CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2013 series

2281 ECONOMICS

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

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.

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1 (a) Candidates could mention:

- the idea of working together to share profits
- according to the amount that consumers had spent
- the co-operative exists for the benefit of its members
- the owners of a co-operative are the members
- this gives them voting rights
- but each member only has one vote
- many co-operatives stress the importance of social principles
- usually have limited liability

1 mark for a basic description of each feature and 1 mark for a development of the description of each feature.

Note: allow descriptions of different types of co-operatives.

Note: maximum of 4 marks. [4]

(b) Candidates could mention:

- price
- quality of service/opening hours
- extent of advertising
- location of store
- provision of delivery service

A list-like approach, which doesn't really provide very much of an explanation of the possible influences, can gain no more 3 marks.

For 6 marks at least two ways have to be explained.

Note: maximum of 6 marks. [6]

(c) Productivity measures the efficiency with which resources are used (1). It can be defined as the output per person or per unit of capital employed (1) over a given period of time (1). Any answer which recognises the difference between productivity and production should be awarded at least 1 mark. [2]

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(d)

Advantages of small stores: • personal attention • closer to home • longer opening hours • avoidance of diseconomies of scale	**Disadvantages of small stores:** • prices likely to be more expensive (though bulk buying will reduce prices) • limited range of stock
Advantages of large supermarkets: • lower prices through economies of scale • wider range of stock	**Disadvantages of large supermarkets:** • less personal • possibility of long queues • higher costs and prices due to diseconomies of scale

5 marks maximum if the answer just concentrates on economies and diseconomies of scale.

A one-sided answer, which fails to take into account that some small stores might be able to compete with large supermarkets, can gain no more than 6 marks.

Note: maximum of 8 marks. [8]

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2 **(a)** Candidates could mention:

- scarcity
- limited resources
- unlimited wants of consumers
- choices will need to be made (idea of opportunity cost)
- in terms of what to produce, how to produce and for whom to produce

Note: maximum of 4 marks. [4]

(b) Candidates could mention:

- goods and services are freely exchanged through a market
- without the need for government intervention
- an equilibrium price and quantity will be established in the market
- through the interaction of the buyers and sellers
- this will determine the allocation of the scarce resources
- price mechanism signals preferences
- profits encourage switching/reallocation of resources

Note: maximum of 6 marks. [6]

(c) Candidates could mention:

- some goods and services underprovided (idea of merit goods, but candidates don't need to refer to that term)
- some goods and services not provided at all (idea of public goods, but candidates don't need to refer to that term)
- some goods and services overprovided (idea of demerit goods, but candidates don't need to refer to that term)
- existence of externalities (negative externalities could bring about government intervention)
- existence of monopolies which are not in the public interest
- information failure

A maximum of 6 marks for those answers which demonstrate a knowledge and understanding of market failure in general.

A maximum of 8 marks for those answers which relate market failures to a particular country, but which do not discuss which are the most important.

Answers which relate market failures to a particular country and which do discuss which are the most important can get 9 or 10 marks. [10]

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3 (a) Demand and supply diagram based on restricting supply:
- axes correctly labelled (wage/price and employment/quantity) (1)
- demand and supply curves correctly labelled (1)
- shift of supply curve to the left (1)
- rise in wage/price and fall in employment/quantity (1)

Analysis based on restricting supply:
- by making labour more scarce in the industry (1)
- the wage levels of those still in the industry will increase (1)

Demand and supply diagram based on promoting the training of workers/raising productivity:
- axes correctly labelled (wage/price and employment/quantity) (1)
- demand and supply curves correctly labelled (1)
- shift of the demand curve to the right (1)
- rise in wage/price and rise in employment/quantity (1)

Analysis based on increasing demand:
- by promoting training/raising productivity (1)
- more skilled workers will be in higher demand (1)

Demand and supply diagram based on supporting a minimum wage:
- axes correctly labelled (wage/price and employment/quantity) (1)
- demand and supply curves correctly labelled (1)
- minimum wage set above the equilibrium (1)
- rise in wage/price and fall in employment/quantity (1)

Analysis based on supporting a minimum wage:
- trade unions may support a national minimum wage (1)
- this may push the wage rate above the equilibrium level (1)

Diagram has to match a relevant reason for the analysis marks.
Note: maximum of 6 marks. [6]

(b) Candidates could mention:
- reward for higher level of skill, training and qualifications
- they are likely, therefore, to have a higher level of productivity (they may have some idea of marginal revenue productivity, although it is not on the syllabus)
- such workers are relatively scarce/in shorter supply compared to unskilled workers
- it is less easy to recruit skilled than unskilled workers

A list-like answer, with very little explanation, can gain no more than 3 marks. [6]

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(c) Candidates could mention:

- size of membership
- proportion of membership in particular industries
- financial strength of unions
- skills of workers
- support from the general public
- degree of influence on employers and on government
- quality of negotiating skills
- macro-economic environment, e.g. extent of unemployment and inflation in the economy

Answers which focus on micro aspects, and fail to take into account the macro-economy, can gain no more than 6 marks.

Largely descriptive answers on trade unions, which do not really focus on the factors that affect their likelihood of success in raising wages, can gain no more than 5 marks.

Note: maximum of 8 marks. [8]

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4 (a)

Partnership:	Private Limited Company:
• between 2 and 20 people own and control the business • relatively easy to set up • a deed of partnership is usually written • profits are distributed between partners • unlimited liability (although there are some limited partnerships which do have limited liability)	• owned and controlled by the shareholders • more complex to set up; certain legal documents are required • profits distributed to shareholders through a dividend • limited liability

Only two differences need to be described.
1 mark for a basic description of each and 1 mark for a development of the description.

Note: maximum of 4 marks. [4]

(b)
- seeking to earn as much profit as possible (1)
- profit is the difference between total revenue and total cost (1)
- profit maximisation is where there is the greatest difference between total revenue and total cost (2)
- high profits can be used for reinvestment (1)
- high profits can be used to pay high dividends (1)
- may be achieved by lowering costs with an example (1)
- may be achieved by raising revenue with an example (1) (note reference to increasing price is not sufficient)
- MC=MR (although this is not explicitly on the syllabus) (2)

Note: maximum of 4 marks. [4]

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(c)
- sales revenue maximisation
- growth of firm/increase in market share
- satisficing
- improvement of reputation/brand loyalty
- ethical/environmental considerations/idea of corporate social responsibility
- survival

Candidates could gain maximum marks for an explanation of only two other goals; if a candidate only explains one other goal, the maximum mark is 3

A list-like answer, with very little explanation, can gain no more than 3 marks

Note: maximum of 6 marks. [6]

(d) Internal diseconomies of scale:
- ineffective management as management becomes more complex
- firm could become slower in responding to changes in market conditions
- communication problems
- poor industrial relations
- motivation problems

External diseconomies of scale:
- congestion/increased journey times
- increased competition for resources, putting up price of labour

Up to 4 marks for a discussion of diseconomies of scale.

Up to 2 marks for discussion of extent e.g. it may be more of a problem with large firms than small firms.

Note: maximum of 6 marks. [6]

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5 (a)

Inflation:	Deflation:
Inflation is a persistent or sustained rise in the general level of prices/fall in the value of money in an economy over a period of time.	Deflation is a persistent or sustained fall in the general level of prices/rise in the value of money in an economy over a period of time. It conveys the idea of disinflation or negative inflation.

A maximum of 2 marks if the distinction is not made clear.

Note: maximum of 4 marks. [4]

(b) The rate of inflation is measured through a Consumer (or Retail) Prices Index (1) which involves the following features:

- based on a survey of households
- a basket of goods and services
- a base year (100)
- measurement of changes of prices of products in the basket
- products are given weights
- to reflect their importance in buying patterns
- weighted price index is then constructed
- example of how measured e.g. if CPI rises from 100 to 105, the inflation rate is 5%

Note: maximum of 6 marks. [6]

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(c) Problems of inflation:

- the real value (purchasing power) of money falls
- certain people are badly affected, e.g. those on fixed incomes
- saving is discouraged because the real value of savings can fall
- businesses suffer when the increase in costs is greater than the increase in prices
- exports are discouraged because prices become more expensive in foreign markets

Problems of deflation:

- businesses will not be encouraged to increase production
- workers will lose jobs leading to an increase in unemployment
- this period of reduced economic activity will not only lead to a fall in output and employment but also in incomes
- this can give rise to a slump

Candidates can get no more than 8 marks for explaining the problems of inflation and deflation (no more than 4 marks if they just deal with one).

They need to make an attempt to state why one could be more of a problem than the other (and why) to get 9 or more marks. Inflation is certainly a more frequent problem in recent years than deflation; many countries have suffered from inflation but few from deflation. Inflation, however, may be accompanied by a rise in output.

Note: credit should also be given for a comparison of the relative benefits of inflation and deflation.

Note: maximum of 10 marks. [10]

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6 **(a)** Birth rate is the number of births per year (1) per 1000 of the country's population (1).

Death rate is the deaths per year (1) per 1000 of the country's population (1).

Note: maximum of 4 marks. [4]

(b) Candidates could mention:

- women marrying later
- education of girls is becoming more extensive
- increased employment opportunities for women
- relatively expensive to bring up children
- growing knowledge and awareness of family planning
- fewer government financial incentives to have children

A list-like answer, with no explanation, can get no more than 2 marks. [4]

Note: maximum of 4 marks.

(c) Net migration is the difference between the number of immigrants coming into a country (1) and the number of emigrants leaving a country (1).

Note: maximum of 2 marks. [2]

(d)

A problem:	Not a problem:
• population growth puts pressure on resources (idea of population being greater than the optimum population, although candidates don't need to use that term) • can lead to overcrowding • lack of job opportunities can lead to a very high rate of unemployment	• the increase in population leads to an increase in demand and, therefore, supply • jobs can be found for the population • if the extra people are well trained, it could lead to an increase in productivity

Up to 7 marks for a one sided approach.
Note: maximum of 10 marks. [10]

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7 (a)
- trade in goods (visibles)
- trade in services (invisibles)
- income flows
- current transfers

Identification of four sections (2).
Identification of two/three sections (1).
1 mark for each section described.

Note: maximum of 4 marks. [4]

(b) The combined value of the debit items in the four sections of the current account of the balance of payments is greater than the combined value of the credit items in the four sections of the current account. (4)
Deficit in relation to three sections (3).
Deficit in relation to two sections e.g. trade in goods and services (2).
Deficit in relation to one section e.g. trade in goods (1).

Note: maximum of 4 marks. [4]

(c)
- it could mean that a country is consuming more than it is producing, i.e. the country is living beyond its means
- it could mean that if too many goods are being imported from abroad, not enough is being produced in the home country, giving rise to high unemployment
- it usually means that a country's goods are not competitive enough on world markets
- a fall in the value of the currency could potentially lead to imported inflation
- spending/income is leaving the country
- may put downward pressure on the exchange rate and so raise the price of imports.

Note: maximum of 4 marks. [4]

(d) Candidates could focus on reducing imports:
- tariffs
- quotas
- subsidies
- exchange controls
- government encouraging people to buy home produced products

Candidates could focus on encouraging exports:
- devaluation/depreciation of exchange rate
- subsidies

Descriptive answers which do not really focus on which is the 'best' way to reduce a large current account deficit can gain no more than 6 marks.

Note: Full marks may be gained if two ways are explored in depth and 'best' is addressed.

Note: maximum of 8 marks. [8]

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