unemployment, because subsidies given to firms may increase its capital, but this may be used to become more capital-intensive rather than labour-intensive, which would not reduce unemployment. Also, if people are trained and educated, but gain skills that are not demanded, they may remain unemployed and therefore unemployment would not decrease. Privatisation may lead to firms becoming more capital-intensive rather than labour-intensive, and this would not reduce unemployment.* Principal Examiner comment: Reasonable on both sides.		