UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

2281 ECONOMICS

2281/22 Paper 22 (Structured Questions), maximum raw mark 80

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UNIVERSITY of CAMBRIDGE
International Examinations

1 **(a)** Idea of a downswing/downturn in a business or trade cycle.
Economic growth will be negative.
Rising unemployment/job losses.
Idea of a period of time (technically two successive quarters of negative growth, but we shouldn't expect candidates to be this precise). [2]

(b) Productivity refers to output per factor or input, such as output per worker (1), per period of time (1).
A vague comment on an increase in production/output should get no marks. [2]

(c) They have a separate legal existence from their owners.
They are owned by shareholders.
The owners have limited liability.
They have plc after their names.
Shares can be traded on a stock exchange.
The directors must report on the progress of the company to the shareholders at an AGM.

A maximum of 2 marks if only one feature is described, but it is done very well. [3]

(d) Possible reasons:
- wages/salaries
- other financial factors, e.g. bonus, commission, profit sharing
- hours of work/flexitime
- location (possibly reducing travel time/cost)
- working conditions
- holiday provision
- promotion prospects
- fringe benefits, e.g. company car
- pension arrangements
- social/leisure/canteen facilities.

Up to 3 marks for identification of reasons.
Up to 3 marks for explanation of these reasons. [6]

(e) General understanding of what a trade union is (2) (this can be implied throughout the answer).

Discussion of role in relation to:
- better pay
- improved working conditions
- putting pressure on individual firms to maintain jobs
- putting pressure on government to maintain jobs
- threat/different types of industrial action (5).

The question does refer to **how** effective trade unions may be in their influence; answers which fail to address this can gain no more than 4 marks.

Answers which only deal with firms or the government can get a maximum of 4 marks. [7]

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2 (a) (i) Correctly labelled diagram (price, quantity, demand) (1).
Shift of demand curve to the right (1). [2]

(ii) Possible causes:
- rise in income
- greater availability of credit to finance borrowing
- fall in interest rate on loans
- price of substitute has gone up
- price of complement has gone down
- effect of advertising campaign
- growth in population
- change in tastes and preferences of consumers in favour of a product.

Note that the question asks candidates to **identify** two causes. [2]

(b) General idea that PED measures the sensitivity of demand to a change in price (1).
Precise formula: percentage change in quantity demanded of a product divided by percentage change in price of a product (2).
Extra comment, e.g. it is usually negative, it can range from perfectly inelastic to perfectly elastic (1). [4]

(c) If PED is elastic, the business should reduce price (1) to benefit from an increase in revenue (1).
If PED is inelastic, the business should increase price (1) to benefit from an increase in revenue (1). [4]

(d) Firms may come to dominate and have monopoly power, leading to higher prices and lower levels of output.
There may be significant differences in income and wealth, which gives some consumers much more power than others.
Merit goods, which are socially desirable, may be under-provided and under-consumed.
Demerit goods, which are socially undesirable, may be over-provided and over-consumed.
Public goods, which cannot be easily provided through a market system, may not be provided at all.
Resources cannot always easily move from one use to another, e.g. labour may not have the necessary skills and/or information.
Externalities may not be taken into account in consumption and production decisions.

Please note that merit, demerit and public goods are not on the syllabus; a maximum mark, therefore, could be obtained without reference to any of these.

A general understanding of what is meant by market failure can gain up to 2 marks.
A narrow focus on one particular area of market failure, that is done well, can gain a maximum of 5 marks. [8]

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3 **(a)** A fixed or overhead cost is a cost of production which does not vary with changes in output (1), such as the cost of fixed interest payments on loans (1).
A variable cost is a cost of production which does vary with changes in output (1), such as the cost of raw materials (1). [4]

(b) Three from the following:
- land, e.g. where the terminals and runways are constructed
- labour, e.g. the skilled and unskilled labour involved in the various activities
- capital, e.g. the equipment and machinery used at the airport
- enterprise, e.g. the role of the entrepreneur in various airport operations.

Allow construction (as opposed to operation) of an airport.
A list of three factors of production can gain 1 mark.
A good explanation of these three factors, with no application to an airport, can get a maximum of 5 marks. [6]

(c) The social cost measures the cost to the whole society of an economic activity; it is equal to the sum of the private cost and the external cost. Examples could include noise and visual pollution (external) and wages paid to building workers (internal).

The social benefit measures the benefit to the whole society of an economic activity; it is equal to the sum of the private benefit and the external benefit. Examples could include extra revenue generated in the area, improvement in transport infrastructure and benefit to trade and tourism (external) and profits earned by airlines (internal).

A maximum of 6 marks if the candidate only discusses social costs or social benefits.
Also, a maximum of 6 marks if no reference to a new runway.
An answer that focuses only on external or private costs and benefits can get a maximum of 6 marks. [10]

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4 **(a)** Sole proprietor:
- a small, one person business
- the person is his/her own boss
- the owner is personally liable for any debts and has unlimited liability
- the person receives all the profits.

Partnership:
- individuals work together and share joint responsibility for any decisions
- the partners usually have unlimited liability
- more people to bring in skills and ideas
- enhances ability to bring in more funds.

A maximum of 2 marks if only one type of business is covered. [4]

(b) Possible reasons:
- can bring in more money by selling shares to friends and family
- this will provide necessary finance for a business to expand
- shareholders have limited liability
- the company has a separate legal identity. [4]

(c) Possible reasons:
- amount of capital to finance growth
- organisation of the business, e.g. sole trader
- personal choice/preferences of owner(s)
- government regulation/assistance
- customer preference for personal service
- location in particular shopping areas, e.g. villages
- convenience, e.g. extended opening hours.

Note that the question specifically refers to the **retail** trade; a maximum of 3 marks if no reference to the **retail** trade. [5]

(d) Economies of scale:
- bulk buying
- managerial
- technical, e.g. specialisation, indivisibilities, linked processes
- financial economies
- risk bearing economies.

These are all internal economies of scale, but credit should be given to reference to possible external economies, such as availability of skilled labour or existence of ancillary firms.

The question does refer to the **extent** so there could be a reference to possible diseconomies of scale.

The question also refers explicitly to the **television** manufacturing industry; a maximum mark of 5 if a general answer is given with no specific reference to **television** manufacturing. [7]

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5 (a) To pay for:
- education
- health service
- transport
- social services/security
- housing
- local government
- law and order
- defence.

Part of fiscal policy:
- to reduce the level of demand
- to help control inflation
- to discourage imports
- to maintain a balance of payments equilibrium
- to redistribute income.

A maximum mark of 4 if candidate only deals with raising revenue to pay for expenditure. [6]

(b) Direct taxes:
- these take money directly from people's incomes or from companies' profits
- they can be progressive in effect
- examples include income tax, corporation tax, inheritance tax, capital gains tax.

Indirect taxes:
- these are paid when goods and services are bought
- these tend to be regressive in effect
- examples include VAT/GST, excise duties. [4]

(c) Direct taxes, such as income tax, are progressive meaning that they take a higher proportion of income from the rich than the poor. They take into account the ability of people to pay and the money obtained can then be used to pay for benefits to the poor, such as housing benefits, unemployment benefits and other types of social security. This wouldn't apply to indirect taxes because these are regressive taxes. In other words, they do not take into account the ability to pay.

The question does refer to **extent**; answers which fail to address this can get no more than 6 marks. [10]

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6 **(a)** Economic advantages:
- large pool of labour
- large number of consumers.

Economic disadvantages:
- possible burden on limited resources
- high rate of unemployment. [4]

(b) Possible reasons:
- birth rate
- death rate
- fertility rate
- net migration
- living standards/quality of life
- availability of/knowledge about contraception
- customs and beliefs
- religion
- female employment/career opportunities
- age of marriage
- medical advances and healthcare
- influences on immigration/emigration, e.g. availability of jobs.

Maximum of 3 marks for identification of reasons. [6]

(c) GDP:
- GDP
- real GDP
- per head/per capita
- a rather narrow measure of economic development/welfare
- doesn't take into account what people can buy with their incomes
- does not take into account the distribution of income, the type of products produced or pollution.

There are other ways of measuring the standard of living, such as the Human Development Index:
- United Nations compilation
- has a maximum possible value of 1
- it does incorporate GDP per capita
- also includes access to education and knowledge, measured by the adult literacy rate and school and college enrolment rates
- also includes health, diet and lifestyle, measured by life expectancy at birth.

The question does refer to **how effectively**, e.g. a comparison of GDP with alternative approaches; answers which fail to address this can gain no more than 6 marks. [10]

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7 **(a)** An exchange rate is the price of one currency (1) in terms of another (1); it is the external value (as opposed to the internal value) of a currency (1). [2]

(b) Possible determinants:
- impact of demand for a currency on the foreign exchange market
- impact of supply of a currency on a foreign exchange market
- exchange rate is the equilibrium price resulting from these market forces
- level of confidence in a particular currency
- state of economy
- likely future economic state
- political factors
- interest rates
- speculation.

Reward the inclusion of an appropriate diagram. [6]

(c) Two from the following:
- tariffs
- quotas
- subsidies
- exchange controls
- embargoes/boycotts
- voluntary agreements
- administrative (red tape) restrictions.

1 mark for a brief, limited description and 2 marks for a more thorough description of each method. [4]

(d) Arguments for more protection:
- infant (sunrise) industry argument
- declining (sunset) industry argument
- strategic/key industry argument
- prevent dumping
- raise revenue through imposition of tariffs
- to remove a balance of payments deficit.

Arguments against more protection:
- goes against theory of comparative advantage
- will restrict world output
- will limit consumer choice
- will protect inefficient industries
- limits potential gains from economies of scale.

A maximum of 5 marks for a one-sided answer. [8]

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