UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

2281 ECONOMICS

2281/21 Paper 21 (Structured Questions), maximum raw mark 80

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UNIVERSITY of CAMBRIDGE
International Examinations

1 (a) These are recorded in the visible import (1) section of the current account (1). [2]

(b) The imposition of a quota by a government should lead to a decrease in imports which might:
- increase home production
- increased home production could lead to an increase in exports
- increase in domestic employment
- infant industries may have a chance to grow
- sunset industries can decline gradually
- raise incomes/standard of living
- lead to an increase in economic growth
- reduce a balance of payments deficit in the current account
- increase a balance of payments surplus in the current account
- loss of efficiency
- less competition and innovation for home producers
- less choice for consumers
- possible retaliation from overseas. [4]

(c) The imports of clothing and textiles from China peaked in the last six months of 2006 prior to the introduction of the quota by the South African Government in 2007 as China tried to beat the quota (1), and then declined in 2007 due to the effect of the quota (1). [2]

(d) Possible benefits:
- could help to bring about minimum working standards
- could help to keep pay higher than would otherwise be the case
- could help to maintain employment (the article does refer to one company reducing its workforce by 8%)/enhanced job security
- could lead to an improvement in health and safety.

Possible disadvantages:
- might cause lack of flexibility in working practices
- this could be a major problem as fashions change very quickly
- this could lead to some firms going out of business
- workers made redundant
- workers will need to pay union membership fees.

A maximum of 3 marks for a one-sided answer and/or no mention of the clothing industry. [4]

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(e) A success:

- imports from China fell from about R1400 million to about R400 million in the first quarter of 2007
- this was a significant reduction in a relatively short space of time
- this brought the figure down to what it had been in the first half of 2004.

A failure:

- imports from China were replaced by imports from other countries
- these countries included Malawi and Zimbabwe
- it was thought that China was using these countries to export to South Africa
- overall, imports fell by only 13%
- the impact on the current account was, therefore, less than had been hoped for
- the hope of increased home production was not achieved
- the necessary raw materials could not always be obtained
- many firms did not have the necessary spare capacity and so couldn't increase production.

An entirely one-sided answer can gain no more than 4 marks. [8]

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2 **(a)** Opportunity cost is defined as the benefit obtained from the next best alternative foregone because of a particular choice (2).

The above decision might be used to illustrate an opportunity cost, either in terms of students deciding to spend their money/use their time in a university rather than something else or in terms of a government deciding what to spend public funds on; as the stem says, this government now had extra funds to spend on other things such as transport or health, for example (2). [4]

(b) Diagram:
- labels (price, quantity, demand, supply) (1)
- shift of the supply curve to the right (1).

Discussion:
- the effect of a subsidy would be to lower price (1) and raise output (1)
- the actual effect would depend on the differences in the elasticity of demand and/or the elasticity of supply in different markets (2).

A maximum mark of 4 if there is no reference to elasticity. [6]

(c) A government could change the market price of a good through the imposition of a:
- quota
- tax which would lead to an increase in the price of a good
- minimum price which would be above the equilibrium price
- maximum price which would be below the equilibrium price
- regulation or law which could lead to increased costs and, therefore, a higher price.

If one action is covered well, reward up to a maximum of 3 marks. [4]

(d) Candidates need to demonstrate a clear knowledge and understanding of these two types of economic system in terms of how they allocate resources differently. There are no explicit references to merit goods, demerit goods, public goods or externalities in the syllabus, but it does refer to the allocation of resources in market and mixed economic systems, the concept of market failure and reasons for its occurrence and an evaluation of the merits of the market system.

A maximum of 3 marks if only one type of economy is considered. [6]

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3 (a) Definition of a non-wage factor – a non remuneration payment (1).

Examples of non-wage factors affecting the choice of a job (3):
- length/number of holidays
- working conditions/environment
- hours of work
- promotion/career prospects
- travelling distance
- size of company
- social/canteen facilities
- provision of insurance scheme
- company car. [4]

(b) Explanation of such factors as:
- level of income/wealth
- age
- family size and commitments
- rates of interest
- availability of/knowledge about savings schemes
- confidence in banking system
- personal needs/lifestyle
- health care
- education
- future expectations.

A maximum of 3 marks if only one factor is covered. [6]

(c) Discussion could include such factors as:
- supply and demand
- membership of trade unions
- strength of trade unions
- public/private sector distinction
- training
- skill levels
- productivity (MRP is not on the syllabus)
- proportion of labour costs to total costs
- location
- danger/risk.

An answer which makes no **explicit** reference to the demand for and supply of labour can gain no more than 6 marks. [10]

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4 (a) The type of business (in other words, large and capital-intensive) would suggest that it is most likely to be a multinational public limited company having production units in other countries, such as India, rather than a private limited company or a partnership.

Award up to two marks for describing a multinational and up to 2 marks for describing a public limited company. [4]

(b) Possible advantages could include:
- lower cost of labour
- less powerful/non-existent trade unions
- availability of skilled workers
- availability of machinery
- availability of raw materials
- tax benefits
- transport benefits
- higher profits. [6]

(c) Effect on existing Indian companies:
- a negative effect if they are in competition with the multinational company
- there may be competition for a limited number of skilled workers
- there could be a damaging effect on the profits of the Indian companies
- but a positive effect if the Indian companies are suppliers of components or raw materials
- the Indian companies might be involved in the training of workers required by the multinational company
- there could, therefore, be a positive effect on the profits of the Indian companies.

Effect on the Indian economy:
- a positive effect if employment is increased
- local incomes could be increased
- increase in standard of living/quality of life
- government revenue from taxes could increase
- a negative effect if much of the profit is repatriated to the home country
- senior management may not be from local population
- multinational company may quickly withdraw from the economy if economic conditions worsen.

A maximum of 6 marks for either a one-sided answer or one which deals with only existing Indian companies or the Indian economy.

A maximum of 8 marks if only explains positive effects or only explains negative effects. [10]

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5 (a) Description of what is meant by economic growth: (3)
- increase in real output over a period of time
- improved production possibilities
- increased incomes.

Explanation of how it is measured: (2)
- measured through changes in GDP, GNP or NNP over a period of time in real terms.

A distinction could be made between actual economic growth, in terms of an increase in real GDP, and potential economic growth, in terms of an increase in the productive capacity of the economy (though this distinction is not on the syllabus). [5]

(b) 1 mark for the identification of each type of unemployment and 1 mark for an explanation of how it is caused.

Possible types of unemployment are likely to include:
- structural
- demand-deficient/cyclical
- regional
- seasonal/casual
- residual
- frictional
- technological
- hidden
- search
- natural/NAIRU. [6]

(c) Consumers might benefit from:
- increased choice
- increased incomes
- higher level of consumption
- increased leisure
- improvement in standard of living/quality of life
- possible lower prices.

Firms might benefit from:
- higher profits
- increased competition contributing to greater efficiency
- increased demand for products.

The government might benefit from:
- increased tax revenue
- money that could be spent on better health facilities
- money that could be spent on better education facilities
- money that could be spent on improved training facilities.

A maximum of 4 marks for covering any one aspect (consumers, firms or government). [9]

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6 (a) 1 mark for an explanation of each factor of production:

- land
- labour
- capital
- enterprise.

If a candidate just lists the four, they can gain 2 marks. If they list three of them, they can gain 1 mark. [4]

(b) Candidates can comment on:

- the size of firms
- the number of sellers
- availability of knowledge
- level of price
- level of output
- type of product
- level of profit
- barriers to entry.

A maximum of 3 marks if only describe the characteristics of a monopoly or perfect competition. [6]

(c) Discussion of how firms might become large.
Internal expansion:

- increased sales
- greater market dominance
- pricing policy
- increased demand for product
- effect of advertising/promotion campaign.

External acquisition:

- horizontal integration
- vertical integration (both backward and forward)
- conglomerate integration
- mergers, takeovers and acquisitions.

Evaluation of whether monopolies are necessarily advantageous:

- economies of scale can exist
- these will lead to lower costs and this could lead to lower prices
- high profits can be used to finance research and development
- but prices are likely to be higher than in perfect competition
- output is likely to be lower than in perfect competition
- abnormal/supernormal profits can exist in the long run
- consumers can be denied choice.

A maximum of 6 marks for an answer that has no evaluation. [10]

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7 **(a)** A description of the functions of money:

- a medium of exchange
- a measure of value
- a store of value
- a standard for deferred payments.

A maximum of 2 marks for a list of all four functions.
A maximum of 1 mark for a list of three functions.
1 mark for the development of each function. [6]

(b) Identification (1) and explanation (1) of three functions of a central bank:

- bankers' bank
- lender of last resort
- government's bank
- note and coin issue
- management of the national debt
- possible determination of interest rates
- possible involvement in the determination of exchange rate.

Candidates can get 3 marks for the identification of 3 functions of a central bank, but no marks for identification of any functions of a commercial bank unless compared with the central bank.

No marks for an answer which relates to the functions of a commercial bank. [6]

(c) Discussion of the main causes of inflation:

- demand-pull
- cost-push
- monetarist theories
- imported.

Candidates must discuss at least 2 causes to gain all 8 marks. [8]

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