UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

2281 ECONOMICS

2281/21 Paper 2 (Structured Questions), maximum raw mark 80

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1 (a) Identification of two from the following:
- taxation – allow a mark each for reference to indirect taxes and direct taxes
- borrowing
- profits of nationalised industries
- privatisation proceeds
- rent from government properties
- tariffs
- aid. [2]

(b) Explanation in terms of:
- definition of opportunity cost – the next best alternative foregone
- the money could have been spent on other things
- especially given what we are told about the extent of poverty in the city
- and the existence of slum areas.

2 marks for a definition/understanding of opportunity cost and 2 marks for appropriate application from the case study. [4]

(c) Diagram:
- axes (P and Q or W and N) and curves (D and S) correctly drawn and labelled (1)
- shift of demand curve to the right correctly drawn and labelled (1)
- change in equilibrium price and equilibrium quantity (both up) clearly shown (1).

Explanation of what is shown in the diagram (3). If only describes what is in the diagram a maximum of one mark. [6]

(d) Possible economic advantages:
- improvement to roads/railways/bridges will enable the economy to benefit from improved transport links
- a doubling of the number of hotel rooms will enable the city to attract more tourists, increasing aggregate demand
- leading to an improvement in the standard of living
- improved sports facilities will also enable it to attract various sporting events, again increasing demand
- jobs will be created, leading to a reduction in unemployment.

Possible economic disadvantages:
- the city will still be struggling from poverty, crime rate and slums
- this could deter tourists from coming to the area
- it could also deter inward investment
- such as multi-national companies locating there
- any relevant opportunity cost
- benefits might only be temporary
- creates pollution/congestion
- diversion of resources from elsewhere in Brazil
- the future debt/taxation burden.

A one-sided answer can gain no more than 5 marks.
Need two advantages and two disadvantages to get all 8 marks. [8]

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2 **(a)** Advantages of a market system:
- resources are allocated through the price mechanism ('invisible hand')
- consumers said to be sovereign
- economy is very responsive to changes in consumer demand
- choice is provided for
- competition and the profit motive promote efficiency
- incentive for entrepreneurs to produce.

A maximum of 3 marks if only one advantage is described. Need at least two advantages for all 6 marks. [6]

(b) Causes of market failure:
- merit goods under-consumed (don't need to use that term)
- demerit goods over-consumed (don't need to use that term)
- public goods not provided (don't need to use that term)
- information failure
- existence of externalities
- some people have more influence in a market than others
- existence of monopolies. [6]

(c) Advantages of government intervention:
- indirect taxes to discourage consumption of demerit goods (don't need to use that term)
- subsidies to encourage consumption of merit goods (don't need to use that term)
- taxation to finance expenditure on public goods (don't need to use that term)
- regulations to control private producers, e.g. on pollution and monopolies having market dominance.

Limitations of government intervention:
- consumption of demerit goods (don't need to use that term) might be discouraged, but unlikely to end completely given inelastic demand, e.g. for cigarettes and alcohol
- consumption of merit goods (don't need to use that term) might be encouraged, but still a limit to extent of increase in consumption
- available finance to provide public goods (don't need to use that term) might be limited/restricted, especially if a large budget deficit
- regulations may not be adequately policed/enforced.

A one-sided answer can gain no more than 5 marks.
A maximum of 7 marks if no understanding of 'always'. [8]

3 **(a)** Role of commercial banks:
- accept deposits
- lend to customers
- enable customers to make payments
- travellers cheques/foreign currency
- deposit important documents
- source of financial advice.

A list-like answer will gain a maximum of 2 marks. [4]

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(b) Functions of money:
- means of exchange
- unit of account/measure of value
- standard for deferred payments
- store of value.

If list all four, allow 2 marks. List three, allow 1 mark. List one or two, 0 marks.

Candidates need to describe all four functions to get the full 4 marks, but an in-depth response on one of the four functions described will be enough to gain all 4 marks. [4]

(c) Description in terms of:
- low earnings at the start in a job
- earnings gradually rise with more experience
- reach a high point before retirement
- retirement income likely to be lower
- change in demand for occupation over a lifetime. [4]

(d) Wages:
- certainly a very important factor to be taken into account.

Other factors:
- working conditions/health and safety
- promotion prospects
- hours of work
- proximity to home
- canteen/sports facilities
- pension provision
- skills/education
- fringe benefits.

A one-sided answer can gain no more than 5 marks.
A maximum of 7 marks if no understanding of 'most important'. [8]

4 **(a)** Features of a sole proprietor:
- simple to set up in terms of financial/legal paperwork
- owner has complete control
- all profits go to the owner
- unlimited liability
- difficulty in obtaining finance to expand.

A maximum of 2 marks if only one feature is described. Can gain all 4 marks if describes any two features. [4]

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(b) Explanation in terms of:
- can be up to 20 partners in a business
- this should enable more finance to be raised
- still no need to disclose the accounts publicly
- business will be able to expand
- could take advantage of economies of scale
- in a legal organisation, this would enable different partners to specialise in certain aspects of the law
- limited liability partnership (LLP).

A list-like answer can gain no more than 2 marks.

The question does explicitly refer to a legal organisation; answers which are not applied to this context can gain no more than 3 marks. [4]

(c) Characteristics of perfect competition:
- there are a large number of sellers
- there are a large number of buyers
- all firms produce an identical or homogeneous product
- there are no barriers to entry or exit
- perfect knowledge
- price taker
- all firms have access to the same information
- abnormal/supernormal/subnormal profits can only be made in the short-run; in the long-run, only normal profits are made.

A list-like answer can gain no more than 2 marks. [4]

(d) In favour of perfect competition:
- price will tend to be lower than in monopoly
- output will tend to be higher than in monopoly
- normal profits only will be made in the long-run.

In favour of monopoly:
- abnormal/supernormal profits can be used to finance research and development
- large size can lead to economies of scale and lower costs and prices.

A one-sided answer can gain no more than 5 marks. [8]

5 (a) A persistent or sustained (1) increase (1) in the general (1) level of prices (1) over a specific period of time (1).

There must be some reference to prices to gain all three marks.

An answer which focuses on the decline in purchasing power can gain no more than 2 marks. [3]

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(b) Causes of inflation:
- demand-pull
- cost-push
- monetary causes
- imported inflation.

A maximum of 3 marks if a candidate only explains one cause of inflation. [5]

(c) Identification (1) and description (1) of two (x 2) of the following:
- frictional/transitional
- natural
- demand deficient/cyclical
- residual
- technological
- seasonal
- structural. [4]

(d) Unemployment as a problem:
- loss of output/production
- lower GDP
- lower rate of economic growth
- waste/under-use of resources
- impact of benefits on fiscal policy
- possible increase in crime.

Inflation as a problem:
- money will have less purchasing power
- those on fixed incomes will be particularly hard hit
- real value of savings will be adversely affected
- fall in demand for exports may affect balance of payments.

A one-sided answer, which covers only unemployment or inflation, can gain no more than 5 marks.

A maximum of 7 marks if no understanding of the 'greater problem'. [8]

6 **(a)** Occupational structure:
- primary sector will continue to fall
- secondary sector will first rise, and then fall
- tertiary sector will continue to rise.

Age structure:
- average age of the population will rise
- there will be an ageing population
- comments on BR and DR implying impact on age structure are worth 1 mark.

Geographical structure:
- there will be a movement out of the rural areas
- and into the urban areas.

There are broadly 2 marks for each section, but mark the answer out of a total of 6 marks, e.g. it is likely that candidates will write more in **(i)** than the other 2 parts. There is, however, a maximum of 4 marks if only two sections are answered. [6]

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(b) Explanation in terms of:
- different basis of production, e.g. primary v tertiary
- costs of living will influence wages; some areas may be more expensive to live in than others, e.g. in the capital city
- some areas may be less well served by infrastructure, e.g. transport
- differences in quality of education in different areas
- trade union membership/power may be greater in some areas, affecting the level of wages
- multi-national companies may be located in certain areas
- investment may be concentrated in certain areas. [6]

(c) Discussion in terms of:
- government policy to encourage firms to locate in certain areas
- this could be through grants/subsidies/tax holidays
- policies to attract multi-nationals in certain areas
- improvements in education/training in certain areas
- encouragement given to banks in certain areas to lend to firms
- investment in certain areas, e.g. to improve transport links.

Answers which focus only on raising living standards nationally are limited to 3 marks.

Answers must address 'most effective' to get more than 5 marks. [8]

7 **(a)** Causes of a change in a country's exchange rate:
- a change in the demand for a currency on the foreign exchange market
- a change in the supply of a currency on the foreign exchange market.

Allow factors that would cause a change in demand or supply even if the words demand and supply are not used. [2]

(b) Explanation in terms of:
- the fall in the value of the exchange rate will have the effect
- of making exports less expensive
- and imports more expensive
- if the demand for both is price elastic, this should increase the demand for exports
- and decrease the demand for imports
- this should encourage production of exports and increase employment
- it will also encourage production of domestic goods to replace the imports
- the PED, however, may not be elastic.

A maximum of 4 marks if no consideration of PED. [6]

(c) Any two from:
- trade in goods (visible account)
- trade in services (invisible account)
- income
- current transfers. [4]

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(d) Yes, if:

- it is due to an improvement in the visible account, e.g. an increase in exports would most likely lead to an increase in employment
- it is due to an improvement in the invisible account: an increase in tourists coming to this country would most likely lead to an increase in employment.

Not necessarily, if:

- it is due to an increase in wages earned by residents working abroad
- it is due to an increase in investment income, such as dividends
- it is due to a charitable donation received from abroad.

A one-sided answer can gain no more than 5 marks.

An answer which fails to come to an appropriate conclusion can gain no more than 7 marks. [8]

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