



Grade thresholds – November 2017

Cambridge IGCSE Economics (0455)

Grade thresholds taken for Syllabus 0455 (Economics) in the November 2017 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 11	30	23	19	16	13	11	9	7
Component 12	30	23	19	16	13	11	9	7
Component 13	30	24	20	17	14	12	10	8
Component 21	90	61	51	40	34	27	21	15
Component 22	90	61	51	39	34	27	22	17
Component 23	90	60	49	36	30	22	15	9

Grade A* does not exist at the level of an individual component.

The maximum total mark for this syllabus, after weighting has been applied, is **150**.

The overall thresholds for the different grades were set as follows.

Option	Combination of Components	A*	A	B	C	D	E	F	G
X	11, 21	124	106	88	71	59	48	38	28
Y	12, 22	124	106	88	70	59	48	39	30
Z	13, 23	125	106	87	68	56	44	33	22



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/11

Paper 1 Multiple Choice

October/November 2017

MARK SCHEME

Maximum Mark: 30

Published

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This document consists of **3** printed pages.

Question	Answer	Marks
1	A	1
2	B	1
3	C	1
4	A	1
5	A	1
6	B	1
7	C	1
8	B	1
9	C	1
10	C	1
11	B	1
12	A	1
13	A	1
14	D	1
15	C	1
16	C	1
17	D	1
18	D	1
19	B	1
20	C	1
21	A	1
22	C	1
23	C	1
24	B	1
25	B	1
26	C	1
27	B	1
28	B	1

Question	Answer	Marks
29	B	1
30	B	1



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/12

Paper 1 Multiple Choice

October/November 2017

MARK SCHEME

Maximum Mark: 30

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Question	Answer	Marks
1	C	1
2	B	1
3	D	1
4	D	1
5	D	1
6	B	1
7	C	1
8	B	1
9	B	1
10	A	1
11	B	1
12	A	1
13	C	1
14	D	1
15	A	1
16	C	1
17	A	1
18	D	1
19	A	1
20	C	1
21	D	1
22	C	1
23	A	1
24	C	1
25	B	1
26	C	1
27	B	1
28	B	1

Question	Answer	Marks
29	A	1
30	B	1



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/13

Paper 1 Multiple Choice

October/November 2017

MARK SCHEME

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Question	Answer	Marks
1	A	1
2	C	1
3	C	1
4	C	1
5	A	1
6	B	1
7	D	1
8	D	1
9	A	1
10	B	1
11	A	1
12	A	1
13	A	1
14	D	1
15	B	1
16	C	1
17	D	1
18	D	1
19	D	1
20	C	1
21	D	1
22	C	1
23	D	1
24	B	1
25	B	1
26	A	1
27	B	1
28	A	1

Question	Answer	Marks
29	D	1
30	C	1



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/21

Paper 2 Structured Questions

October/November 2017

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.

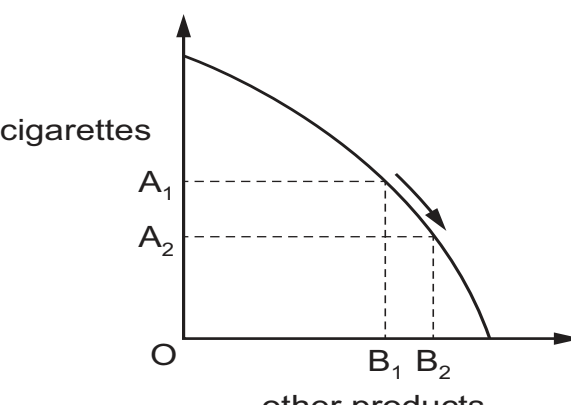
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This document consists of **17** printed pages.

Question	Answer	Mark
1(a)	<p>Identify, from the extract, <u>two</u> factors of production employed in producing cigarettes.</p> <p>Workers/labour (1) capital (1).</p>	2
1(b)	<p>Explain <u>two</u> reasons why firms merge.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • to take advantage of economies of scale / reduce costs of production • to gain greater market share / market power / reduce competition • to gain access to market outlets • to gain access to raw materials / resources / better methods of production • to diversify • to prevent one firm going out of business • to increase profit • to grow / expand / become larger <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> • a merged firm will be larger and due to economies of scale, average costs may be lower, example • a merged firm eliminates a competitor • a vertical merger forwards gives the firm control of the sale of its product • a vertical merger backwards may ensure an adequate supply of a raw material • a conglomerate merger will increase the range of products produced • a combined, larger firm will be able to survive • the combined profit of two merged firms might be greater than the profit of two individual firms • one of the key business goals is growth 	4
1(c)(i)	<p>Calculate, using information from the extract, the percentage decrease in the number of cigarette firms in China from 2009 to 2014</p> <p>80% (2).</p> <p>Correct working e.g. $160/200 \times 100$ (1).</p>	2
1(c)(ii)	<p>Calculate, using information from the extract, the total tax revenue that the Chinese government received in 2014.</p> <p>16 000 billion yuan (2).</p> <p>16 000 billion OR yuan (1).</p> <p>Correct working i.e. $800 \text{ billion} \times 100/5$ (1).</p> <p>Note: 16 000 billion = 16 000 000 000 000 or 1.6×10^{13}</p>	2

Question	Answer	Mark
1(d)	<p>Analyse, using a production possibility curve diagram, the effect of moving factors of production from producing cigarettes to producing other products.</p> <p>Up to 3 marks for the diagram:</p> <p>Axes correctly labelled (1).</p> <p>Curve / downward-sloping straight line drawn to the axes (1).</p> <p>Movement along curve from cigarettes to other products (1) shown by an arrow on the curve or by change in combinations.</p>  <p>Up to 2 marks for explanation:</p> <p>Opportunity cost of producing more other products / devoting more resources to other products (1) means producing fewer cigarettes (1).</p>	5
1(e)	<p>Discuss whether people in countries with a high HDI always enjoy a high standard of living.</p> <p>Up to 3 marks for why they might:</p> <p>Indicates high income per head / high purchasing power / high ability to buy goods (1) high life expectancy / low death rate / good healthcare (1) good education / high literacy (1).</p> <p>1 mark for a general idea of what the HDI includes.</p> <p>Up to 3 marks for why they might not:</p> <p>May be uneven distribution of income / GDP figure is an average (1) so that not everyone enjoys a high standard of living / there may still be many poor people (1) unemployment may still be high (1) healthcare may still be poor for some (1) literacy levels may be high but there may be no suitable jobs (1).</p> <p>There are other influences on living standards (1) working hours may be long (1) working conditions may be poor (1) there may be high levels of pollution (1).</p>	5

Question	Answer	Mark
1(f)	<p>Explain, using information from the extract and Fig. 1, what happened to the market for fruit in the UK in 2015.</p> <p>The diagram shows demand increasing (1) price rising (1) revenue increasing (1) supply extending / quantity of fruit consumed increasing (1).</p> <p>This is due to the information campaign / people being better informed about the benefits of fruit (1).</p> <p>Inelastic demand (1) inelastic supply (1).</p>	4
1(g)	<p>Discuss the arguments for and against the Chinese Government increasing the tax on cigarettes.</p> <p>Up to 4 marks for why it should:</p> <p>Demand for cigarettes is price-inelastic (1) so may increase tax revenues (1) which government could spend on public services, e.g. health and education (1).</p> <p>Smoking is harmful (demerit good) (1) tax will raise the price (1) may discourage cigarette smoking / reduce consumption (1) improve smokers' health (1) prevent early deaths from smoking related diseases (1) reduce external costs (1) e.g. air pollution, passive smoking (1) reduces health costs (1) increases productivity of workers (1).</p> <p>Up to 4 marks for why it should not:</p> <p>May not be very effective in reducing consumption (1) smoking is addictive / demand is price-inelastic (1) and tax will therefore not reduce smoking significantly (1).</p> <p>May reduce output of cigarettes in the country / tobacco firms may close (1) may increase unemployment (1).</p> <p>May lead to an illegal market in cigarettes / cheap alternatives (1) people not paying the tax (1).</p>	6

Question	Answer	Mark
2(a)	<p>Define ‘equilibrium price’.</p> <p>The price where demand and supply are equal (2).</p> <p>Market clearing price (1) which ensures no surplus or shortage (1).</p> <p>The price which will not change (1) unless market conditions change (1).</p> <p>Note: award 2 marks for correctly drawn diagram.</p>	2
2(b)	<p>Explain <u>two</u> reasons why a worker may continue in a job despite a cut in pay.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • pay may be lower elsewhere • no alternative employment is available / high local unemployment • job satisfaction • promotion chances • working conditions may be good • working hours may be low • fringe benefits may be good • job security • location • qualifications / specific skills • pension scheme. <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • the pay gap may be smaller but the worker may still earn more in the job • the firm the only one employing locally / it is a monopoly employer • workers find the work interesting / challenging / rewarding • higher pay in the future • the job may provide an attractive working environment • the job may allow the workers to enjoy a lot of leisure time • fringe benefits, such as subsidised meals • maybe greater risk of losing job elsewhere • the job may be close to home – convenient and low transport costs • may not have the qualifications needed to get another job • the job may provide a good pension scheme / may have paid into the pension scheme. 	4

Question	Answer	Mark
2(c)	<p>Analyse how employing specialised workers may reduce a firm's average costs of production.</p> <p>Workers can concentrate on the task they are best at (1) gain practice in performing the task (1) higher productivity / better efficiency (1).</p> <p>May contribute ideas (1) on, e.g. production methods (1).</p> <p>Fewer mistakes may be made (1) leading to less waste / greater productivity (1).</p> <p>It can be quicker (1) and cheaper to train workers (1) as only learning one task/function (1).</p> <p>Less equipment may be needed per worker (1) reduce capital costs (1).</p> <p>Time can be saved (1) with the worker having to move less from one production point to another (1).</p>	6
2(d)	<p>Discuss whether consumers would benefit if a firm became a monopoly.</p> <p>Up to 5 marks for why they might:</p> <p>A monopoly may enjoy economies of scale (1) lower average costs of production (1) example (1) lower prices (1).</p> <p>A monopoly may reduce wasteful duplication of resources (1) e.g. water pipes (1).</p> <p>A monopoly may have more funds to invest (1) innovate more / spend on R&D (1) better quality products (1).</p> <p>Security of supply (1) if the government runs / regulates the monopoly (1).</p> <p>Monopolies may compete internationally (1) keeping prices down (1).</p> <p>Up to 5 marks for why they might not:</p> <p>Lack of competition / too much market power (1) inelastic demand (1) may mean it will charge a higher price (1) price maker (1) reduce supply (1) innovate less (1) lower quality products (1) lack of choice for consumers (1).</p> <p>May experience diseconomies of scale (1) example/s (1) higher average costs (1) higher prices (1).</p>	8

Question	Answer	Mark
3(a)	<p>Define ‘perfect competition’.</p> <p>Very high level of competition (1) firms are price takers (1) many buyers and sellers (1) free entry and exit (1) homogeneous / same product (1) perfect information (1)</p>	2
3(b)	<p>Explain <u>two</u> influences on the size of firms.</p> <p>1 mark each for each of two influences identified:</p> <ul style="list-style-type: none"> • size of market • availability of finance/capital • type of business organisation • influence of government policies • age of firms • skills of entrepreneurs • goals of entrepreneurs. <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • the higher the demand for the product/greater the value of sales, the larger the firm is likely to be • firms that can borrow, sell shares or have high profits are able to expand • a MNC will be larger than e.g. a sole trader • a government may run large state-owned enterprises/operate restrictions on mergers • older firms tend to be larger than younger firms • firms run by skilful entrepreneurs are likely to be larger than those run by less skilful entrepreneurs • entrepreneurs may want the firm to remain small to keep control / may want it to be large to e.g. gain economies of scale. 	4
3(c)	<p>Analyse the causes of an increase in labour productivity.</p> <p>Improved education/training (1) workers will be skilled/specialised (1) capable of producing a higher output per hour (1).</p> <p>Advances in technology (1) better quality of capital goods (1) with more and better capital goods workers can produce more (1).</p> <p>Better working conditions (1) contented workers may be more productive (1).</p> <p>Better health (1) healthier workers can produce more (1)</p> <p>Higher wages (1) may motivate workers more (1).</p> <p>Fall in employment (1) the less productive workers tend to lose their jobs first (1) the more productive workers will remain (1).</p>	6

Question	Answer	Mark
3(d)	<p>Discuss whether a country which engages in free trade is likely to have a higher economic growth rate than one which uses trade protection.</p> <p>Up to 5 marks for why it might:</p> <p>It may enable countries to concentrate on what they are best at (1) making best use of their resources/specialisation (1).</p> <p>Greater exports bring in foreign revenue (1) contributing to economic growth (1).</p> <p>Unrestricted competition may improve efficiency of firms (1) increase sales (1) increase output (1).</p> <p>Firms will have more sources of raw materials (1) may lower production costs (1) lower prices (1) increase international competitiveness (1) make firms more price competitive (1).</p> <p>Capital equipment / new technology can be imported (1) gaining new ideas (1) improving production (1).</p> <p>Firms may be able to grow (1) take advantage of economies of scale (1) lower average costs (1).</p> <p>May attract MNCs (1) that contribute to economic growth (1).</p> <p><i>Note:</i> reward but do not expect reference to comparative or absolute advantage.</p> <p>Up to 5 marks for why it might not:</p> <p>May make it difficult for infant industries to grow (1) unable to compete (1) because too small to take advantage of economies of scale (1).</p> <p>May result in declining industries going out of business (1) no longer contributing to output/GDP (1).</p> <p>Foreign firms may dump products in the country (1) selling at less than cost price (1) may drive domestic firms out of business (1).</p>	8

Question	Answer	Mark
4(a)	<p>What is used to measure a country's inflation rate?</p> <p>CPI / RPI / other relevant named measure (2)</p> <p>A weighted (1) price index (1)</p>	2
4(b)	<p>Explain <u>two</u> reasons for conserving resources.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • scarcity / economic problem • protect them for future generations • to achieve sustainable growth • demand may increase in the future • risk of becoming too dependent on one product. <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • unlimited wants but limited resources • conserving resources may mean output, income and employment can be higher in the future / habitats can be saved for future generations • there is a continuous need for resources • a higher revenue may be earned / prices may rise in the future • exploiting resources may mean that other products are not produced. 	4
4(c)	<p>Analyse how subsidies given to farmers could raise living standards.</p> <p>May increase supply (1) as extra payment received (1) higher supply will reduce price (1) lower price will make food more affordable (1) food is a basic necessity (1).</p> <p>Reduced costs for farmers (1) increases their profits/income (1).</p> <p>Subsidies for capital equipment e.g. tractors (1) improve productivity (1) increasing farm outputs / incomes (1).</p> <p>More/better quality food may make the poor healthier (1) increasing their earning capacity (1).</p> <p>The poor may be able to spend less on food (1) allowing them to buy other basic necessities (1).</p> <p>Note: reward increase in supply (1) lower price (1) if shown on a diagram.</p>	6

Question	Answer	Mark
4(d)	<p>Discuss whether a rise in direct taxes will reduce economic growth.</p> <p>Up to 5 marks for why it might:</p> <p>A rise in income tax will reduce disposable income (1) this may reduce consumer expenditure (1) lower total demand (1) reduce firms' output (1).</p> <p>A rise in income tax will reduce incentives to work (1) increase tax avoidance (1) leaving less revenue for government spending on e.g. health and education (1) reducing productive potential of workers (1).</p> <p>A rise in corporation tax (1) will increase costs of production (1) will reduce the profits firms can keep (1) reduce the incentive to produce (1) reduce the funds available for investment (1) to expand output (1).</p> <p>Up to 5 marks for why it might not:</p> <p>A rise in income tax may not reduce consumer expenditure if savings fall (1) wages increase by more than tax rise (1).</p> <p>A rise in corporation tax may not reduce investment if firms reduce savings/dividend payments (1).</p> <p>A rise in income tax may reduce spending on imports (1) this would reduce a current account deficit (1) increase net exports (1).</p> <p>The extra tax revenue earned (1) may increase government spending (1) this could offset any fall in consumer expenditure and investment (1).</p>	8

Question	Answer	Mark
5(a)	<p>Define a ‘subsidy’.</p> <p>A payment by e.g. a government (1) to reduce production costs (1) to increase output (1) to improve quality (1) reduce prices for consumers (1).</p>	2
5(b)	<p>Explain <u>two</u> causes of a decrease in demand for oil.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • fall in price of another fuel / reduction in its availability • decrease in car driving • change in fashion/taste e.g. electric cars • greater concern for the environment • decrease in output / manufacturing of goods • decrease in population • decrease in income. <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> • if the price of e.g. coal falls, some firms and households may switch from a substitute such as oil • oil/petrol is a complement to a car • e.g. electric cars are substitutes for petrol driven cars • people may use cars less because they are concerned about e.g. pollution • lower output will require less fuel to produce it / fewer people will be using fuel to get to and from work • lower population will mean there are fewer people to consume products that require fuel to produce or use them • decrease in income will decrease demand for products, e.g. car driving which requires fuel. <p>Note: accept an increase in the price of oil as a possible reason.</p>	4
5(c)	<p>Analyse the advantages of being a sole trader.</p> <p>Flexible / can respond quickly to changes in demand (1) as one person makes all the decisions (1).</p> <p>Easy to set up (1) limited finance / limited paperwork needed (1).</p> <p>Can provide a personal service (1) get to know customers personally (1).</p> <p>Profit incentive (1) owner will get all the profits (1).</p> <p>Sole trader has total control (1) can decide e.g. hours of work, holidays (1)</p> <p>May have good relationships with staff (1) less industrial disputes (1).</p>	6

Question	Answer	Mark
5(d)	<p>Discuss whether a government should be concerned about a growing deficit on the current account of its balance of payments.</p> <p>Up to 5 marks for why it should:</p> <p>Imports exceeding exports (1) country will be living beyond its means (1) consuming more than it produces (1) net exports will be making a negative contribution to output (1) output will be lower than possible (1) employment lower than possible (1) unemployment (1) may lead to increased government spending on benefits (1).</p> <p>May indicate a lack of international competitiveness (1) may suggest that the price of domestically produced products is too high (1) quality of domestically produced products too low (1).</p> <p>Country may be dependent on foreign products (1) causing security concerns (1).</p> <p>May put downward pressure on the exchange rate (1) increase the value of exports that have to be exchanged to gain a certain value of imports (1).</p> <p>Need to cover the deficit with e.g. borrowing/attracting investment from abroad (1).</p> <p>Up to 5 marks for why it should not:</p> <p>Deficit may only be temporary (1) more raw materials (1) capital goods may be imported (1) in the longer run these may be turned into exports (1).</p> <p>The deficit on current account may be balanced out by a surplus elsewhere (1) e.g. direct investment (1).</p> <p>The deficit may have been caused by a fall in incomes abroad (1) these may rise in the future, increasing exports (1).</p> <p>If the country has a floating exchange rate (1) a fall in the exchange rate resulting from the deficit will lower export prices (1) raise import prices (1) and so move the current account position towards a balance (1).</p> <p>A deficit reduces total demand (1) and this can reduce demand-pull inflation (1).</p> <p>Note: reward but do not expect reference to other parts of the balance of payments.</p>	8

Question	Answer	Mark
6(a)	<p>Identify <u>two</u> ways in which a high rate of unemployment may affect firms.</p> <p>Low demand for products (1) falling prices / lower revenue (1).</p> <p>Good supply of workers (1) downward pressure on wages (1).</p> <p>Trade union action (1) to protect workers' jobs (1).</p>	2
6(b)	<p>Explain <u>two</u> causes of deflation.</p> <p>1 mark each for each cause identified:</p> <ul style="list-style-type: none"> • fall in total demand • rise in unemployment • drop in consumer confidence • drop in business confidence • banking crisis • an increase in total (aggregate) supply • fall in costs of production • advances in technology. <p>1 mark each for each of two causes explained:</p> <ul style="list-style-type: none"> • lower demand may cause firms to reduce their prices in order to attract more consumers • lower costs of production / advances in technology will enable firms to lower their prices and maintain/increase profits. 	4

Question	Answer	Mark
6(c)	<p>Analyse the <u>disadvantages</u> of a very high rate of inflation.</p> <p>Fall in international price competitiveness (1) currency rapidly devalues (1) worsening current account position / reduced exports (1) if inflation rate is higher than rival countries (1).</p> <p>Discourages saving / savers lose (1) if inflation rate is higher than interest rate (1) redistribution of income from lenders to borrowers (1).</p> <p>Those on fixed incomes are disadvantaged (1) e.g. pensions do not buy as many goods and services as they did before (1).</p> <p>Inflationary expectations increase (1) discouraging investment (1) uncertainty created by inflation (1).</p> <p>Inefficient choices (1) due to difficulty in judging relevant prices (inflationary noise) (1).</p> <p>The cost of changing prices (menu costs) (1) e.g. price tags, menus (1).</p> <p>Costs of moving money around in search of the highest interest rate (1).</p> <p>People's income dragged into higher tax brackets (fiscal drag) (1) reducing their disposable income (1).</p> <p>Unemployment (1) if caused by higher costs / cost-push inflation (1).</p> <p>Lower purchasing power / fall in values of money (1).</p> <p>Note: maximum 3 marks for a list-like approach.</p>	6

Question	Answer	Mark
6(d)	<p>Discuss whether increased government spending on training will always reduce inflation.</p> <p>Up to 5 marks for why it might:</p> <p>Training may increase workers' skills / specialisation (1) raise productivity (1) lower production costs (1) increase total supply (1) reduce cost-push inflation (1).</p> <p>Training may make workers more mobile (1) speed up adjustments to changes in demand (1) reduce shortages (1) lower demand-pull inflation (1).</p> <p>Up to 5 marks for why it might not:</p> <p>Training may be in the wrong areas (1) and not increase productivity (1).</p> <p>Government spending on training will increase total demand (1) if total demand rises by more than total supply (1) price level will rise (1) causing demand-pull inflation (1).</p> <p>Trained workers will find employment / better paid work (1) spend their wages and increase total demand (1).</p> <p>More highly trained workers may demand higher wages (1) if wages rise by more than productivity (1) costs will increase (1) cost-push inflation (1).</p>	8

Question	Answer	Mark
7(a)	<p>Identify <u>two</u> ways in which the expenditure patterns of the poor and the rich are different.</p> <p>The rich spend more / the poor spend less (1).</p> <p>Poor spend a higher proportion on basic necessities / needs e.g. food (1) rich spend a higher proportion on luxuries / wants (1).</p> <p>Poor spend a higher proportion (1) of their income than the rich (1) or the reverse argument.</p>	2
7(b)	<p>Explain <u>two</u> reasons why a commercial bank may prefer to lend to the rich rather than to the poor.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • greater expectation that they will repay • greater collateral • rich may borrow more / more profitable • it takes a longer time for the poor to repay loans. <p>1 mark each for each of two explanations of the reasons:</p> <ul style="list-style-type: none"> • rich will have more income/wealth to repay • rich will have more assets to sell if necessary • more interest can be earned from lending large sums • the poor have less income with which to repay. 	4
7(c)	<p>Analyse the effects that an increase in the labour force will have on an economy.</p> <p>An increase in the labour force will increase the quantity of resources (1) increase productive potential (1) enable more products to be produced (1) raise economic growth (1).</p> <p>An increase in the labour force may reduce inflation pressure (1) enable supply to increase to match higher demand (1).</p> <p>An increase in the labour force may increase total wages paid (1) increasing total spending/demand (1) causing demand-pull inflation (1). An increase in the labour force available may reduce wages (1) reducing cost-push inflation (1).</p> <p>An increase in the labour force may increase employment (1) if the number of jobs available increases (1) increasing income tax revenue for the government (1).</p> <p>If not employed, will increase unemployment rate (1) higher spending on benefits (1).</p>	6

Question	Answer	Mark
7(d)	<p>Discuss whether providing loans to the poor will reduce poverty.</p> <p>Up to 5 marks for why it might:</p> <p>Loans will enable the poor to buy more basic necessities (1) e.g. housing, food, clothing (1) reduces absolute poverty (1).</p> <p>Loans will enable the poor to spend more on education/training (1) increase their skills (1) increase the chances of them gaining a job (1) increase wage rate (1) increase education of children (1) reduce poverty in the future (1).</p> <p>Loans will enable the poor to set up small businesses (1) become entrepreneurs (1) receive income/profit (1) may employ other previously poor people (1) reduce unemployment (1).</p> <p>Loans may enable the poor to spend more on healthcare (1) raising living standards (1).</p> <p>Up to 5 marks for why it might not:</p> <p>Loans may be spent on items that do not increase earning potential (1) e.g. cigarettes (1).</p> <p>The poor may get into debt / may be unable to repay the loan (1) lose their collateral/home (1).</p> <p>Paying interest (1) may reduce the ability to buy basic necessities (1) high interest rates (1) may be charged to the poor (1).</p> <p>Loans may not be large enough (1) to pay for e.g. education/training (1). Loans may not be a long-term solution to poverty (1) only improving living standards in the short-term.</p>	8



ECONOMICS

0455/22

Paper 2 Structured Questions

October/November 2017

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.

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Question	Answer	Marks	Guidance
1(a)	Identify, from the extract, <u>two</u> aims of government policies. Price stability / low inflation / stopping inflation rate rising above target (1) full employment / low unemployment (1).	2	

Question	Answer	Marks	Guidance
1(b)	<p>Explain <u>two</u> problems caused by inflation.</p> <p>1 mark each for each of two problems identified:</p> <ul style="list-style-type: none"> • worsen current account position • redistribution of income • uncertainty • menu costs • shoe leather costs • inflationary noise • fiscal drag • higher unemployment • money may cease to carry out its functions • lower demand / lower output / lower economic growth • lower purchasing power / fall in the value of money • lower standards of living / higher cost of living. <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> • export prices will rise – reduce international competitiveness • lenders / those on fixed incomes may lose and borrowers may gain • lack of certainty may discourage investment • cost of changing e.g. price labels • cost of moving money around in search of highest interest rate • confusion caused by not being able to work out change in relative prices • people's income being dragged into higher tax brackets • costs of production may increase, causing firms to reduce the number of workers they employ • during periods of hyperinflation, money may cease to be generally acceptable • cost-push inflation will reduce total demand • purchasing power will fall if incomes rise by less than prices 	4	Fall in the value of the currency on its own is too vague – must make clear reference to internal value.

Question	Answer	Marks	Guidance
1(c)(i)	<p>Calculate, using information from the extract, the percentage fall in the global price of a barrel of oil in 2015</p> <p>45% (2)</p> <p>Correct working i.e. $\\$54 / \\120×100 (1)</p>	2	
1(c)(ii)	<p>Calculate, using information from the extract, the consumer prices index in China at the end of 2015.</p> <p>102.51 (2)</p> <p>Correct working i.e. $100.5 \times 2 / 100 + 100.5$ or 2.01 (1)</p>	2	Accept 102.5

Question	Answer	Marks	Guidance
1(d)	<p>Analyse why an increase in unemployment might cause an increase in government spending.</p> <p>It may increase government spending on unemployment benefits (1) the unemployed may suffer worse health (1) this may increase government spending on healthcare (1) if crime rises, the government may spend more on law and order (1).</p> <p>To reduce unemployment, the government may adopt expansionary fiscal policy / policy to stimulate the economy / policy to increase economic growth (1) to increase total demand (1) to create more jobs (1).</p> <p>Government may provide subsidies to firms (1) to encourage them to increase output and employment (1).</p> <p>Government may spend more on education (1) to increase skills of workers (1) reduce structural unemployment (1).</p> <p>Unemployment may increase poverty (1) leading to more spending on other benefits (1).</p> <p>Government may employ more workers in the public sector (1) to reduce unemployment / will increase wage bill (1).</p> <p>Government may spend on infrastructure (1) to raise labour mobility (1).</p>	5	Maximum of 3 marks for a list-like approach.

Question	Answer	Marks	Guidance
1(e)	<p>Discuss whether the supply of workers for unskilled jobs will be high in a country.</p> <p>Up to 3 marks for why it might:</p> <p>Levels of education and training may be low (1) in some developing countries there is a relatively high illiteracy rate (1) workers may lack skills/qualifications (1).</p> <p>Unskilled jobs may provide good non-wage benefits (1) example e.g. short working hours (1).</p> <p>The supply may be high due to immigration of unskilled workers / high population (1) attracted by wages that are higher than the countries they come from (1).</p> <p>Most workers may be employed in the primary sector (1) which may offer largely unskilled jobs (1).</p> <p>May be high unemployment (1) so some skilled workers may have to apply for unskilled jobs (1).</p> <p>May be high unemployment benefit (1) discourages incentive to work (1).</p> <p>Up to 3 marks for why it might not:</p> <p>Unskilled jobs are likely to be relatively poorly paid (1) wage rate is a key influence on jobs workers select (1).</p> <p>Unskilled jobs may offer poor working conditions (1) example e.g. hard manual work (1).</p> <p>Unskilled workers may emigrate to other countries (1) if wages/working conditions are better in other countries (1).</p> <p>Work may be capital-intensive (1) requiring high skills (1).</p>	5	

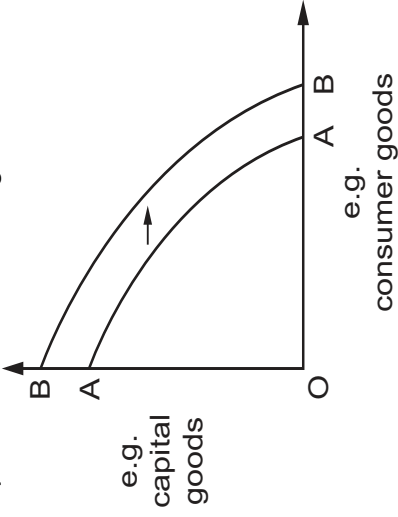
Question	Answer	Marks	Guidance
1(f)	<p>Explain, using information from the extract and Fig. 1, what happened to the market for food in 2015.</p> <p>The diagram shows supply increasing (1) price falling (1) demand extending / more food / higher quantity (1) costs of production falling due to lower transport costs (1) inelastic supply (1) inelastic demand (1).</p>	4	
1(g)	<p>Discuss whether a decrease in income tax would reduce deflation.</p> <p>Up to 4 marks for why it might:</p> <p>A reduction in income tax will increase disposable income (1) may raise consumer expenditure (1) may raise investment (1) increase total demand (1) higher demand may encourage firms to raise prices / demand-pull inflation (1).</p> <p>Up to 4 marks for why it might not:</p> <p>Consumers may not spend more / may save more (1) if concerned about the future (1) if expect prices to be lower in the future (1).</p> <p>A decrease in income tax may not reduce deflation caused by lower costs of production (1) e.g. advances in technology / investment may continue pushing down the price level (1).</p> <p>A decrease in income tax may reduce government spending (1) higher consumer spending may be offset by lower government spending (1).</p> <p>May act as incentive to work (1) may increase productivity / efficiency (1) lower costs of production / increase total (aggregate) supply (1).</p> <p>Consumers may spend on imports (1).</p>	6	

Question	Answer	Marks	Guidance
2(a)	<p>Define ‘average costs’.</p> <p>Total cost divided by output (2). Cost per unit / average fixed cost plus average variable cost (1).</p>	2	
2(b)	<p>Explain <u>two</u> factors that would increase the supply of entrepreneurs in an economy.</p> <p>1 mark each for each of two factors identified:</p> <ul style="list-style-type: none"> • rise in education • reduction in corporation tax / tax holidays • increase in subsidies for business/entrepreneurs • reduction in the rate of interest • privatisation / move to market economy • immigration • reduction in barriers to entry / deregulation • economic boom / high level of economic activity • improved legal framework / reduction in crime <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • rise in education will develop the skills needed to be an entrepreneur • reduction in corporation tax will increase financial return from being an entrepreneur • subsidies may make it easier / cheaper to start-up a business • a lower rate of interest will make it cheaper to borrow to start up a business / increase expectation of higher demand • privatisation / move to market economy will increase the opportunities to set up new firms • a relatively high proportion of immigrants tend to set up their own businesses • lower barriers to entry / deregulation would make it easier to set up new firms • economic boom / high level of economic activity may increase the expectation that firms will be profitable • improved legal framework / reduction in crime would be likely to make entrepreneurs feel more confident. 	4	

Question	Answer	Marks	Guidance
2(c)	<p>Analyse how the market for a product would be affected by a reduction of the tax on the product combined with a fall in the price of a complement.</p> <p>Reducing the tax will lower costs of production (1) increase supply – <i>written or drawn</i> (1).</p> <p>A complement is a product bought to use with another product (1) a fall in its price would increase demand for this product – <i>written or drawn</i> (1).</p> <p>Effect on price is uncertain (1) would depend on relative size of changes (1).</p> <p>Quantity would rise – <i>written or drawn</i> (1).</p>	6	

Question	Answer	Marks	Guidance
2(d)	<p>Discuss whether low unemployment in a country will encourage multinational companies (MNCs) to set up there.</p> <p>Up to 5 marks for why it might:</p> <p>Low unemployment may indicate a strong economy / economic growth (1) high incomes (1) a high level of demand (1) may expect to be able to sell a large amount in the country (1) make a high profit (1).</p> <p>Low unemployment may mean high tax revenue (1) government spending on education may be high (1) improving quality of workers (1) spending on infrastructure e.g. roads may be high (1) lower MNCs' costs of production (1).</p> <p>Production may be capital-intensive (1) and so labour shortages may not be a significant problem (1).</p> <p>Other benefits may be greater than higher labour costs (1) e.g. not having to pay an import tariff (1).</p> <p>Up to 5 marks for why it might not:</p> <p>There may be difficulty in recruiting workers (1) may be a shortage of skilled workers (1) may increase trade union power (1) may have to pay high wages (1) which would increase costs (1) lower profits (1).</p> <p>Low unemployment may create demand-pull inflation (1) and cost-push inflation (1) this may make it relatively expensive to produce in the country (1).</p>	8	

Question	Answer	Marks	Guidance
3(a)	<p>What is a possible opportunity cost of working?</p> <p>Opportunity cost is the (next) best alternative forgone (1).</p> <p>Opportunity cost is leisure / education / retirement / raising a family (1).</p>	2	
3(b)	<p>Explain <u>two</u> reasons why older workers tend to earn more than young workers.</p> <p>1 mark each for each of two reasons identified: An older worker (or vice versa):</p> <ul style="list-style-type: none"> • may have gained more qualifications • may have received more training • may have gained experience • may have been promoted • length of service. <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • a more qualified worker can apply for a better paid job • a better trained worker will have more choice of occupation • more experience is likely to increase productivity/skills • over time a worker may become better at doing the job • in some jobs there are regular increases in pay. 	4	Some candidates may answer from the perspective of younger workers earning less than older workers.

Question	Answer	Marks	Guidance
3(c)	<p>Analyse, using a production possibility curve diagram, how an increase in labour productivity will affect an economy.</p> <p>Up to 4 marks for the diagram:</p>  <p>Axes correctly labelled (1).</p> <p>Original production possibility curve / straight downward sloping line drawn to the axes (1).</p> <p>New PPC (1).</p> <p>Indication of shift to the right – arrow or labelling (1).</p> <p>Up to 2 marks for written explanation:</p> <p>An increase in labour productivity increases the quality of labour (1) increases output per worker hour / efficiency (1) increases productive potential / cause economic growth (1).</p>	6	

Question	Answer	Marks	Guidance
3(d)	<p>Discuss whether the rich in one country will save more than the rich in another country.</p> <p>Up to 5 marks for why they might:</p> <p>The rich in one country may save more if they have more income than the rich in another country (1) people tend to save more as income rises (1) greater ability to save (1).</p> <p>The interest rate may be higher in the country (1) greater financial return from saving / save more / spend less (1).</p> <p>There may be more tax incentives in the country to encourage saving (1) i.e. interest rates earned not taxed or taxed at a lower rate (1).</p> <p>There may be a greater fear of a recession (1) rich expecting their income to be lower in the future / risk of losing their jobs (1).</p> <p>Up to 5 marks for why they might not:</p> <p>The rich in the country may be more optimistic about the future / may have greater job security (1) which will encourage them to spend a higher proportion of their income (1).</p> <p>There may be more of a culture of saving in another country (1).</p> <p>There may be more / greater range of financial institutions in another country (1) encouraging more saving there (1).</p> <p>The total number of the rich may be higher in another country (1) so even if, on average, the rich save more in the country, total saving may be higher in another country (1).</p> <p>There may be higher inflation / greater expectation of higher inflation in the future (1) encouraging higher spending now (1).</p>	8	

Question	Answer	Marks	Guidance
4(a)	<p>Name <u>two</u> factors of production used in making cars.</p> <p>1 mark each for each of two factors identified:</p> <ul style="list-style-type: none"> • car workers / labour • car factory / capital • car firm owner / entrepreneur • water/land 	2	
4(b)	<p>Explain how <u>two</u> methods of trade protection may reduce imports.</p> <p>1 mark each for each of two methods identified:</p> <ul style="list-style-type: none"> • tariffs • quotas • embargoes • exchange control • voluntary export restraint (VER) • quality standards • subsidies • expensive paperwork <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • tariffs – tax on imports will raise price of imports which may reduce demand • quotas – a limit on imports will restrict quantity of imports that can be purchased • embargo – a ban on imports will reduce quantity imported to zero • exchange control – a limit on availability of foreign currency will make it difficult to get the currency to buy imports • VER – agreements between governments to restrict exports to each other • quality standards – making it difficult / expensive to achieve requirements • subsidies – given to domestic producers to make them internationally competitive • expensive paperwork – increase the costs of exporting to the country 	4	

Question	Answer	Marks	Guidance
4(c)	<p>Analyse the social costs created by car production and car use.</p> <p>Social costs are private costs plus external costs (1).</p> <p>Private costs are the costs to the car firm/buyers of cars (1) example: e.g. wages paid to workers / price paid for the cars (1).</p> <p>External costs are likely to exist in the form of costs to third parties (1) firms/buyers will not take them into account (1) examples: e.g. air pollution / noise pollution / congestion (up to 2).</p>	6	Maximum 4 marks if no reference to cars.

Question	Answer	Marks	Guidance
4(d)	<p>Discuss whether demand for cars is likely to increase in the future.</p> <p>Up to 5 marks for why it might:</p> <p>Rising incomes (1) people may switch from other forms of transport e.g. bus travel / can afford to buy cars (1).</p> <p>Price may fall (1) cars become more affordable (1).</p> <p>Advances in technology (1) increasing availability of hybrid / electric cars / raise quality (1) any other relevant cause of a fall in price (1).</p> <p>Population is increasing (1) creating more potential buyers (1).</p> <p>Greater availability of bank loans / credit (1) cars may be purchased using bank loans (1).</p> <p>More effective advertisements (1) persuading people to buy more cars (1).</p> <p>Up to 5 marks for why it might not:</p> <p>Other forms of transport may become cheaper (1) example of a substitute (1).</p> <p>Concern for the environment may increase (1) causing people to walk or cycle (1).</p> <p>Prices of complements may rise (1) e.g. petrol / car parking charges / road tolls / inner city charges (1).</p> <p>Governments may increase taxes on car travel / impose restrictions on car use (1) to reduce external costs (1).</p> <p>There may be a global recession / higher unemployment (1) reducing people's confidence in buying cars (1).</p>	8	Maximum of 4 marks for a list-like approach.

Question	Answer	Marks	Guidance
5(a)	<p>What is meant by a labour-intensive industry?</p> <p>An industry which has a high proportion of labour compared with the proportion of other factors of production used (2).</p> <p>An industry which uses a large amount of labour (1).</p>	2	
5(b)	<p>Explain <u>two</u> reasons why a country may stop exporting a product.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • may be a shortage of the product in own country • may want to conserve resources • may be a fall in demand from other countries • may want to switch resources to another product • may lose international competitiveness • trade restrictions may be imposed on the product by trading partners • may be an appreciation of the currency. <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> • may want to sell the product on the home market to prevent a shortage pushing up price • there may be concerns that e.g. deposits of gold are running out • exports can only be sold if there is a market for them / exports may have risen in price / may have fallen in quality • other products may have become more profitable and so resources may be switched away from the product • other countries may have discovered resources / improved the training of their workers giving them a cost advantage • there may be a tariff imposed which may make the product uncompetitive / an embargo may be imposed on the product stopping other countries importing it • a higher exchange rate will raise the price of exports which may make this product uncompetitive. 	4	

Question	Answer	Marks	Guidance
5(c)	<p>Analyse the effects of an increase in unemployment on inflation.</p> <p>A rise in unemployment may reduce incomes (1) lower spending (1) lower total demand (1) lower demand-pull inflation (1).</p> <p>A rise in unemployment may reduce rises in wages / lead to a fall in wages (1) reduce costs of production (1) reduce cost-push inflation (1).</p> <p>A rise in unemployment will reduce tax revenue (1) this could cause the government to reduce subsidies (1) this could increase costs of production (1) causing cost-push inflation (1).</p>	6	

Question	Answer	Marks	Guidance
5(d)	<p>Discuss whether having a relatively small population is an advantage or a disadvantage for an economy.</p> <p>Up to 5 marks for why it might be an advantage:</p> <p>A small population may mean that resources will last over a longer time period (1) enabling economic growth to continue (1).</p> <p>There may be less environmental damage (1) less risk of overcrowding (1).</p> <p>There may be fewer dependents (1) smaller proportion of children and elderly people (1) which can increase income per head (1) and may reduce the need for some forms of government spending (1).</p> <p>May be less imports (1).</p> <p>Up to 5 marks for why it may be a disadvantage:</p> <p>There may not be enough workers / low labour force (1) to take advantage of resources (1) low output (1) low tax revenue (1) reduces government ability to spend (1).</p> <p>The size of the market for the country's products may not be large enough / low total (aggregate) demand (1) less ability to take advantage of economies of scale (1) may be less attractive to MNCs (1).</p> <p>May be less exports (1).</p>	8	Reward but do not expect reference to the optimum population size.

Question	Answer	Marks	Guidance
6(a)	<p>Identify <u>two</u> influences on the size of a country's population.</p> <p>1 mark each for each of two influences identified:</p> <ul style="list-style-type: none"> • birth rate • death rate • migration. 	2	Accept as influences, factors that would affect size of population.
6(b)	<p>Explain <u>two</u> causes of an increase in living standards.</p> <p>1 mark each for each of two causes identified:</p> <ul style="list-style-type: none"> • rise in income / fall in poverty / fall in unemployment / rise in employment • improvements in education • improvements in healthcare • increase in leisure time. <p>1 mark each for each of two causes explained:</p> <ul style="list-style-type: none"> • higher incomes will enable people to buy more goods and services • improvements in education will enable people to earn higher incomes / make more efficient life choices • improvements in healthcare will increase life expectancy • increase in leisure time will give people the opportunity of follow leisure activities / suffer less pressure. 	4	

Question	Answer	Marks	Guidance
6(c)	<p>Analyse how an increase in the rate of interest could increase unemployment.</p> <p>Rise in the rate of interest may discourage borrowing / increase cost of borrowing (1) increase saving (1) decrease spending (1) decrease total demand (1) lower demand may decrease output (1) encourage firms to make workers redundant (1).</p> <p>Rise in the rate of interest may increase firms' costs of production (1) this may encourage firms to reduce their output (1).</p> <p>Rise in the rate of interest may increase the exchange rate (1) higher exchange rate may decrease exports and increase imports (1) decrease domestic production (1).</p>	6	

Question	Answer	Marks	Guidance
6(d)	<p>Discuss whether a government should increase tax rates during a recession.</p> <p>Up to 5 marks for why it should:</p> <p>To prevent tax revenue falling (1) lower output may reduce profits (1) lower revenue from corporation tax (1) a recession will lower incomes (1) reduce income tax revenue (1) reduce revenue from indirect taxes (1).</p> <p>Higher tax revenue could be used to implement policies to stop the recession (1) government may be able to spend on supply-side policy measures (1) example (1).</p> <p>A higher tax on imports / import tariff (1) may encourage some consumers to switch to buying domestic products (1) reverse fall in output/employment (1).</p> <p>May want to redistribute income (1) progressive taxes could be increased (1) and tax revenue used to help the poor (1) who may be particularly harmed by a recession (1).</p> <p>Up to 5 marks for why it should not:</p> <p>Higher tax rates may reduce disposable income (1) reduce consumer expenditure (1) may reduce investment (1) lower consumer expenditure and investment would lower total demand (1) this may reduce output further (1).</p> <p>Higher tax rates may discourage MNCs from setting up in the country (1) this may mean it will take longer to get out of a recession (1).</p> <p>Higher tariffs may provoke retaliation (1) reduce both imports and exports (1).</p>	8	Accept a counterargument i.e. the government should instead reduce tax rates during a recession.

Question	Answer	Marks	Guidance
7(a)	<p>Define ‘specialisation’.</p> <p>The concentration/focus (1) on one task/product / what they are best at (1).</p>	2	
7(b)	<p>Explain <u>two disadvantages</u> that workers may experience from specialising.</p> <p>1 mark each for each of two disadvantages identified:</p> <ul style="list-style-type: none"> • risk may not find another job easily • not finding where key strengths lie • limited skills • boredom • demotivation • increased risk of being replaced by machines • disruption caused by absent fellow workers. <p>1 mark each for each of two explanations of the disadvantages:</p> <ul style="list-style-type: none"> • workers may not find it easy to transfer their skills to another job should they lose their jobs / risk of long term unemployment • concentrating on a particular task may mean that workers do not find out what they are best at • performing the same task each day can become tedious • breaking down a process into its separate parts may make it easier to mechanise • workers may feel less appreciated • may have to cover for absent colleagues / example of impact on the workers. 	4	

Question	Answer	Marks	Guidance
7(c)	<p>Analyse how a country could reduce its reliance on imports.</p> <p>Replacing imports with domestic products (1) by producing more domestic products / reducing price of domestic products / raising quality of domestic products (1)</p> <p>It could subsidise domestic producers (1) help infant industries to grow (1) replacing imports with domestic products (1).</p> <p>It could place trade restrictions on imports (1) example: e.g. tariffs (1) reason why restriction could reduce imports e.g. tariff could make imports more expensive (1).</p> <p>It could keep its exchange rate low (1) e.g. by buying the currency (1) keeping import prices high (1).</p> <p>It could use supply-side policy (1) e.g. increase spending on education (1) to improve the quality of output (1) reduce costs of production (1) make domestic products more competitive (1).</p>	6	

Question	Answer	Marks	Guidance
7(d)	<p>Discuss whether producing more food will increase living standards.</p> <p>Up to 5 marks for why it might:</p> <p>Producing more food may lower the price of food (1) due to economies of scale (1) making it more affordable (1) increasing the availability/quality of food people can consume (1) reducing poverty (1) increasing life expectancy (1).</p> <p>Providing more food may create jobs (1) increase exports / reduce imports (1) increasing output / GDP (1) increasing incomes / GDP per head (1) allowing people to buy more goods and services (1).</p> <p>Up to 5 marks for why it might not:</p> <p>May lead to over-consumption of food (1) obesity (1) healthcare problems caused (1).</p> <p>Intensive farming methods may create external costs (1) e.g. river pollution arising from fertilisers spread on the land (1).</p> <p>Agricultural jobs may be low skilled (1) low paid (1).</p> <p>Those producing more food may lack the appropriate resources to produce it (1) and as a result may produce low quality food (1) high priced food (1).</p> <p>Increased food production may lead to an over-supply of food (1) with the extra output remaining unsold (1) may cause diseconomies of scale (1).</p> <p>There may be an opportunity cost involved (1) relevant example (1) fewer capital goods may be produced (1) which could lower potential economic growth (1) and so living standards in the future (1).</p> <p>Crops may be destroyed / damaged (1) by climate conditions / disease (1).</p>	8	



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0455/23

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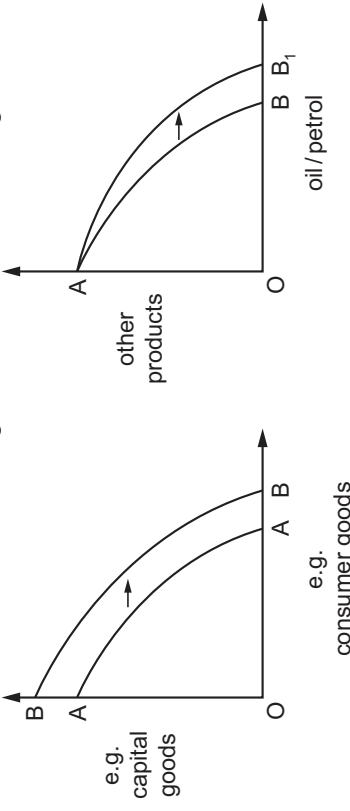
This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, 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.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

Question	Answer	Marks	Guidance
1(a)	Identify from the extract, <u>two</u> monetary policy measures. interest rates (1) exchange rates (1)	2	Do not reward subsidies or expansionary monetary policy
1(b)	<p>Explain <u>two</u> causes of a fall in the birth rate.</p> <p>1 mark each for each of two causes identified:</p> <ul style="list-style-type: none"> • rise in incomes / standard of living • Increase in education • more women working • improved family planning • women marrying later • improved social provision / more affordable healthcare • higher cost of raising children / cut in government child benefits • fall in infant mortality rates • government discourages births. <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> • richer people tend to have fewer children – tend to spend more on their education, do not rely on children to support them • increased education raises people's expectations of living standards for themselves and for their children • more educated women tend to marry later • more knowledge and availability of ways to limit families will reduce the number of unwanted births • more children surviving to adulthood so fewer births • working women tend to limit their families to avoid too many career breaks • provision of state pensions and healthcare reduces parents, need to have children to look after them • reduces incentives to have children. 	4	

Question	Answer	Marks	Guidance
1(c)(i)	<p>Calculate, using information from the extract: the value in US\$ of China's contribution to global GDP growth in 2015</p> <p>\$546 billion (2) Correct method, i.e. 20% of US\$2.730 billion or \$546/546 billion (1)</p>	2	
1(c)(ii)	<p>Calculate, using information from the extract: the number of children born in Nauru in 2015.</p> <p>250 (2) Correct method, i.e. 25×10 (1) 2500 (1)</p>	2	
1(d)	<p>Analyse, using a production possibility curve diagram, how the discovery of new oil reserves would affect an economy.</p> <p>Up to 4 marks for the diagram:</p> <ul style="list-style-type: none"> • 1 mark for axes correctly labelled • 1 mark for original curve/straight downward sloping line drawn to the axes. • 1 mark for new production possibility curve • 1 mark for indicating curve will shift to the right – either by arrows or labels.  <p>Up to 1 mark for explanation: A discovery of new oil reserves will increase productive potential / capacity / be able to produce more / results in economic growth (1)</p>	5	<p>Accept any reasonable label of axis. If labelled with oil / petrol accept parallel PPCs.</p> <p>Do not reward output / production increases</p>

Question	Answer	Marks	Guidance
1(e)	<p>Discuss whether a firm would benefit from a fall in its country's exchange rate.</p> <p>Up to 3 marks for why it might: Lower prices of exports (1) increase demand for its products (1) raise sales / revenue (1) increase profits (1). Increase size of market (1) enabling it to take greater advantage of economies of scale (1) lower average costs of production (1). Domestic producers can produce goods cheaper than overseas goods (1) resulting in higher home sales (1).</p> <p>Up to 3 marks for why it might not: Increase price of imports (1) raise a firm's costs of production (1) lower profits (1). If demand for exports is price-inelastic (1) a fall in price of exports will cause a fall in revenue (1). A fall in the exchange rate (1) may create uncertainty making it difficult for a firm to plan (1) Maybe recession in other countries (1) will not result in increased sales (1). Quality of goods may be poor compared with other competitors (1) sales do not rise (1).</p>	5	To achieve full marks, benefits to a firm must be discussed.
1(f)	<p>Explain, using information from the extract and Fig. 1, what might have happened to the market for steel in China in 2015.</p> <p>The diagram shows: supply decreasing (1). price rising (1). demand contracting / less steel / fall in quantity (1). if the subsidy to steel industry was cut (1). demand and supply are inelastic (1).</p>	4	

Question	Answer	Marks	Guidance
1(g)	<p>Discuss whether engaging in free trade increases living standards in a country.</p> <p>Up to 4 marks for why it might: Free trade may increase competition / removal of tariffs and quotas (1) encourages multinational corporations (MNCs) to set up in country (1) specialise (1) drives down prices (1) promotes efficiency (1) encourages innovation (1) increases quality (1) increase the range of products available (1) reduce unemployment (1) raise income/GDP (1). May increase the size of firms' markets (1) allowing them to take advantage of economies of scale (1).</p> <p>Up to 4 marks for why it might not: Free trade may cause some industries to go out of business (1) increasing unemployment (1) reducing incomes / GDP falls (1) may cause higher pollution (1). Unsafe products/low quality products may be imported (1). Dumping may occur (1) driving out domestic producers (1) which can raise prices (1) lower quality in the long run (1).</p>	6	

Question	Answer	Marks	Guidance
2(a)	<p>Define ‘demand’.</p> <p>The willingness/desire/want (1) and ability to buy a product (1) in a given period (1).</p>	2	
2(b)	<p>Explain <u>two</u> reasons why a country might want to restrict exports.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • keep prices low on home market • prevent stocks running out • maintain monopoly of raw materials • reduce balance of payments surplus / reduce demand-pull inflation • raise price of exports. <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • reducing exports may increase supply on the home market • a government may want to conserve e.g. oil for future generations to enjoy • reducing exports of raw materials that are found mainly in the country may mean that other countries/firms will not be able to produce the product • may increase export revenue if demand is inelastic. 	4	
2(c)	<p>Analyse how information on price elasticity of demand for its product can influence a firm’s pricing decisions.</p> <p>If a firm knows that demand for its products is price-elastic (1) it will know a fall in price will cause a rise in revenue (and vice versa) / percentage price change causes a bigger percentage change in demand (1). It will also know that its products probably have close substitutes (1).</p> <p>If it knows demand for its products is price-inelastic (1) it will know a rise in price will cause a rise in total revenue / percentage change in price is greater than percentage change in demand (1). It will also know its products probably do not have close substitutes (1).</p> <p>If it knows that demand for its products have unit price elasticity of demand (1) it will know that its revenue will not change if it changes price (1).</p> <p>It is difficult to calculate PED (1) firms may use other factors to determine price (1).</p>	6	

Question	Answer	Marks	Guidance
2(d)	<p>Discuss whether a merger of two firms in the same industry will be likely to reduce the price of the product.</p> <p>Up to 5 marks for why it might: A horizontal merger may allow the firm to enjoy economies of scale (1) example/s (2) lower average costs (1) enabling the firm to lower prices and maintain/increase profit / pass on savings (1). A horizontal merger may allow a firm to rationalise (1) to cut out duplication (1). Up to 5 marks for why it might not: A merger may result in a firm experiencing diseconomies of scale (1) example/s (2) higher average costs (1). A merger may increase market share / power / firm becomes a price maker (1) reducing competition (1) making demand price-inelastic (1) prices may rise rather than fall (1).</p>	8	

Question	Answer	Marks	Guidance
3(a)	<p>Identify <u>two</u> reasons why governments impose taxes.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • raise revenue • discourage consumption of harmful products / correct market failure / negative externalities • discourage purchase of imports • redistribute income / reduce income inequality • reduce total demand / reduce rate of inflation. 	2	Reward but do not expect reference to demerit goods.

Question	Answer	Marks	Guidance
3(b)	<p>Explain <u>two</u> advantages a business organisation may gain from becoming a public limited company.</p> <p>1 mark each for each of two advantages identified:</p> <ul style="list-style-type: none"> • relatively easy to raise finance • likely to be relatively large • sustainability • take advantage of limited liability. <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • able to sell shares on the stock exchange / limited liability may attract shareholders / banks may be more willing to lend • the ability to raise finance can allow firms to expand/take advantage of economies of scale • not dependent on current owners for survival of firm • owners can only lose the value of their shares. 	4	
3(c)	<p>Analyse how a cut in taxes would increase tax revenue.</p> <p>A cut in income tax rates (1) may increase the incentive to work (1) an increase in disposable income (1) would increase the financial reward from working (1) reduces tax evasion (1).</p> <p>A cut in corporation tax (1) may increase the incentive for firms to increase output (1) increasing the total value of profits that can be taxed (1).</p> <p>A cut in indirect taxes (1) may increase spending (1) raising expenditure that can be taxed (1).</p>	6	

Question	Answer	Marks	Guidance
3(d)	<p>Discuss whether an economy would benefit from an increase in the strength of its trade unions.</p> <p>Up to 5 marks for why it might:</p> <p>Stronger trade unions may achieve higher wages (1) this could increase living standards (1) enabling workers to afford e.g. better healthcare (1) improve training / skills of workers (1) motivate workers (1).</p> <p>Stronger trade unions may improve working conditions (1) prevent workers being discriminated against (1) this may increase labour productivity (1) can make exports more competitive (1) improving balance of payments (1) which can increase economic growth (1).</p> <p>Stronger trade unions may increase communication between workers and employers (1) may help promote training (1) reduce cost of negotiations / making negotiations more effective (1).</p> <p>Up to 5 marks for why it might not:</p> <p>Stronger trade unions may raise firms' costs of production (1) higher costs of production can reduce firms' profits (1) cause wage/price spiral (1) resulting in a fall in output (1) increase in unemployment (1) causing cost push inflation (1).</p> <p>Stronger trade unions may increase industrial action (1) will disrupt firms' production (1) result in a fall in orders (1) fall in investor confidence (1).</p> <p>Stronger trade unions may restrict the ability of firms to change their output (1) reducing their responsiveness to changes in market conditions (1).</p>	8	

Question	Answer	Marks	Guidance
4(a)	<p>Define 'devaluation'.</p> <p>A fall in the value (1) of the currency (1) in the case of a fixed exchange rate/caused by government decision / against other currencies (1).</p>	2	

Question	Answer	Marks	Guidance
4(b)	<p>Explain <u>two disadvantages</u> of a decrease in a country's output.</p> <p>1 mark each for each of two benefits identified:</p> <ul style="list-style-type: none"> • rise in unemployment / recession / less exports • reduction in living standards • reduction in tax revenue. <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> • fewer workers will be needed if output falls/cyclical unemployment • negative impact on balance of payments • there will be fewer goods and services for people to consume • lower incomes and spending to tax • lower GDP. 	4	
4(c)	<p>Analyse the effect on the market for food of an increase in population combined with a prolonged period of bad weather.</p> <p>There will be more people to buy food (1) demand would increase – written or shown by a shift to the right of a demand curve (1). Bad weather will reduce crop yields (1) supply will decrease – written or shown by a shift to the left of the supply curve (1). Price will increase (1) but the effect on quantity is unclear (1) – can both be shown by change in equilibrium price and quantity on a diagram.</p>	6	

Question	Answer	Marks	Guidance
4(d)	<p>Discuss whether a central bank should lend to commercial banks which get into financial difficulties.</p> <p>Up to 5 marks for why it should: A central bank is a lender of last resort (1) one of its functions is to lend to commercial banks when they cannot borrow elsewhere (1) example of another function (1). If a central bank does not lend, the commercial banks may collapse (1) holders of bank accounts will lose money (1) they may get into difficulties (1) there may be a 'run' on other banks (1) with people withdrawing their money (1) putting other banks at risk (1). Fewer banks would reduce the funds for firms to borrow (1) investment would be reduced (1) economic growth would decline (1) makes it more difficult for commercial banks to carry out their function (1) example of another function (1).</p> <p>Up to 5 marks for why it should not: May encourage banks to take risks (1) lend to creditworthy customers (1) they may think they are too big to fail (1). It would involve an opportunity cost (1) could use funds to lend to new, expanding banks (1).</p>	8	

Question	Answer	Marks	Guidance
5(a)	<p>Identify <u>two</u> reasons why a government may place an embargo on the import of a product.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • to improve the current account position • to prevent the import of a harmful product • to retaliate against another country's embargo • to protect domestic employment / infant industry / high unemployment. 	2	

Question	Answer	Marks	Guidance
5(b)	<p>Explain <u>two</u> reasons why some young workers may earn more than some old workers.</p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> • may be more qualified • may be more skilled • may be more up to date with the latest technology • may be more mobile • may work longer hours / less time off for illness • firms discriminate against older workers • work primarily in tertiary industry rather than primary. <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> • people with high qualifications are in short supply • people with more skills may be more productive • demand is likely to be high for people who have good technical skills • workers who can change occupations and locations will have more choice of jobs • young workers may be less likely to work part-time / more likely to work overtime. • old workers perceived to be less productive. 	4	Accept an argument why some old workers may earn less than some young workers.
5(c)	<p>Analyse the factors that may make the supply of a product more price-elastic.</p> <p>The production period may decrease (1) e.g. due to advances in technology (1) making it easier to alter the quantity produced (1).</p> <p>The time period available (1) easier to adjust supply in longer time period (1).</p> <p>It may become easier to store the product (1) e.g. due to the building of more storage facilities (1) making it easier to bring more products onto the market or withdraw them from the market (1).</p> <p>More sources of a raw material may be found (1) giving greater flexibility of supply (1).</p> <p>Mobility of factors of production (1) able to substitute between products being produced (1).</p> <p>Ability to source additional resources /output (1) at similar cost retaining profit margins (1).</p> <p>Lack of barriers to entry (1) enables new firms to enter the market (1).</p>	6	

Question	Answer	Marks	Guidance
5(d)	<p>Discuss whether a decrease in government spending will benefit an economy.</p> <p>Up to 5 marks for why it might:</p> <p>Lower government spending may reduce total demand (1) lower inflation / demand-pull inflation (1).</p> <p>Lower government spending on e.g. benefits, public sector wages (1) may reduce spending on imports (1) improve the current account position (1).</p> <p>Lower government spending on benefits may encourage the incentive to work (1) reduce unemployment (1).</p> <p>Lower government spending may enable the government to cut taxes (1) increase the incentive to invest (1) the incentive to work (1) disposable income increases (1) increase output (1).</p> <p>Lower government spending may allow growth of the private sector (1) by the release of resources (1).</p> <p>Up to 5 marks for why it might not:</p> <p>May cause cyclical unemployment (1) by reducing total demand (1).</p> <p>If spending on education is cut (1) may reduce the quality / skills / productivity of labour force (1) this may lower output (1) cause structural unemployment (1).</p> <p>Lower government subsidies (1) to infant industries may worsen the current account position (1) may reduce supply (1) cause cost-push inflation (1).</p> <p>Lower government spending on education and healthcare (1) may lower living standards (1) increase poverty (1).</p>	8	

Question	Answer	Marks	Guidance
6(a)	<p>Define 'trade protection'.</p> <p>Protecting domestic firms (1) from foreign competition (1).</p> <p>Helping domestic firms (1) to face foreign competition (1).</p> <p>Implementing trade barriers (1).</p> <p>Deliberate attempt to limit imports (1).</p> <p>Government action (1) that restricts international trade (1).</p>	2	No marks for examples.

Question	Answer	Marks	Guidance
6(b)	<p>Explain <u>two</u> advantages of countries specialising.</p> <p>1 mark each for each reason identified:</p> <ul style="list-style-type: none"> • can concentrate on what they are best at / factor endowment • can reduce average costs / create economies of scale • can increase output/income/GDP • can improve quality of output. <p>1 mark each for each of two reasons explained:</p> <ul style="list-style-type: none"> • influenced by factor endowment • productivity can be increased / more price competitive / increased speed of production • living standards can rise • 'practice makes perfect'. 	4	<p>Do not reward 'promotes peace and friendship'.</p> <p>Reward but do not expect reference to comparative or absolute advantage.</p>
6(c)	<p>Analyse why developed countries usually have lower death rates than developing countries.</p> <p>They tend to have higher incomes per head (1) enabling them to enjoy better housing (1) better nutrition (1) better education (1) better private sector healthcare (1) people live longer (1).</p> <p>Tax revenue may be higher (1) enabling greater public sector spending on education (1) greater public sector spending on health care (1) and so longer life expectancy (1).</p> <p>Better environment / less pollution / cleaner water (1) less illness (1).</p>	6	

Question	Answer	Marks	Guidance
6(d)	<p>Discuss whether a rise in income tax will reduce a current account deficit.</p> <p>Up to 5 marks for why it might: A rise in income tax would reduce disposable income (1) which will lower consumer spending (1) lowering spending on imports (1). It may reduce spending on domestic products (1) encouraging firms to switch products to the export market (1). It may reduce demand-pull inflation (1) increasing international competitiveness (1).</p> <p>Up to 5 marks for why it might not: A rise in income tax may reduce saving rather than spending (1). It may be accompanied by a rise in government spending (1) leaving demand unchanged (1). It may increase demand for wage rises (1) which, if granted, would increase costs of production (1) making domestic products less internationally competitive (1).</p>	8	

Question	Answer	Marks	Guidance
7(a)	<p>Identify <u>two</u> causes of inflation.</p> <p>Demand-pull/consumer boom/higher government spending/increase in net exports/increase in aggregate demand (1). Cost-push inflation/higher wages/higher raw material costs / depreciation or devaluation of domestic currency / imported inflation (1).</p>	2	

Question	Answer	Marks	Guidance
7(b)	<p>Explain <u>two</u> reasons why government spending may be greater than tax revenue.</p> <p>1 mark each for each of two causes identified:</p> <ul style="list-style-type: none"> • low level of economic activity • government desire to increase economic activity • actual government expenditure higher than planned expenditure • ageing population. <p>1 mark each for each of two explanations of the causes:</p> <ul style="list-style-type: none"> • if economic activity is low, spending on benefits may be high while, due to low incomes with low spending, tax revenue will be low • a government may be engaging in expansionary fiscal policy to increase total demand and raise revenue • planned expenditure and forecast tax revenue may not be achieved • more pressure on pensions and healthcare, while tax revenues may fall due to fewer workers. 	4	Maximum of 2 marks if explanation is restricted to either why there may be high government expenditure, or low tax revenue.
7(c)	<p>Analyse how an increase in labour productivity can increase living standards.</p> <p>Higher productivity will lower costs of production (1) may lower prices (1) enabling people to consume more goods and services (1) greater supply (1). It may increase output (1) raise employment (1) increase incomes (1) greater purchasing power (1) e.g. greater access to healthcare / education / leisure (1) live longer (1) higher HDI (1). Increase in government revenue (1) higher spending on education/healthcare (1).</p>	6	

Question	Answer	Marks	Guidance
7(d)	<p>Discuss whether monetary policy measures can increase economic growth.</p> <p>Up to 5 marks for why they might:</p> <p>A cut in interest rates (1) may discourage saving (1) increase borrowing (1) raise consumer spending (1) raise investment (1) increase total demand (1) increase output (1) higher investment will increase productive capacity (1).</p> <p>A reduction in the value of the exchange rate (1) will lower export prices and raise import prices (1) increasing demand for domestic products (1) increase output (1).</p> <p>An increase in the money supply (1) may stimulate higher spending (1) increasing output (1).</p> <p>Up to 5 marks for why they might not:</p> <p>Lower interest rates may not increase consumer spending and investment if confidence is low (1) households and firms may not spend extra disposable income if they think that incomes will fall in the future (1).</p> <p>A lower exchange rate will not lead to a rise in export revenue and a fall in import expenditure if demand is price-inelastic (1) there is an increase in import restrictions imposed by other countries/fall in incomes abroad (1).</p> <p>An increase in the money supply or other measure may lead to demand-pull inflation (1) the economy may not have the resources to produce more goods and services despite the rise in total demand (1).</p>	8	<p>Accept an argument that contractionary monetary policy leading to higher interest rates and lower domestic demand would reduce economic growth.</p> <p>Do not reward the same argument on both sides (mirror image) without additional relevant analysis.</p>



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/11

Paper 1 Multiple Choice

October/November 2017

45 minutes

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)



READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

DO NOT WRITE IN ANY BARCODES.

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

This document consists of **10** printed pages and **2** blank pages.



- 1 An oil company announced in 2015 that it was starting its drilling operations for oil deposits in the Arctic Ocean.

What will be the effect of this?

- A to increase the supply of raw materials
- B to reduce the level of technology available
- C to solve the economic problem
- D to worsen resource allocation

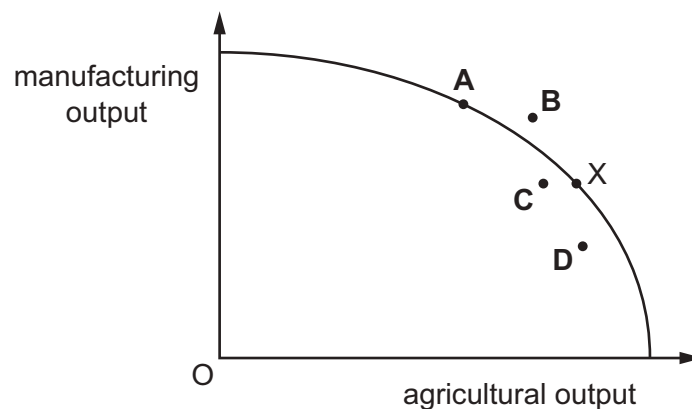
- 2 A self-employed fortune teller earns a living by reading the palms of people's hands.

Which factors of production are essential to this activity?

- A capital and enterprise
- B enterprise and labour
- C labour and land
- D land and capital

- 3 A country is operating at point X on its production possibility curve (PPC). A drought significantly reduces agricultural output.

Which point represents the new position?



- 4 A government needs to decide how much to fine firms for causing the external costs of air pollution in industrial areas.

Which external cost would be the most difficult to measure in monetary terms?

- A the discomfort associated with breathing
- B the expenditure on additional healthcare
- C the loss of earnings due to illness
- D the medical research into respiratory disease

5 What is an example of market failure?

- A city centre congestion
- B low economic growth
- C rising prices
- D trade deficits

6 The table illustrates the demand and supply for coffee in a market in Africa.

price per kg (\$)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40
50	10	50

When the price rises from \$20 to \$30 per kg, what is the price elasticity of demand for coffee?

- A 0.2 B 0.5 C 2.0 D 5.0

7 Between 2005 and 2015 the number of late-night music clubs in the UK fell from 3144 to 1733. The causes were said to be the increase in the cost to clubs of planning regulations and the increase in alternative ways of meeting people on social media.

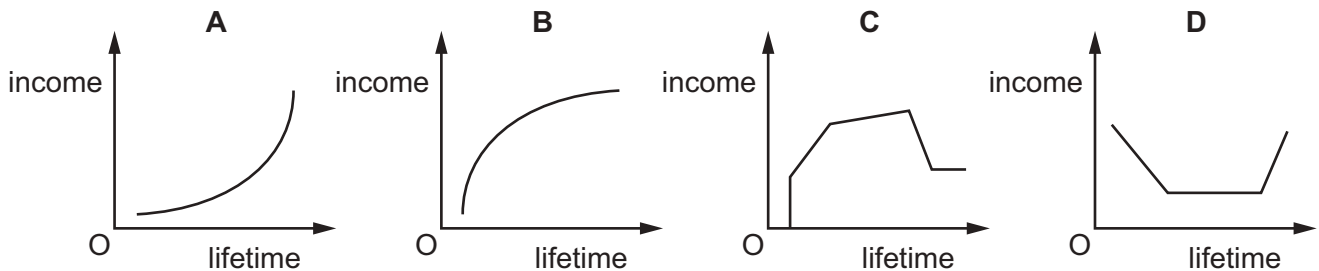
How would the effect of these causes be shown on a demand and supply diagram for entrance to late-night music clubs?

	planning regulations	increase in dating websites
A	movement down the supply curve	shift of demand curve to left
B	movement up the supply curve	movement up the demand curve
C	shift of supply curve to left	shift of demand curve to left
D	shift of supply curve to right	shift of demand curve to right

- 8 A job offers employees piecework, commission, paid holidays and a company pension.

Which are non-wage factors?

- A commission and company pension
 - B company pension and paid holidays
 - C paid holidays and piecework
 - D piecework and commission
- 9 When will a trade union be most likely to succeed in achieving the aims of its members?
- A when firms are trying to cut costs of production
 - B when the rate of unemployment in the country is high
 - C when trade union membership in the industry is compulsory
 - D when workers are unskilled
- 10 The typical pattern of income over a person's whole lifetime is shown by which diagram?



- 11 When choosing an occupation people often consider things other than the wage-rate.

What would **not** be a good match for the type of work that is desired?

	desired aspect	occupation
A	detailed work; career structure	lawyer
B	outdoor lifestyle; regular hours	farmer
C	part-time hours; work with people	supermarket assistant
D	technical knowledge; responsibility	telephone engineer

- 12 Which is an internal diseconomy of scale?

- A a lack of communication in a firm
- B a reduction of cost by buying in bulk
- C a shortage of skilled labour in an area
- D traffic congestion in a particular area

13 What is **not** likely in an industry with many small firms?

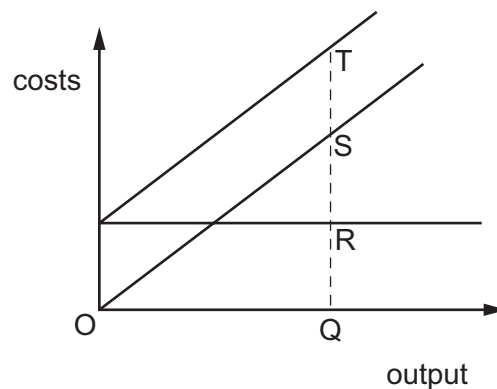
- A high capital costs
- B high level of competition
- C low barriers to entry
- D low research expenditure

14 A major computer company announced that its profits had fallen below the level predicted.

What might have caused this?

- A increased advertising costs that greatly improved sales
- B low prices that made the company's product competitive
- C new technology that reduced costs
- D reduced sales and low prices

15 The diagram shows the fixed costs, variable costs and total costs of a firm.



At output Q, which distance represents the firm's variable cost?

- A QR
- B QT
- C RT
- D ST

16 What, when increased, will help a government to reduce the rate of inflation?

- A budget deficit
- B consumer spending
- C income tax
- D pensions

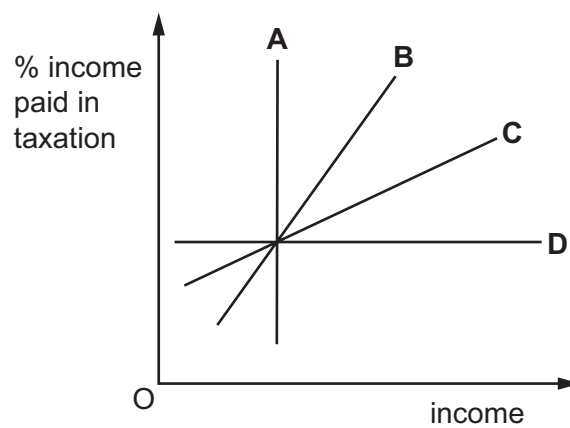
- 17** An economy has a deficit on its balance of trade in manufactured goods.

Which government policy will reduce this deficit?

- A** a decrease in subsidies paid to local manufacturers
- B** an increase in interest rates
- C** an increase in sales tax on locally manufactured goods
- D** an introduction of import duties on manufactured goods

- 18** The graph shows the percentage of income paid in taxation.

Which line represents a proportional tax?



- 19** What is most likely to decrease when employment increases?

- A** economic growth
- B** government welfare payments
- C** the price level
- D** the standard of living

- 20** Why is the Human Development Index (HDI) often considered to be better than Gross Domestic Product (GDP) per head as a measure of living standards?

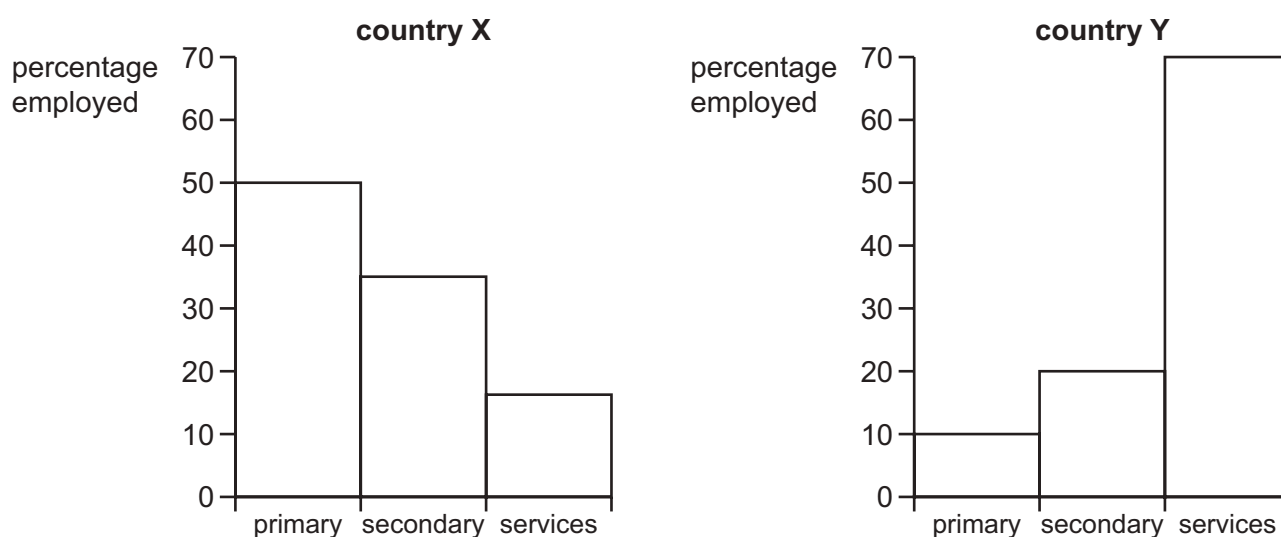
- A** GDP per head excludes economic growth.
- B** GDP per head ignores population growth.
- C** HDI includes more than the production of goods and services.
- D** HDI is calculated by the national government.

21 An economy is predicted to grow at a rate of 3% during the next year.

What is most likely to cause this growth?

- A** an increase in expenditure
- B** an increase in interest rates
- C** an increase in sales (goods and services) tax
- D** an increase in the government's budget surplus

22 The diagrams show percentage employment in different sectors in two countries.



Which statement is correct when comparing country X and country Y?

- A** Country X employs more workers in secondary industry than country Y.
- B** Country X produces more primary output than country Y.
- C** Country Y is more developed than country X.
- D** Country Y produces more secondary output than country X.

23 Which policy aims to maintain low inflation over a period of time?

- A** imposing a minimum wage to be paid to workers
- B** reducing interest rates to encourage borrowing
- C** restricting the supply of money through the central bank
- D** writing off the debts of low-income countries

24 What most accurately measures the international purchasing power of a currency?

- A the balance of payments
- B the exchange rate
- C the gross domestic product
- D the rate of inflation

25 The charts show the population structure of a country in 1960 and 2015.



What **decreased** between 1960 and 2015?

- A average age
- B number of people below 15
- C number of people over 60
- D total population

26 The table gives information about four countries.

Which country is likely to be most developed?

	life expectancy	GDP per head (US\$)	% of labour force in agriculture
A	52	450	50
B	54	490	40
C	60	550	15
D	60	500	25

27 What is a benefit of tariffs?

- A** increased choice
- B** increased government revenue
- C** more competition
- D** more trade

28 What is a country said to have if the value of its exported goods exceeds the value of its imported goods?

- A** a surplus on its balance of payments
- B** a surplus on its balance of trade
- C** a surplus on its capital account
- D** a surplus on its current account

29 An Argentine product initially sells in the US for \$50 when the exchange rate between the two countries is 5 pesos to 1 dollar

The exchange rate changes to 10 pesos to 1 dollar and the price of the product remains unchanged in Argentina.

What will be the new price of the product in the US?

- A** \$5
- B** \$25
- C** \$100
- D** \$500

30 The UK wants to increase exports to the US.

What action will achieve this?

- A** borrowing US dollars from international banks
- B** devaluing UK pounds against the US dollar
- C** placing a quota on imports from the US
- D** selling US dollars to buy UK pounds

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ECONOMICS

0455/12

Paper 1 Multiple Choice

October/November 2017

45 minutes

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

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Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

DO **NOT** WRITE IN ANY BARCODES.

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

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This document consists of **10** printed pages and **2** blank pages.



- 1 Economists refer to factors of production.

Which is **not** a factor of production?

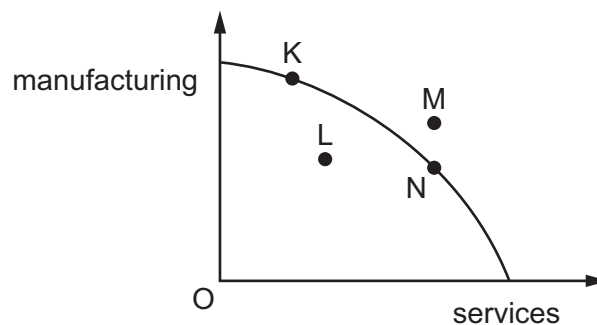
- A the fields of a farm
- B the machinery in a factory
- C the shares of a company
- D the staff in an office

- 2 A government allowed a building company to construct new houses which destroyed an area designated as an area of natural beauty.

Which concepts can be applied to this statement?

- A budget surplus; public sector
- B external cost; opportunity cost
- C government subsidy; mixed economy
- D private enterprise; budget deficit

- 3 The diagram shows a production possibility curve. The country is using all its resources to produce both manufactured goods and services.



What movement would represent an improvement of technology in manufacturing?

- A K to N
- B L to K
- C N to K
- D N to M

- 4 What is the government most likely to produce in a mixed economy?

- A all of the services and none of the goods
- B amounts of goods and services equal to those of the private sector
- C no goods and services
- D some of the goods and services

5 Which of the effects of economic development is an external cost?

- A higher employment
- B higher fixed costs
- C increased production
- D increased traffic congestion

6 The table illustrates the demand and supply for coffee in a market in Africa.

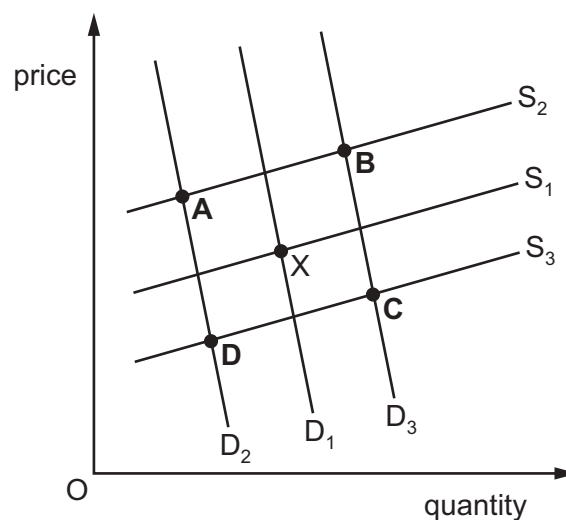
price per kg (\$)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40
50	10	50

When the price rises from \$20 to \$30 per kg, what is the price elasticity of demand for coffee?

- A 0.2
- B 0.5
- C 2.0
- D 5.0

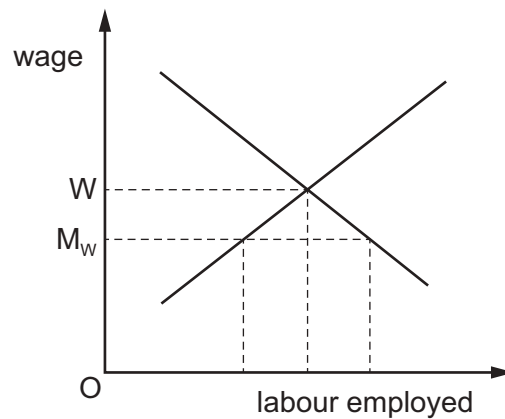
7 It was reported that the supply of oil would be affected by the discovery of new oil fields and demand would be affected by rapid global economic growth.

If point X is the initial equilibrium point, which point could represent the new equilibrium?



- 8 What is likely to decrease the level of saving in an economy?
- A an increase in the general level of income
 - B an increase in the number of cheap offers in shops
 - C a redistribution of income from poor to rich households
 - D a rise in the rate of interest
- 9 Which change will make a manufacturing company replace machines with labour to maintain the most efficient combination of factors of production?
- A The price of the product manufactured has increased.
 - B The productivity of labour has increased.
 - C The productivity of machinery has increased.
 - D The wages of labour have increased.
- 10 Although there are higher paid jobs in offices many workers stay in low-paid jobs on farms. What might explain this in developing economies?
- A Agricultural workers lack the necessary education and skills.
 - B Governments plan to increase indirect taxes on services.
 - C Manual workers are being replaced by machines.
 - D Workers on farms have high labour mobility.

- 11 The diagram shows two curves. One is the demand for labour, the other is the supply of labour. A government fixes a minimum wage (M_w) that must be paid by employers.



What will be the effect of this minimum wage?

- A fewer workers will be employed
 - B no change in the market equilibrium
 - C no worker will be paid wage W
 - D supply of labour will exceed demand
- 12 Which is an internal diseconomy of scale?
- A a lack of communication in a firm
 - B a reduction of cost by buying in bulk
 - C a shortage of skilled labour in an area
 - D traffic congestion in a particular area
- 13 What distinguishes a multinational company from other types of company?
- A It exports its products.
 - B It imports its raw materials.
 - C It produces outside its country of origin.
 - D It promotes its products in trade fairs abroad.
- 14 A major computer company announced that its profits had fallen below the level predicted.
- What might have caused this?
- A increased advertising costs that greatly improved sales
 - B low prices that made the company's product competitive
 - C new technology that reduced costs
 - D reduced sales and low prices

- 15** The table shows the variable costs of a firm. It can sell the units for \$5 each. Its fixed costs are \$10.

quantity produced (units)	10	11	12	13
variable cost (\$)	20	30	40	50

How many units will the firm produce to maximise profits?

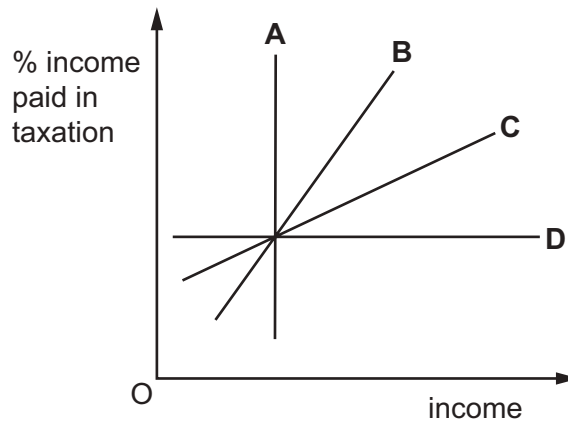
- A** 10 **B** 11 **C** 12 **D** 13
- 16** What, when increased, will help a government to reduce the rate of inflation?
- A** budget deficit
- B** consumer spending
- C** income tax
- D** pensions
- 17** The government introduces a new tax. It adds \$1 to the price of every \$10 good and \$2 to the price of every \$20 good.

What can be concluded about the nature of this tax?

	it is a direct tax	it is a specific tax	it is a progressive tax
A	no	no	no
B	no	no	yes
C	yes	yes	no
D	yes	yes	yes

- 18 The graph shows the percentage of income paid in taxation.

Which line represents a proportional tax?



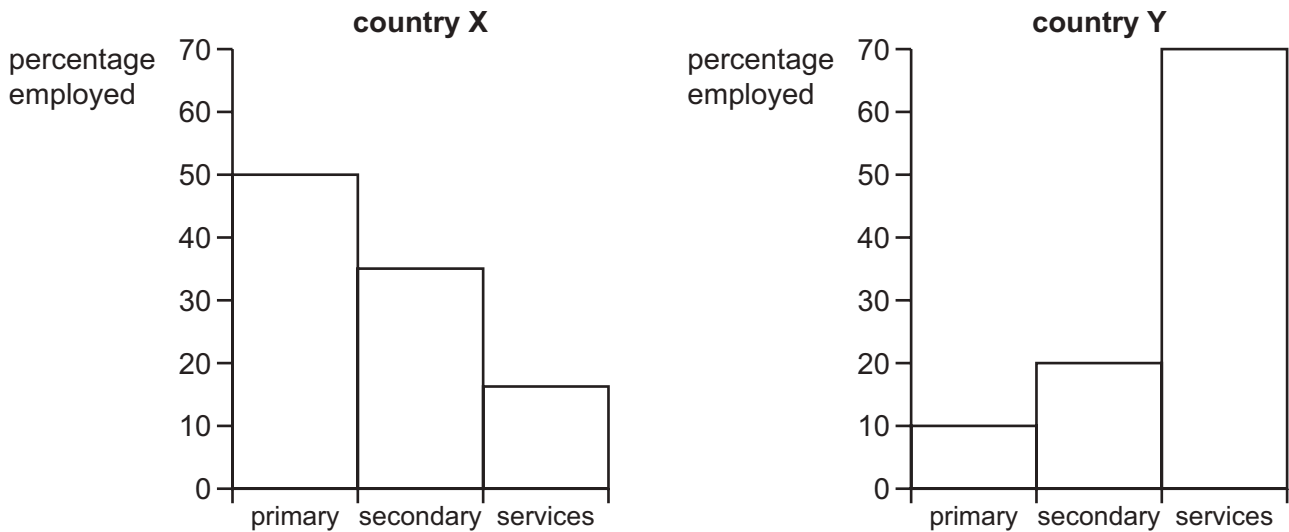
- 19 A worker earns \$40 000 a year and pays 20% income tax.

He spends \$5000 on electrical goods and \$10 000 on a car, and pays 20% sales tax on each.

How much indirect tax does he pay?

- A** \$3000 **B** \$5000 **C** \$8000 **D** \$11 000
- 20 Why is the Human Development Index (HDI) often considered to be better than Gross Domestic Product (GDP) per head as a measure of living standards?
- A** GDP per head excludes economic growth.
B GDP per head ignores population growth.
C HDI includes more than the production of goods and services.
D HDI is calculated by the national government.
- 21 A finance minister reported that the economy was experiencing inflation and economic growth.
- What would be evidence that both of these had occurred?
- A** increased exports and increased output
B increased imports and increased income tax
C increased interest rates and increased net migration
D increased prices and increased employment

22 The diagrams show percentage employment in different sectors in two countries.



Which statement is correct when comparing country X and country Y?

- A** Country X employs more workers in secondary industry than country Y.
- B** Country X produces more primary output than country Y.
- C** Country Y is more developed than country X.
- D** Country Y produces more secondary output than country X.

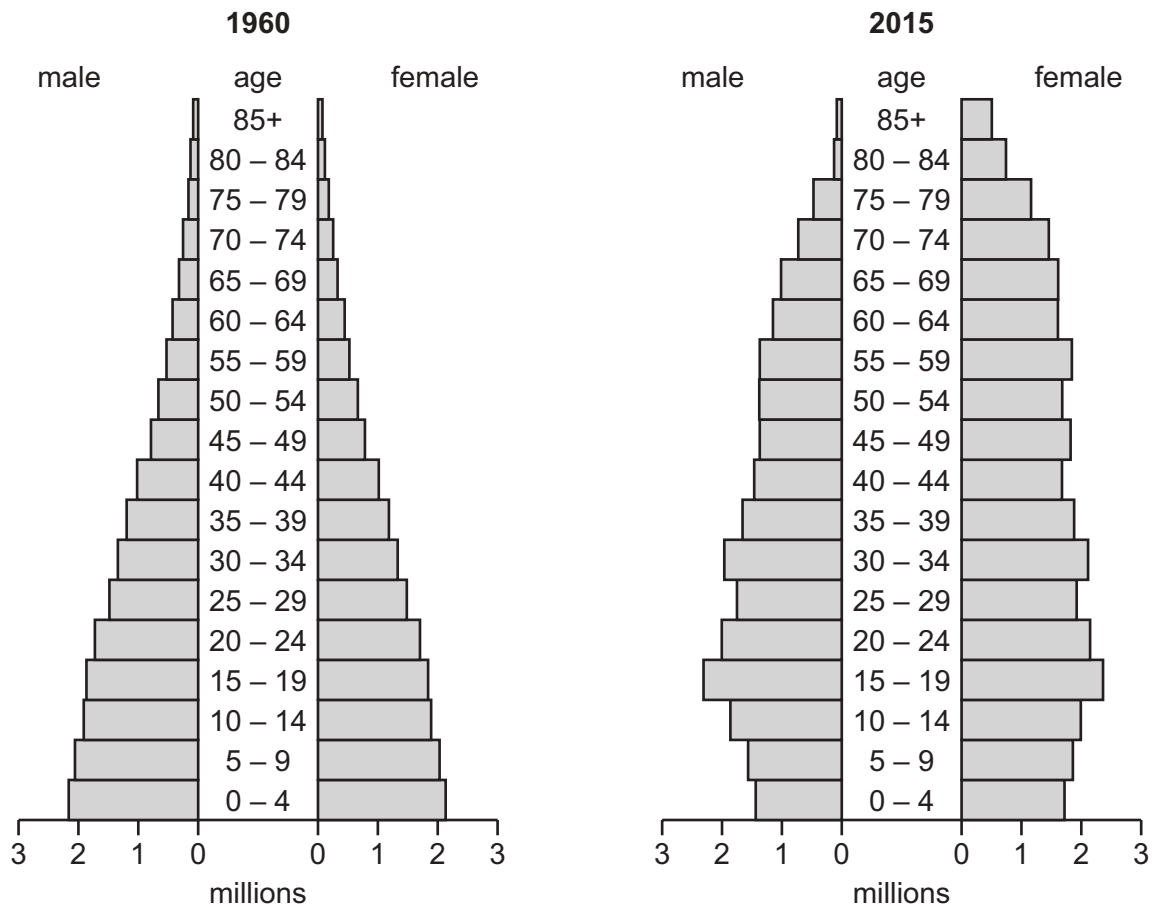
23 What would be a cause of cost-push inflationary pressure in an industry which supplies mobile (cell) phones?

- A** an increase in advertising expenses for mobile phones
- B** an increase in export duties on mobile phones
- C** an increase in income taxes on wages of employees
- D** an increase in world demand for mobile phones

24 What is most likely to cause an increase in the population growth of a developing country?

- A** a decrease in immigration
- B** a decrease in the birth rate
- C** a decrease in the death rate
- D** a decrease in the standard of living

25 The charts show the population structure of a country in 1960 and 2015.



What **decreased** between 1960 and 2015?

- A average age
- B number of people below 15
- C number of people over 60
- D total population

26 At the start of the year a developing country had a population of 1 000 000, its birth rate was 16.0 per thousand per annum and its death rate was 8.0 per thousand per annum. At the end of the year the population was 1 005 000.

What could explain this change in the population?

- A The birth rate rose.
- B The death rate fell.
- C There were 3000 emigrants.
- D There were 5000 immigrants.

27 What is a benefit of tariffs?

- A** increased choice
- B** increased government revenue
- C** more competition
- D** more trade

28 Which name is given to the external value of a currency in terms of another currency?

- A** the balance of trade
- B** the exchange rate
- C** the relative inflation rate
- D** the supply of money

29 It was reported in 2011 that the United States (US) needed to achieve a lower current account deficit.

What would help this in the short run?

- A** a protectionist policy
- B** a strong exchange rate
- C** increased private sector spending
- D** investment in the US by multinational firms

30 The table shows the number of units of foreign currency that the UK pound (UK£) could buy in August 2012 and August 2013.

currency	rate per UK£ August 2012	rate per UK£ August 2013
Argentine peso	7.16	8.35
South African rand	12.86	14.97
euro	1.27	1.14

What can be concluded from the table about the change in currency values between 2012 and 2013?

- A** The Argentine peso appreciated against the UK pound.
- B** The Argentine peso depreciated against the euro.
- C** The euro depreciated against the UK pound.
- D** The South African rand appreciated against the euro.

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ECONOMICS

0455/13

Paper 1 Multiple Choice

October/November 2017

45 minutes

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)



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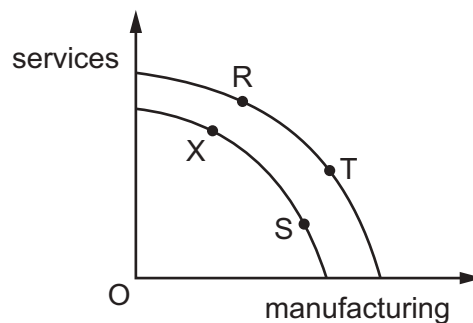
Any rough working should be done in this booklet.

This document consists of **10** printed pages and **2** blank pages.



- 1 What does an economist mean by the factor of production called *capital*?
- A goods that can be used to produce other goods
 - B money used to start a business
 - C resources that cannot be replaced
 - D the profits of a company
- 2 A government decides to spend more on defence and cannot spend money on a new airport.
- Which concepts can be applied to the above statement?
- A budget surplus; external cost
 - B factor of production; private monopoly
 - C public sector; opportunity cost
 - D trade surplus; budget deficit

- 3 The diagram shows a production possibility curve diagram. A country's initial position is X.



Better manufacturing processes are introduced and the country improves its tourist facilities.

What would represent this?

- A S to T
 - B T to R
 - C X to R
 - D X to T
- 4 What might be an external cost of drinking alcohol?
- A the cost of a bottle of wine
 - B the risk of illness from drinking alcohol
 - C the risk of street violence
 - D the tax paid to the government

5 What is a benefit of the market system?

- A Competition ensures choice for consumers.
- B Prices equal supply costs.
- C Unemployment is kept to a minimum.
- D Wage differentials are small.

6 The table illustrates the demand and supply for coffee in a market in Africa.

price per kg (\$)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40
50	10	50

When the price rises from \$20 to \$30 per kg, what is the price elasticity of demand for coffee?

- A 0.2 B 0.5 C 2.0 D 5.0

7 In recent years the price of crude oil on the world market has fallen dramatically. One cause has been the increase in oil obtained by the new extraction process of fracking.

How is this shown on a demand and supply diagram of the market for crude oil?

- A a shift in the demand curve to the left
- B a shift in the demand curve to the right
- C a shift in the supply curve to the left
- D a shift in the supply curve to the right

8 What is the best example of specialisation?

- A a diversified engineering company
- B a general repairs handyman
- C a self-sufficient, non-trading country
- D an old person's helper and care assistant

9 Which workers are most likely to gain the highest increase in wages from a pay rise of 2%?

- A airline pilots
- B farm workers
- C nurses
- D shop assistants

10 A female accountant in a private firm earns \$80 per hour; a male Professor of Finance in a government university earns \$40 per hour. Each works the same number of hours.

What could explain the difference in earnings?

- A It is difficult to measure the output per hour in each profession.
- B Pay in the private sector is profit-related but is not in the public sector.
- C Qualifications of accountants are lower than those of Professors of Finance.
- D Women are generally given preference over men in professional jobs.

11 Each of the four sets of descriptions in the table refers to a person applying for a job.

Which person is likely to receive higher pay?

A	skilled	experienced	younger worker
B	skilled	inexperienced	older worker
C	unskilled	experienced	older worker
D	unskilled	inexperienced	younger worker

12 Which is an internal diseconomy of scale?

- A a lack of communication in a firm
- B a reduction of cost by buying in bulk
- C a shortage of skilled labour in an area
- D traffic congestion in a particular area

- 13** Private multinational clothing companies operate in developing countries to reduce their average costs of production.

Which feature of developing countries attracts them for this purpose?

- A** In developing countries, clothing workers receive low wages.
- B** In developing countries, foreign managers are allowed to pay no income tax.
- C** In developing countries, multinationals are allowed to take profits out of the country.
- D** In developing countries, there is a large market for fashion clothing.

- 14** A major computer company announced that its profits had fallen below the level predicted.

What might have caused this?

- A** increased advertising costs that greatly improved sales
- B** low prices that made the company's product competitive
- C** new technology that reduced costs
- D** reduced sales and low prices

- 15** An entrepreneur buys a workshop for \$10 000 to make picture frames. In the first year he spent \$40 000 on materials and employed two workers. He paid the workers for each frame produced with a total cost of \$30 000. He bought a vehicle to deliver the frames for \$10 000.

What were his total variable costs?

- A** \$40 000 **B** \$70 000 **C** \$80 000 **D** \$100 000

- 16** What, when increased, will help a government to reduce the rate of inflation?

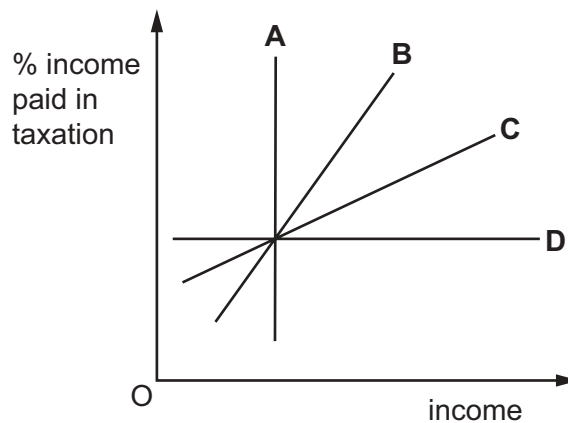
- A** budget deficit
- B** consumer spending
- C** income tax
- D** pensions

- 17** Which policy is most likely to increase the level of economic activity?

- A** increasing the exchange rate
- B** increasing the rate of interest
- C** reducing government spending
- D** reducing the general tax level

- 18 The graph shows the percentage of income paid in taxation.

Which line represents a proportional tax?



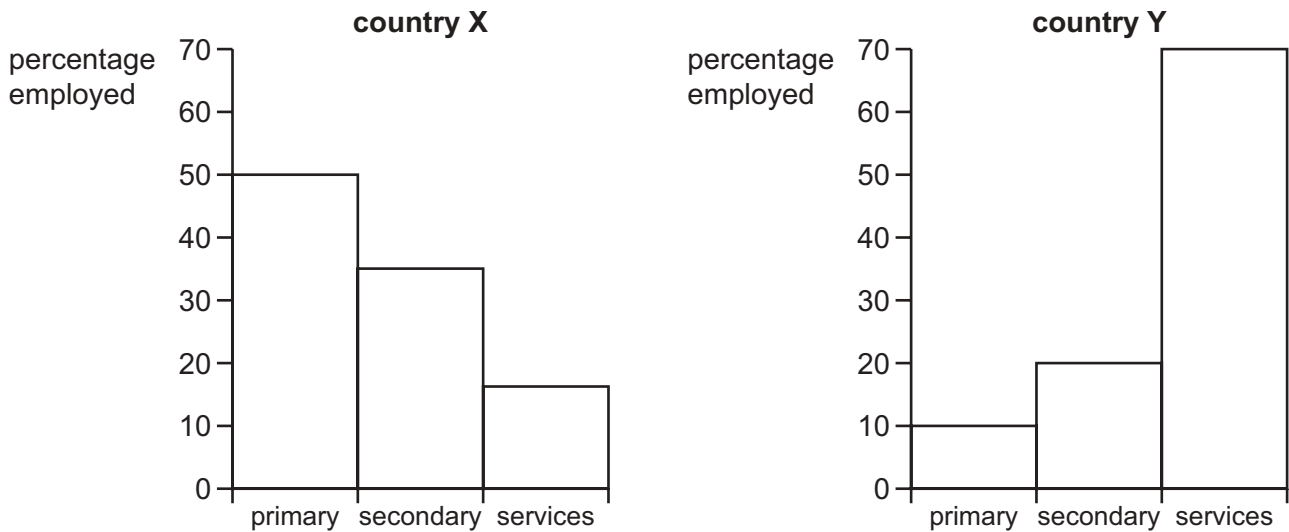
- 19 A government collects the following revenue in a year.

	\$m
customs duties	100
taxes on goods	200
taxes on income	400
taxes on services	300

What is the amount of indirect tax revenue?

- A** \$200 m **B** \$400 m **C** \$500 m **D** \$600 m
- 20 Why is the Human Development Index (HDI) often considered to be better than Gross Domestic Product (GDP) per head as a measure of living standards?
- A** GDP per head excludes economic growth.
B GDP per head ignores population growth.
C HDI includes more than the production of goods and services.
D HDI is calculated by the national government.
- 21 What may cause an immediate increase in the working population?
- A** a higher birth rate
B a higher death rate
C a higher fertility rate
D a higher rate of net immigration

22 The diagrams show percentage employment in different sectors in two countries.



Which statement is correct when comparing country X and country Y?

- A** Country X employs more workers in secondary industry than country Y.
- B** Country X produces more primary output than country Y.
- C** Country Y is more developed than country X.
- D** Country Y produces more secondary output than country X.

23 What is likely to fall when the rate of unemployment falls?

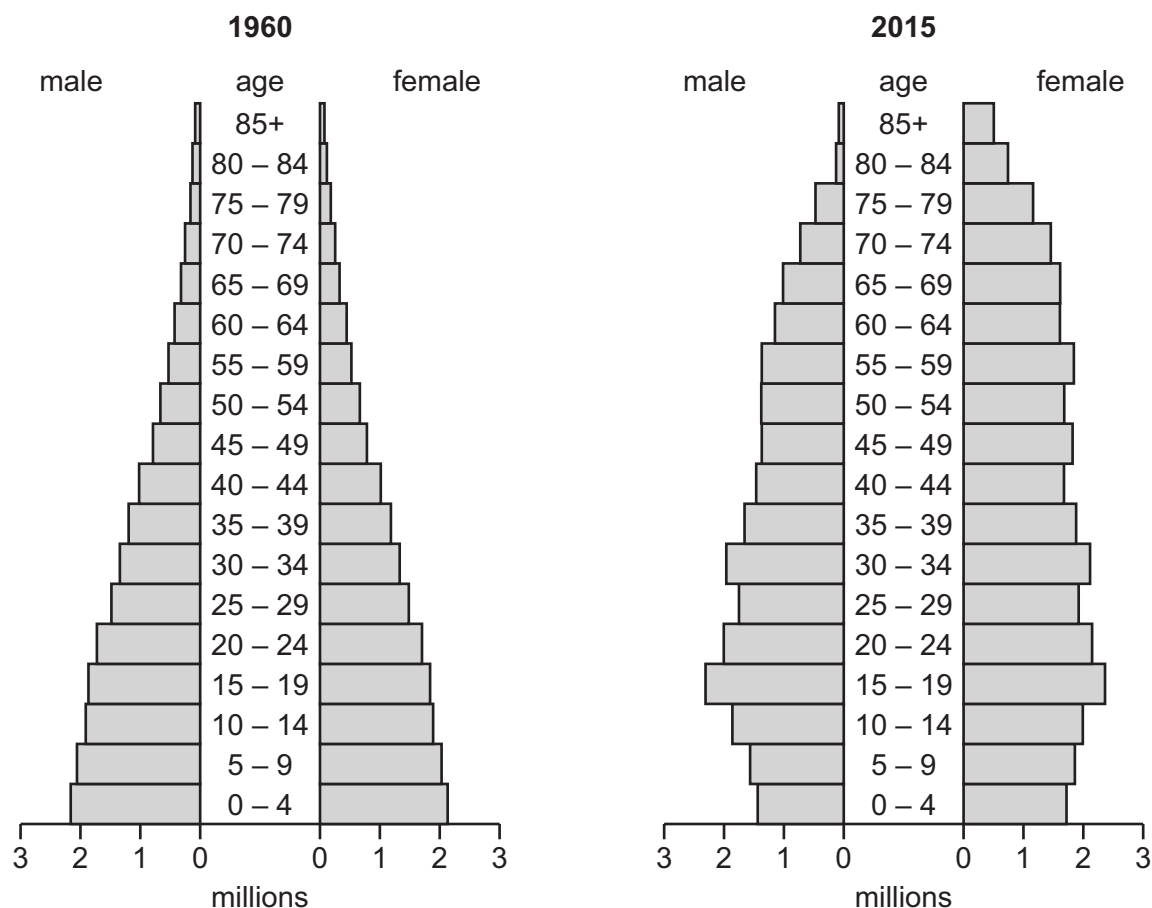
- A** business confidence
- B** consumer spending
- C** government revenue
- D** government welfare payments

24 The birth rate and death rate in a country are the same.

What is likely to happen if there is a decrease in the birth rate, while the death rate and migration remain the same?

- A** population structure will remain the same
- B** population will decrease
- C** the standard of living will decrease
- D** the working population will increase

25 The charts show the population structure of a country in 1960 and 2015.



What **decreased** between 1960 and 2015?

- A average age
- B number of people below 15
- C number of people over 60
- D total population

- 26** The table shows the Consumer Prices Index (CPI) for selected cities for August 2015 relative to New York, USA at 100.

city	CPI
Geneva, Switzerland	137
Oslo, Norway	105
Sydney, Australia	89
Singapore	88
Istanbul, Turkey	48
Johannesburg, South Africa	48
Lima, Peru	44

What can be concluded from the table?

- A** Geneva had the highest average price level.
 - B** Living standards were highest in Lima.
 - C** Singapore was more expensive than Oslo.
 - D** The annual rate of inflation was the same in Istanbul and Johannesburg.
- 27** What is a benefit of tariffs?
- A** increased choice
 - B** increased government revenue
 - C** more competition
 - D** more trade
- 28** What is an increase in the value of an exchange rate of a currency in a floating system called?
- A** appreciation
 - B** depreciation
 - C** devaluation
 - D** revaluation

- 29** A developing economy has a surplus on its trade in goods of \$75 billion and a deficit on its trade in services of \$25 billion, while its current account is in overall balance.

Which values for net income (primary income) and net transfers (secondary income) result in the current account being in balance?

	net income	net transfers
A	deficit of \$20 billion	surplus of \$120 billion
B	deficit of \$30 billion	deficit of \$70 billion
C	surplus of \$35 billion	surplus of \$15 billion
D	surplus of \$40 billion	deficit of \$90 billion

- 30** What policy would encourage greater international specialisation?

- A** the promotion of industrial diversification
- B** the protection of new businesses
- C** the reduction of tariffs
- D** the subsidising of service industries

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ECONOMICS

0455/21

Paper 2 Structured Questions

October/November 2017

2 hours 15 minutes

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An Answer Booklet is provided inside this Question Paper. You should follow the instructions on the front cover of the Answer Booklet. If you need additional answer paper ask the invigilator for a Continuation Booklet.

Section A

Answer Question 1.

Section B

Answer any **three** questions.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** Insert.



Section A

Answer this question.

1 Cigarette smoking in China

China has recently experienced rapid economic growth and an improving Human Development Index (HDI) ranking. It is, however, facing a number of health challenges. It is currently the world's largest cigarette market, with more than 350 million smokers. A higher proportion of men smoke in China than in most other countries, including Russia and the USA. While 50% of Chinese men smoke, only 2% of Chinese women smoke. It has been estimated that nearly 2 million Chinese citizens a year die from smoking-related illnesses. These include smokers and those who have suffered from passive smoking.

As well as being the largest consumer of cigarettes, China is also the world's largest producer of cigarettes. Tobacco is grown in a number of the provinces of China, including the province of Yunnan. Over 3 million workers are employed in the industry, which is increasingly using advanced technological capital equipment. However, between 2009 and 2014 the number of cigarette-producing firms declined from 200 to 40 as firms merged and grew in size.

Although revenue from taxes on cigarettes earned the Chinese Government 800 billion yuan in 2014 (5% of the government's total tax revenue), it recently introduced a number of measures to discourage smoking. It has imposed a ban on smoking in public places, hospitals, schools and public transport. Health campaigns are also being used. Such campaigns are used throughout the world both to discourage the consumption of some products that are thought to be harmful to health and to encourage the consumption of products that are considered to be beneficial to health. For example, an information campaign on the benefits of consuming fruit has met with some success in the UK. Fig. 1 shows the impact it had on the market for fruit in the UK in 2015.

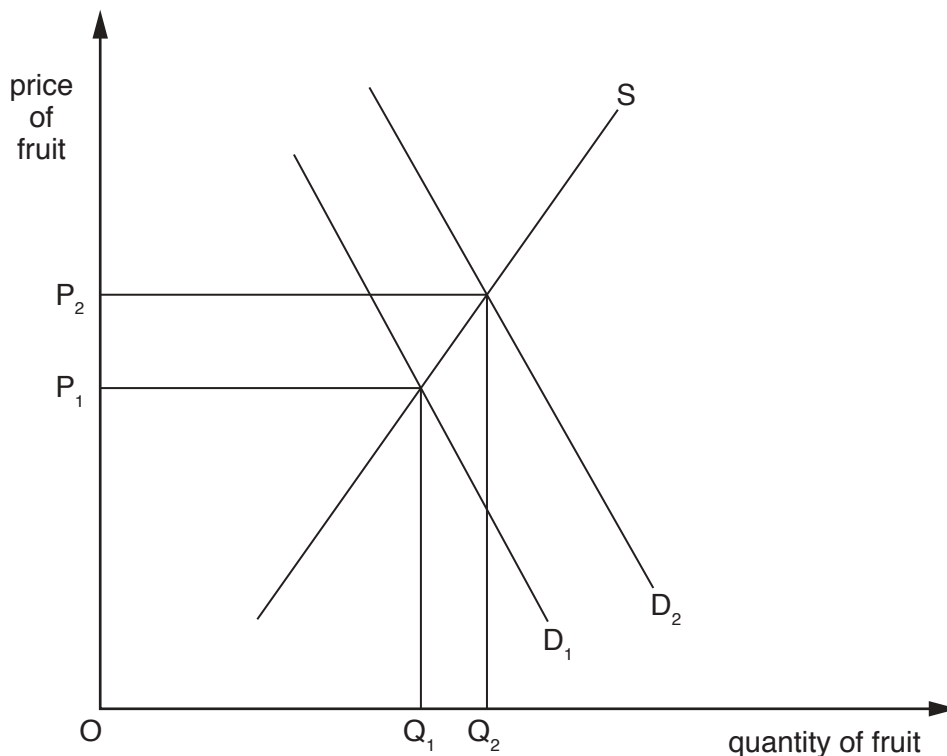


Fig. 1 The market for fruit in the UK in 2015

- (a) Identify, from the extract, **two** factors of production used in producing cigarettes. [2]
- (b) Explain **two** reasons why firms merge. [4]
- (c) Calculate, using information from the extract:
- (i) the percentage decrease in the number of cigarette firms in China from 2009 to 2014 [2]
 - (ii) the total tax revenue that the Chinese Government received in 2014. [2]
- (d) Analyse, using a production possibility curve diagram, the effect of moving factors of production from producing cigarettes to producing other products. [5]
- (e) Discuss whether people in countries with a high HDI always enjoy a high standard of living. [5]
- (f) Explain, using information from the extract and Fig. 1, what happened to the market for fruit in the UK in 2015. [4]
- (g) Discuss the arguments for and against the Chinese Government increasing the tax on cigarettes. [6]

Section B

Answer any **three** questions from this section.

- 2** In 2015, the global equilibrium price of milk fell. As a result, the number of farms producing milk declined. Farms tried to cut costs by becoming larger and employing fewer but more specialised workers. The reduction in the number of farms has led to less competition because some large farms have gained monopoly powers in local areas. A number of farm workers switched to other jobs, but some who remained accepted a cut in pay.
- (a) Define 'equilibrium price'. [2]
 - (b) Explain **two** reasons why a worker may continue in a job despite a cut in pay. [4]
 - (c) Analyse how employing specialised workers may reduce a firm's average costs of production. [6]
 - (d) Discuss whether consumers would benefit if a firm became a monopoly. [8]
- 3** Qatar is a growing economy and has benefited from the expansion of the insurance industry. This industry is currently dominated by one firm and is a long way from perfect competition. The economy has also experienced a general increase in labour productivity. However, the nature of the relationship between free trade and economic growth is debated among economists.
- (a) Define 'perfect competition'. [2]
 - (b) Explain **two** influences on the size of firms. [4]
 - (c) Analyse the causes of an increase in labour productivity. [6]
 - (d) Discuss whether a country that engages in free trade is likely to have a higher economic growth rate than one that uses trade protection. [8]
- 4** Indonesia is rich in resources including such raw materials as copper, gold and coal. Indonesia is the second-largest exporter of coal. In 2015, the Indonesian Government was considering increasing subsidies to producers, including farmers. Subsidies can be used to reduce inflation. Recent years have seen lower direct taxes in Indonesia, but higher direct taxes in some other countries.
- (a) What is used to measure a country's inflation rate? [2]
 - (b) Explain **two** reasons for conserving resources. [4]
 - (c) Analyse how subsidies given to farmers could raise living standards. [6]
 - (d) Discuss whether a rise in direct taxes will reduce economic growth. [8]

- 5 In 2015, Venezuela was facing a number of challenges. Despite government subsidies, increases in demand meant there were shortages of food. The fall in the global price of oil increased the deficit on the current account of the country's balance of payments. Oil accounted for nearly 90% of the country's export earnings. In Venezuela, oil is produced by one large state-owned company, but the country also has many sole traders involved in other industries.
- (a) Define a 'subsidy'. [2]
 - (b) Explain **two** causes of a decrease in demand for oil. [4]
 - (c) Analyse the advantages of being a sole trader. [6]
 - (d) Discuss whether a government should be concerned about a growing deficit on the current account of its balance of payments. [8]
- 6 In 2008, Zimbabwe reached a record high rate of inflation of 500 trillion per cent. By 2015, it had fallen so much that there was even talk of deflation. Such deflation could be very serious given the country's high rate of unemployment. Increased government spending on training is one of the policy measures that can be used to reduce both unemployment and inflation.
- (a) Identify **two** ways in which a high rate of unemployment may affect firms. [2]
 - (b) Explain **two** causes of deflation. [4]
 - (c) Analyse the **disadvantages** of a very high rate of inflation. [6]
 - (d) Discuss whether increased government spending on training will always reduce inflation. [8]
- 7 Despite encouragement from central banks, in 2015 some commercial banks were still reluctant to lend, especially to the poor. Attracting more lenders and borrowers would have allowed commercial banks to expand and employ more workers. A rise in employment would make more use of a country's labour force. Over time, the size of a country's labour force is likely to change.
- (a) Identify **two** ways in which the expenditure patterns of the poor and the rich are different. [2]
 - (b) Explain **two** reasons why a commercial bank may prefer to lend to the rich rather than to the poor. [4]
 - (c) Analyse the effects that an increase in the labour force will have on an economy. [6]
 - (d) Discuss whether providing loans to the poor will reduce poverty. [8]

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Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/22

Paper 2 Structured Questions

October/November 2017

2 hours 15 minutes

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An Answer Booklet is provided inside this Question Paper. You should follow the instructions on the front cover of the Answer Booklet. If you need additional answer paper ask the invigilator for a Continuation Booklet.

Section A

Answer Question 1.

Section B

Answer any **three** questions.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** Insert.



Section A

Answer this question.

1 From inflation to deflation

For some time, many central banks have tried to achieve a target inflation rate of about 2%. A small and steady rise in the price level can bring a number of benefits to an economy. For central banks and governments, the problem used to be stopping the inflation rate from going above the target rate while keeping the unemployment rate low. Now the problem has changed, and the risk is that inflation will fall below this target rate. At the end of 2014 the consumer prices index in China stood at 100.5. The inflation rate in the country in 2015 was 2%. Meanwhile, a number of countries in Europe experienced deflation. This had several consequences, including increasing the gap between the wages of skilled and unskilled workers.

One major reason for the downward pressure on inflation was a fall in the global price of oil from US\$120 to US\$66 a barrel in 2015. This reduced the price of energy and transport. Lower transport costs had a noticeable impact on the price of food. Fig. 1 shows how the market for food was affected in 2015.

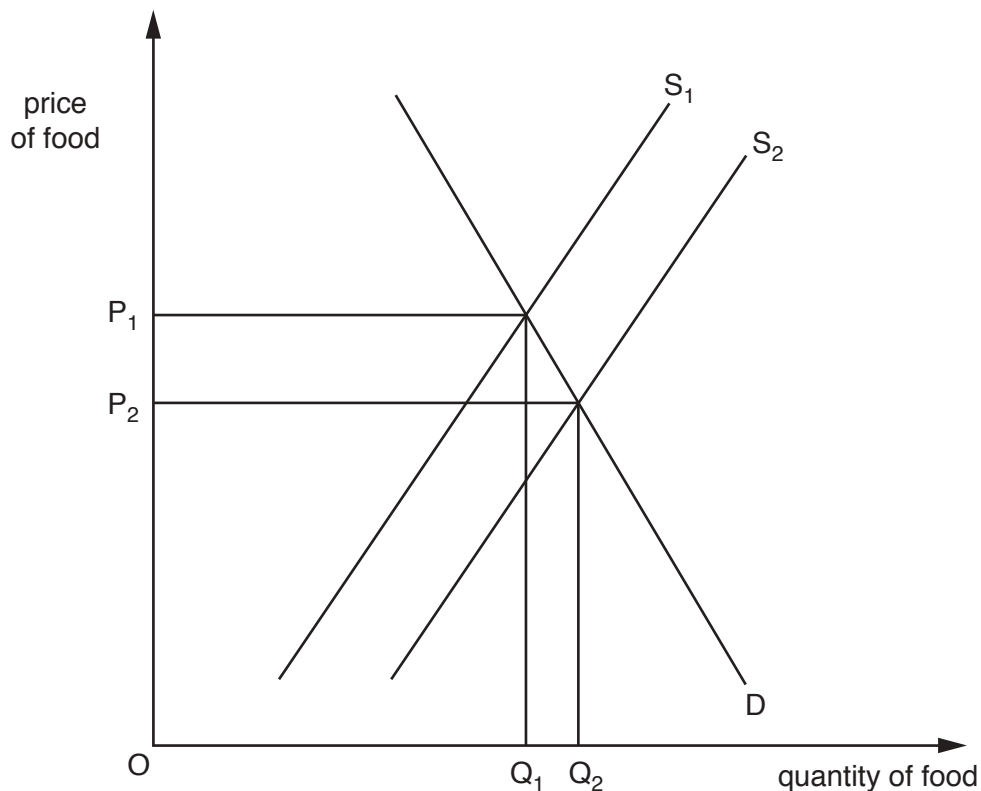


Fig. 1 The market for food in 2015

At the same time as falling inflation, some countries experienced falling unemployment. Other countries, however, experienced both falling inflation and rising unemployment. For example, France saw unemployment rising between 2014 and 2015. This put upward pressure on French Government spending.

- (a) Identify, from the extract, **two** aims of government policies. [2]
- (b) Explain **two** problems caused by inflation. [4]
- (c) Calculate, using information from the extract:
- (i) the percentage fall in the global price of a barrel of oil in 2015 [2]
 - (ii) the consumer prices index in China at the end of 2015. [2]
- (d) Analyse why an increase in unemployment might cause an increase in government spending. [5]
- (e) Discuss whether the supply of workers for unskilled jobs will be high in a country. [5]
- (f) Explain, using information from the extract and Fig. 1, what happened to the market for food in 2015. [4]
- (g) Discuss whether a decrease in income tax would reduce deflation. [6]

Section B

Answer any **three** questions from this section.

- 2** Singapore is usually ranked as one of the best countries in which to do business. It is an open economy engaging in free trade. It has a history of strong entrepreneurship, low unemployment, low average costs and relatively low tax rates. Its example may encourage other countries to remove trade restrictions.
- (a) Define 'average costs'. [2]
 - (b) Explain **two** factors that would increase the supply of entrepreneurs in an economy. [4]
 - (c) Analyse how the market for a product would be affected by a reduction of the tax on the product combined with a fall in the price of a complement. [6]
 - (d) Discuss whether low unemployment in a country will encourage multinational companies (MNCs) to set up there. [8]
- 3** Rich people in some countries are now working for more hours on average than poor people. One reason for this is thought to be that well-paid jobs provide more job satisfaction. Gaining enjoyment from work can lead to high labour productivity.
- (a) What is a possible opportunity cost of working? [2]
 - (b) Explain **two** reasons why older workers tend to earn more than younger workers. [4]
 - (c) Analyse, using a production possibility curve diagram, how an increase in labour productivity will affect an economy. [6]
 - (d) Discuss whether the rich in one country will save more than the rich in another country. [8]
- 4** In Pakistan there is a limited choice of cars to buy. The country has a population of approximately 190 million but only about 120 000 cars a year are produced there. The firms producing cars in Pakistan are protected from foreign competition by a range of methods of trade protection.
- (a) Name **two** factors of production used in making cars. [2]
 - (b) Explain how **two** methods of trade protection may reduce imports. [4]
 - (c) Analyse the social costs created by car production and car use. [6]
 - (d) Discuss whether demand for cars is likely to increase in the future. [8]

- 5 Nauru is one of the smallest countries in the world with a population of only 10 000. Fifty years ago the population was one of the richest per head in the world, largely the result of exporting the phosphate created over many centuries by sea-bird droppings. This labour-intensive industry has declined significantly. Now incomes are much lower and one third of workers are jobless.
- (a) What is meant by a 'labour-intensive industry'? [2]
 - (b) Explain **two** reasons why a country may stop exporting a product. [4]
 - (c) Analyse the effects of an increase in unemployment on inflation. [6]
 - (d) Discuss whether having a relatively small population is an advantage or a disadvantage for an economy. [8]
- 6 Moldova has a population of 3.5 million. It is one of the poorest countries in Europe, with relatively low living standards. In 2015, the country experienced a recession and a doubling of its inflation rate. Moldova's central bank increased its interest rate from 8.5% to 15.5%.
- (a) Identify **two** influences on the size of a country's population. [2]
 - (b) Explain **two** causes of an increase in living standards. [4]
 - (c) Analyse how an increase in the rate of interest could increase unemployment. [6]
 - (d) Discuss whether a government should increase tax rates during a recession. [8]
- 7 The Gulf countries, some of which are quite specialised, import a high proportion of the food their inhabitants eat. For example, the United Arab Emirates imports 83% of all the food that it consumes. The Gulf countries are trying to reduce their reliance on imports of food.
- (a) Define 'specialisation'. [2]
 - (b) Explain **two disadvantages** that workers may experience from specialising. [4]
 - (c) Analyse how a country could reduce its reliance on imports. [6]
 - (d) Discuss whether producing more food will increase living standards. [8]

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ECONOMICS

0455/23

Paper 2 Structured Questions

October/November 2017

2 hours 15 minutes

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An Answer Booklet is provided inside this Question Paper. You should follow the instructions on the front cover of the Answer Booklet. If you need additional answer paper ask the invigilator for a Continuation Booklet.

Section A

Answer Question 1.

Section B

Answer any **three** questions.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** Insert.

Section A

Answer this question.

1 Changes in the global balance of economic power

In 2014, global Gross Domestic Product (GDP) stood at US\$78 000 billion. A year later it had increased to US\$80 730 billion. In the past, countries such as the USA and Germany might have been expected to have made the largest contribution to the increase in GDP. China accounted for 20% of the increase in world output in 2015. China is set to become the largest economy. It is becoming a stronger competitor in a number of markets. This increased price competitiveness is the result of a number of factors including maintaining a low exchange rate, providing subsidies to a number of industries and increased labour productivity. However, in 2015 the Chinese Government was considering whether to reduce the size of the country's steel industry, possibly by cutting the subsidy it received. Fig. 1 shows how the market for steel might be affected by such a change.

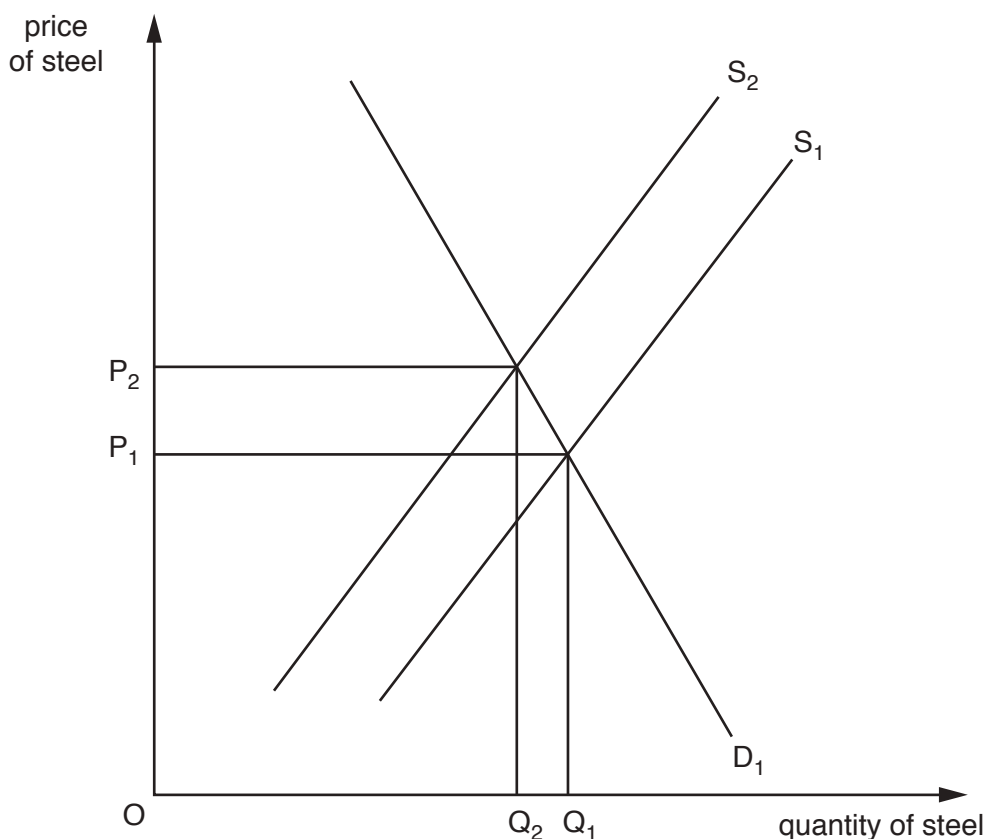


Fig. 1 The market for steel in China in 2015

Some developed countries have been struggling recently. For example, Australia has seen its economic growth rate declining. To try to increase domestic economic activity the Reserve Bank of Australia has cut interest rates.

Developing and emerging economies' economic growth rates are increasing. In Africa, this is in part because of the discovery and exploitation of oil and mineral resources. These countries have different exchange rate systems and have different records of success in attracting multinational companies. Many African countries use protectionist measures but some are moving towards free trade.

In most developing and emerging economies the birth rate is falling. The impact of this change is influenced by the relative size of the fall. For instance, Nauru is one of the smallest countries in the world having a population of only 10 000. Its birth rate fell from 26 to 25 in 2015.

- (a) Identify, from the extract, **two** monetary policy measures. [2]
- (b) Explain **two** causes of a fall in the birth rate. [4]
- (c) Calculate, using information from the extract:
 - (i) the value in US\$ of China's contribution to global GDP growth in 2015 [2]
 - (ii) the number of children born in Nauru in 2015. [2]
- (d) Analyse, using a production possibility curve diagram, how the discovery of new oil reserves would affect an economy. [5]
- (e) Discuss whether a firm would benefit from a fall in its country's exchange rate. [5]
- (f) Explain, using information from the extract and Fig. 1, what might have happened to the market for steel in China in 2015. [4]
- (g) Discuss whether engaging in free trade increases living standards in a country. [6]

Section B

Answer any **three** questions from this section.

- 2 In Saudi Arabia, output of cement has risen as a result of an increase in demand from the construction industry for building houses, schools, hospitals and roads. The market for cement is also being affected by price changes, export bans and mergers between companies making cement.
- (a) Define 'demand'. [2]
 - (b) Explain **two** reasons why a country might want to restrict exports. [4]
 - (c) Analyse how information on the price elasticity of demand for its product can influence a firm's pricing decisions. [6]
 - (d) Discuss whether a merger of two firms in the same industry will be likely to reduce the price of the product. [8]
- 3 In June 2015, trade unions in Argentina demanded higher wages and lower taxes. As well as pressure for increased wages the economy was facing a number of other challenges. It was trying to promote the formation of public limited companies and economic growth.
- (a) Identify **two** reasons why governments impose taxes. [2]
 - (b) Explain **two** advantages a business organisation may gain from becoming a public limited company. [4]
 - (c) Analyse how a cut in tax rates could increase tax revenue. [6]
 - (d) Discuss whether an economy would benefit from an increase in the strength of its trade unions. [8]
- 4 In August 2015, China devalued its currency, the yuan. The Chinese Government was trying to increase output, including the output of food. It had experienced a slow-down in its economic growth. However, some other countries had actually experienced a decrease in output. One of the causes of the decline in economic growth in some countries was problems connected with their commercial banks. Some commercial banks were at risk of going out of business.
- (a) Define 'devaluation'. [2]
 - (b) Explain **two disadvantages** of a decrease in a country's output. [4]
 - (c) Analyse the effect on the market for food of an increase in population combined with a prolonged period of bad weather. [6]
 - (d) Discuss whether a central bank should lend to commercial banks which get into financial difficulties. [8]

- 5 In 2015, the island of Puerto Rico announced it was considering ending some of its trade embargoes. Its government was also reviewing the amount it was planning to spend. Incomes have been increasing in Puerto Rico with some workers doing better than others. There have also been changes on the micro level, with elasticities of demand and supply changing in some markets.
- (a) Identify **two** reasons why a government may place an embargo on the import of a product. [2]
 - (b) Explain **two** reasons why some young workers may earn more than some old workers. [4]
 - (c) Analyse the factors that can make the supply of a product more price-elastic. [6]
 - (d) Discuss whether a decrease in government spending will benefit an economy. [8]
- 6 Trade protection reduces the opportunity for countries to specialise and influences the current account positions that countries have on their balance of payments. There are differences in the amount and types of trade protection used by developed and developing countries. Developed countries also usually have a lower death rate than developing countries.
- (a) Define 'trade protection'. [2]
 - (b) Explain **two** advantages of countries specialising. [4]
 - (c) Analyse why developed countries usually have lower death rates than developing countries. [6]
 - (d) Discuss whether a rise in income tax will reduce a current account deficit. [8]
- 7 In 2015, the UK economy experienced an increase in production and relatively low unemployment. There was, however, little growth in labour productivity and earnings. The government continued to spend more than it was receiving in tax revenue and considered changing some of its monetary policy measures.
- (a) Identify **two** causes of inflation. [2]
 - (b) Explain **two** reasons why government spending may be greater than tax revenue. [4]
 - (c) Analyse how an increase in labour productivity can increase living standards. [6]
 - (d) Discuss whether monetary policy measures can increase economic growth. [8]

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Grade thresholds – March 2018

Cambridge IGCSE Economics (0455)

Grade thresholds taken for Syllabus 0455 (Economics) in the March 2018 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 12	30	23	20	18	15	12	10	8
Component 22	90	63	52	41	36	30	24	18

Grade A* does not exist at the level of an individual component.

The maximum total mark for this syllabus, after weighting has been applied, is **150**.

The overall thresholds for the different grades were set as follows.

Option	Combination of Components	A*	A	B	C	D	E	F	G
Y	12, 22	125	108	91	75	64	53	43	33



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/12

Paper 1 Multiple Choice

March 2018

MARK SCHEME

Maximum Mark: 30

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination.

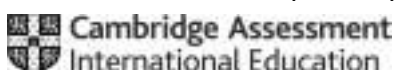
Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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Cambridge International is publishing the mark schemes for the March 2018 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

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This document consists of **2** printed pages.



Question	Answer	Marks
1	C	1
2	C	1
3	C	1
4	A	1
5	B	1
6	B	1
7	D	1
8	A	1
9	A	1
10	B	1
11	A	1
12	D	1
13	C	1
14	B	1
15	D	1
16	C	1
17	A	1
18	B	1
19	B	1
20	C	1
21	A	1
22	B	1
23	D	1
24	D	1
25	B	1
26	C	1
27	A	1
28	D	1
29	D	1
30	D	1



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/12

Paper 1 Multiple Choice

February/March 2018

45 minutes

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

DO NOT WRITE IN ANY BARCODES.

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

This document consists of **9** printed pages and **3** blank pages.



- 1 What **best** describes the problem of scarcity?
 - A All consumer wants must be satisfied.
 - B All resources are free at the point of use.
 - C There are limited resources and unlimited wants.
 - D There are unlimited resources and limited wants.

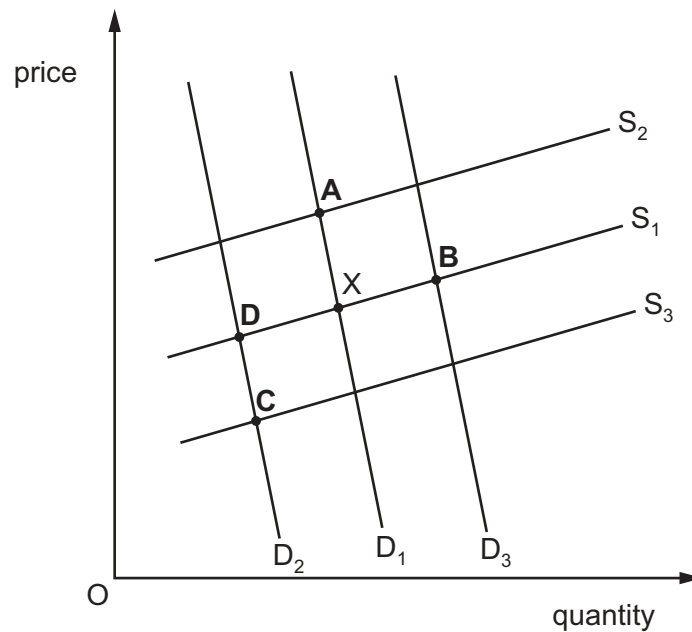
- 2 What is an example of the purchase of a capital good?
 - A a farm owner purchasing additional land
 - B a farm owner purchasing a television
 - C a farm owner purchasing a tractor
 - D a farm worker purchasing some seeds

- 3 A student decides to buy a ticket for a concert instead of buying a new shirt.
What is the opportunity cost of buying the ticket?
 - A the concert
 - B the price of the ticket to the concert
 - C the shirt
 - D the time spent purchasing the ticket

- 4 In a market system who has the **most** important role in influencing the allocation of resources?
 - A consumers
 - B entrepreneurs
 - C government officials
 - D producers

- 5 The diagram shows the market for oil. The initial equilibrium is X.

If the quantity of oil sold increased by two million barrels a day, which point represents the new equilibrium?



- 6 What is an external cost of mining coal?
- A the cost of purchasing mining equipment
 - B the extra cleaning costs of local residents' houses because of coal dust
 - C the extra cleaning costs of the mine buildings because of coal dust
 - D the cost to the mine owners to remove waste
- 7 The table shows the demand for chocolates at two different prices.

price \$	quantity demanded
0.50	400
0.45	480

What is the price elasticity of demand when the price falls from \$0.50 to \$0.45?

- A less than 0.5
- B between 0.5 and 1
- C between 1 and 1.5
- D greater than 1.5

8 What is a function of a stock exchange?

- A It allows company shares to be traded.
- B It enables tourists to purchase foreign currency.
- C It provides a market for firms to sell their products.
- D It sets the rate of interest in an economy.

9 What is a direct benefit to a worker of specialisation?

- A the higher output that may lead to higher earnings
- B the higher output that may lead to higher profits
- C the higher output that may lead to lower costs per unit produced
- D the longer training period that is required before starting work

10 A trade union succeeds in raising the wages in an industry above the equilibrium wage.

How would the demand and supply of labour change?

	change in quantity of labour demanded	change in quantity of labour supplied
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

11 What is **most** likely to result from an increase in income tax?

- A a fall in consumer spending
- B a fall in government spending
- C a rise in business investment
- D a rise in the level of imports

12 Which statement explains why firms in perfect competition are **not** able to exploit consumers?

- A The firms can restrict output.
- B The products are differentiated.
- C There are barriers to entry.
- D There is perfect information.

- 13 A company with a chain of restaurants bought another chain of restaurants.

How is this purchase **most** likely to be classified?

- A conglomerate merger
- B diversification
- C horizontal integration
- D vertical integration

- 14 The table shows some of the costs of running a retail shop in one week.

	\$
rent of shop	200
insurance premium	40
purchase of stock	700
delivery of goods	50

What are the total fixed costs during this week?

- A \$200
- B \$240
- C \$700
- D \$750

- 15 A company's annual report suggested that it had benefited from some changes.

Which change is an internal economy of scale for this company?

- A an improvement in road and rail facilities that has reduced its distribution costs
- B an increase in the number of local specialist workers that it could recruit
- C the introduction of new training at a local college for which staff have enrolled
- D the reduction in the company's costs by the purchase of a factory supplying components

- 16 A government believes that consumption of a certain good will be of benefit to society.

Which policy is **most** likely to encourage producers to increase their output of that good?

- A an increase in the period required for training the industry's workers
- B an increase in the regulations affecting businesses
- C an increase in the subsidies for that good
- D an increase in the taxation of that good

17 Which statement describes a progressive tax?

- A a tax that has a higher percentage rate as income rises
- B a tax that increases government income over time
- C a tax that places an increasing burden on the poor
- D a tax that rises in line with the rate of inflation

18 Which combination of government policies is **most** likely to reduce unemployment?

	income tax rate	government spending	rate of interest
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	decrease
D	increase	increase	increase

19 Which pair of government actions combines a fiscal policy with a supply-side policy?

- A changing government spending with changing interest rates
- B cutting tax rates with providing information on job vacancies
- C limiting bank lending with the privatisation of industry
- D restricting credit with less control over labour markets

20 What is a recession?

- A a period when incomes rise by less than inflation
- B a period when prices are falling continuously for twelve months
- C a period when real GDP is declining for two consecutive quarters
- D a period when unemployment is rising

21 An economy is suffering from a period of deflation.

What does this mean for the economy?

- A Consumers may delay purchase of some products.
- B Purchasing power of consumers falls.
- C Tax revenues for the government will rise.
- D The real value of personal savings falls.

- 22** The table shows the percentage change in employment over a period for a country with three economic sectors.

economic sector	change in employment (%)
agriculture	–6
manufacturing	+2
services	+4

What could be concluded from this information?

- A** Agricultural output fell.
 - B** The country became more developed.
 - C** The working population stayed constant.
 - D** Total employment remained the same.
- 23** Official statistics in 2010 showed South Africa had a very high unemployment rate at around 25%, although wages were double those in Brazil.

What might be a reason for South Africa's high wages in a time of high unemployment compared with Brazil?

- A** a skilled workforce in Brazil
 - B** high levels of savings in South Africa
 - C** more labour-intensive production in Brazil
 - D** strong trade unions in South Africa
- 24** What is a common feature of developed countries?
- A** a high fertility rate
 - B** a low population
 - C** high net emigration
 - D** low birth rates

25 Which combination of changes in a government's budget will lead to greater income inequality?

	direct taxes	indirect taxes	health and education spending
A	decrease	decrease	increase
B	decrease	increase	decrease
C	increase	decrease	decrease
D	increase	increase	increase

26 The table shows the percentage of the working population in different sectors in three countries.

country	agriculture (%)	manufacturing (%)	services (%)
Iran	38	33	29
Nepal	93	2	5
UK	2	42	56

What can be concluded from the table?

- A** Iran has fewer people working in the secondary sector than the UK.
 - B** Nepal is a developed economy.
 - C** The tertiary sector is more developed in Iran than in Nepal.
 - D** The UK is dependent on the primary sector.
- 27 Which method of trade protection has the **most** predictable effect in controlling the level of imports?
- A** quotas on imports
 - B** safety and quality regulations for imports
 - C** subsidies to domestic producers
 - D** tariffs on imports
- 28 What would cause a favourable change in the Indian trade in services (invisible) account?
- A** A Japanese company invests in a subsidiary in India.
 - B** A large Indian company increases its exports of goods.
 - C** A Malaysian company increases its exports to India.
 - D** An Indian company wins a contract to transport South African exports.

- 29** In October 2015, one UK pound could be exchanged for 100 Indian rupees. By October 2016, one UK pound could be exchanged for 80 Indian rupees.

What would be a short-term consequence of this change?

- A** Economic growth in India would increase.
 - B** Indian manufacturers would earn higher profits from exports to the UK.
 - C** Inflationary pressure in the UK would reduce.
 - D** UK manufacturers would find it easier to export to India.
- 30** A country imports oil which is used in the production and distribution of goods. The country has also experienced a rise in incomes which has resulted in a large increase in the demand for goods, some of which it imports.

What is likely to happen to the country's balance of trade in goods (visible) and to the price of oil?

	balance of trade in goods	price of oil
A	improves	falls
B	improves	rises
C	worsens	falls
D	worsens	rises

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ECONOMICS

0455/22

Paper 2 Structured Questions

March 2018

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.

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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.

Question	Answer	Marks	Guidance
1(a)	<p>Identify, using information from the extract, two industries that operate in the secondary sector of the Indian economy.</p> <p>Two from: Construction, engineering and high-tech (electronics and software).</p>	2	High-tech or electronics or software or electronics and software = 1 mark.
1(b)	<p>Explain, using information from the extract, why the price of restaurant meals in India is likely to increase in the future.</p> <p>Increase in incomes (1) which will increase demand/consumption/spending (1). Increase in advertising (1) which will increase demand/consumption/spending/attract new customers/make people more aware of the products/firms may raise price to cover costs (1). Advances in technology/development of apps (making it easier to book) (1) increase demand (1).</p>	4	Explanation mark is dependent on correct identification.
1(c)	<p>Analyse how a government can encourage enterprise.</p> <p>Increase spending on education (1) open new universities (1) train entrepreneurs (1). Encourage MNCs to set up in the country (1) learn ideas from owners/managers of MNCs (1). Encourage immigration/remove restrictions on immigration (1) migrants often set up new businesses (1). Provide subsidies/grants/loans (1) to encourage new firms to set up/lower costs (1) less finance needed to start a business (1). Cut taxes/provide tax benefits (1) to increase reward/profit (1). Lower interest rates (1) to make it cheaper to set up a new firm/expand (1). Privatise firms/end state monopolies (1) allowing new firms to come into the market (1). Deregulate industries (1) removing barriers to entry/allowing new firms to come into the market (1)..</p>	5	Up to 3 marks for one way well explained. Maximum of 3 marks for identifying ways/measures.

1(d)	<p>Using Fig.1, comment on whether the relationship shown between changes in India's investment and economic growth rate is the expected one.</p> <p>Yes (1). In most years, investment and economic growth move in the same direction/follow a similar trend (1) exception 2011 (1) economic growth rate is highest in 2010 whereas investment increase is highest in 2011/2012 (1). Higher investment will increase total (aggregate demand) (1) and productive potential/resources to increase output (1). Economic growth may encourage investment (1) firms expanding due to higher demand/expectation of higher profit (1).</p>	4	
1(e)	<p>Discuss whether or not a city should specialise in one industry.</p> <p>Up to 3 marks for why it should: Can concentrate on what the city is best at producing/make best use of the city's resources (1) increase output/economic growth (1) lead to higher income/higher profit/higher revenue (1). Can gain a reputation in producing the product/quality (1) increase demand (1) attract other firms to set up in the city (1). Firms/industry can grow in size (1) enjoy economies of scale/increase productivity/increase efficiency (1) lower average cost (1).</p> <p>Up to 3 marks for why it should not: There is a risk that if the industry fails (1) there will be high unemployment (1) fall in income (1). There will be only a limited number of different types of jobs/occupations available (1) may not suit all workers/workers may lack the skills to work in the industries (1). Certain industries may create negative externalities (1) e.g. pollution (1). Firms/industry may grow too large (1) experience diseconomies of scale/reduce productivity/reduce efficiency (1) higher average cost (1). Increased dependency on other areas for other products (1) prices of these may rise/supply may fall (1) opportunity cost in terms of lost output of other industries (1).</p>	5	

1(f)	<p>Explain, using information from the extract, two reasons why some Indians spent less in 2012.</p> <p>A rise in the rate of interest (1) would encourage saving/discourage borrowing (1). Concerns about future economic prospects/lower economic growth/possibility of recession (1) would encourage saving (in case of a fall in income (GDP) /unemployment) (1).</p>	4	
1(g)	<p>Discuss whether or not an economy would benefit from one of its industries opening branches in other countries.</p> <p>Up to 4 marks for why it might: May improve the balance of payments/current account (1) profits sent home (1) obtain foreign currency (1) branches may buy imports from the home country (1). May enable firms to get round other countries' trade restrictions (1). May be able to take advantage of subsidies given by foreign governments (1) lower costs of production/more competitive (1) other reasons why cost may fall (1) higher output (1). May reduce external costs at home (1) lower pollution (1).</p> <p>Up to 4 marks for why it might not: May take production away from the economy/opportunity cost of producing in the home country (1) lower (potential) output (1) lower potential employment/cause unemployment (1). May reduce potential government tax revenue (1) corporation tax paid to foreign governments (1). Some top managers and workers may be employed in the overseas branches (1) reducing the supply of skilled managers and workers in the home country (1).</p>	6	

2(a)	Define resources. Factors of production/inputs (1) used to produce goods and services/example of a factor of production (1).	2	
2(b)	Explain two reasons why the quality of a country's resources may increase. Advances in technology/investment (1) would increase the quality of capital (1). Improved education/training (1) would increase the quality of labour (1). Improved health care (1) would increase the quality of labour (1). Irrigation (1) may improve the quality of land (1). Reduction in pollution (1) may improve the quality of land (1).	4	
2(c)	Analyse the reasons why a country's birth rate may fall. Increase in the cost of raising children (1) e.g. increase in the time children spend in education (1). Increase in the proportion of women in the labour force (1) tends to reduce family size (1). Increase in state provision of welfare payments (1) reducing the need to have children support parents in old age (1). Reduction in infant mortality (1) people having fewer children in the expectation more will survive (1). Ageing population (1) fewer people of child bearing age (1). Greater availability/knowledge of contraception (1) makes family planning easy (1). Education (1) e.g. higher cost of having children (1) women may get married later (1). More women working (1) may delay childbirth (1) Government policy (1) e.g. placing a limit on number of children (1)	6	Maximum of 3 marks for a list-like approach. Up to 3 marks for one reason well explained.

2(d)	<p>Discuss whether or not a government should be worried about an increase in the proportion of its population aged over 65.</p> <p>Up to 5 marks for why it should: May mean more people are retired (1) increase the cost of pensions (1) may have to raise taxes (1) increase dependency ratio (1) may mean less people in the labour force (1) may lose some skills (1). May increase the cost of healthcare (1) the elderly tend to place a greater burden on the health services (1). May reduce the mobility of the labour force (1) older workers tend to be less mobile (1). Older workers may be less familiar with new technology (1) less productive (1).</p> <p>Up to 5 marks for why it should not: Longer life expectancy (1) is a feature of economic development (1) raises HDI (1). Government could raise retirement age (1) encourage rise in birth rate (1) encourage immigration (1) increasing the labour force (1) older workers have more experience (1) and so may have higher productivity (1). Improvements in health care (1) may mean people are healthier at older ages (1).</p>	8	
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Question	Answer	Marks	Guidance
3(a)	<p>Define a <i>fixed</i> cost.</p> <p>A cost that does not change with output/has to be paid even if no output produced (1) in the short run/example (1).</p>	2	
3(b)	<p>Explain why traffic congestion is an external cost.</p> <p>An external cost is a harmful effect imposed on a third party/those not involved in the decision making process/social cost minus private cost (1). Traffic congestion causes journeys to take longer than they should (1) opportunity cost of lost time (1) higher costs for transport firms (1) cause pollution (1) cause health problems (1).</p>	4	
3(c)	<p>Analyse how a taxi firm could make use of information about the price elasticity of demand for its service.</p> <p>Information on PED can influence a taxi firm's pricing strategy (1) could be used to determine whether demand is elastic or inelastic (1). If demand is elastic, a change in price will cause a greater percentage change in quantity demanded (1) a reduction in price would raise revenue (and vice versa) (1) elastic demand would suggest there are close substitutes/competitive market (1). If demand is inelastic, a change in price will cause a smaller percentage change in quantity demanded (1) a rise in price would raise revenue (and vice versa) (1) inelastic demand would suggest lack of substitutes/high market power (1).</p>	6	

Question	Answer	Marks	Guidance
3(d)	<p>Discuss whether or not a reduction in unemployment always increases living standards.</p> <p>Up to 5 marks for why it might: Would be likely to mean an increase in employment (1) increase output/make more goods and services available (1) raise incomes (1) reduce poverty (1). May increase provision of healthcare/expenditure on healthcare (1) increase life expectancy (1). May increase provision of education/expenditure on education (1) increase literacy (1). Reduce government spending on unemployment benefits (1) raise tax revenue (1) increase spending on e.g. pensions (1) which could reduce poverty (1).</p> <p>Up to 5 marks for why it might not: Employment may not rise if e.g. some of the unemployed have emigrated/retired (1). The jobs taken up may be low skilled (1) low paid (1) have poor working conditions (1). The jobs may be dangerous/involve working in an unhealthy atmosphere (1) reducing the health of workers (1). Higher employment may increase external costs (1) e.g. pollution/traffic congestion (1). May increase wages (1) causing cost-push inflation (1). May increase demand (1) cause demand-pull inflation (1).</p>	8	

Question	Answer	Marks	Guidance
4(a)	<p>Define a <i>subsidy</i>.</p> <p>A government payment/extra payment/grant/financial assistance (1) designed to encourage production/consumption/lower costs of production (1).</p>	2	
4(b)	<p>Explain two disadvantages of inflation.</p> <p>May reduce purchasing power/value of money will fall (1) each unit of the currency will buy less/if wages rise by less than inflation (1). May be a reduction in international competitiveness (1) exports may fall/imports may rise (1). Savings may fall in value (1) if the rate of interest rises by less than inflation (1). More income may be taken in tax/fiscal drag (1) if tax brackets are not changed in line with inflation (1). There may be menu costs (1) the costs of adjusting prices/catalogues etc. (1). Random redistribution of income (1) e.g. lenders may lose and borrowers may gain/those with strong bargaining power may gain and those with weak bargaining power may lose (1). More difficult to plan (1) discourages investment/causes people to make inefficient choices (1).</p>	4	Lower employment/output only credited if linked to cost-push inflation.
4(c)	<p>Analyse how an increase in government spending may cause inflation.</p> <p>Higher government spending will increase total (aggregate) demand (1) higher demand may push up the price level/prices (1) cause demand-pull inflation (1). Higher demand may increase demand for workers (1) this may cause wages to rise (1) higher wages may cause cost-push inflation (1). Higher government spending may be financed by borrowing (1) this may increase the money supply (1) more money can cause demand-pull/monetary inflation (1).</p>	6	

Question	Answer	Marks	Guidance
4(d)	<p>Discuss whether or not an increase in the top rate of income tax will benefit an economy.</p> <p>Up to 5 marks for why it might: An increase in the top rate of income tax may raise more tax revenue (1) the extra revenue may be spent on e.g. healthcare/education (1) which may increase living standards (1). The tax revenue may be spent on e.g. infrastructure/education (1) which may increase economic growth (1). The higher rate may reduce income inequality (1) especially if some of the revenue is used to help the poor (1).</p> <p>Up to 5 marks for why it might not: The higher rate may discourage effort and enterprise (1) some entrepreneurs may choose to leave the country (1) may discourage MNCs from setting up in the country (1) High paid workers may reduce their working hours (1) some workers may decide not to take up the offer of a promoted job (1). The higher rate may encourage tax evasion (1) reduce tax revenue (1). Higher tax rate may encourage the high paid to seek wage rises (1) this may raise costs of production (1) may cause cost-push inflation (1). Reduce the disposable income of the rich (1) lower total (aggregate) demand (1) reduce output (1).</p>	8	

Question	Answer	Marks	Guidance
5(a)	<p>Define a state-owned enterprise.</p> <p>A firm owned by the government/a nationalised industry (2). A firm in the public sector (1).</p>	2	
5(b)	<p>Explain, giving examples, the difference between vertical integration and horizontal integration.</p> <p>Vertical integration is the merger between two firms producing at different stages of production (1) example e.g. a tyre producer and a car manufacturer (1). Horizontal integration is the merger between two firms producing at same stage of production (1) example e.g. two commercial banks (1).</p>	4	
5(c)	<p>Analyse how a monopoly could benefit consumers.</p> <p>A monopoly may earn high profits (1) this can allow them to invest (1) spend more on R&D (1) raise the quality of output (1). A monopoly may produce on a large scale (1) this may enable it to take advantage of economies of scale (1) lowering average costs (1) lowering prices (1). Provide a unique product (1) not produced by other firms (1). Government monopoly (1) may charge lower prices/provide a service (1). May charge low prices (for a while) (1) to keep potential competitors out of the market (1). Less choice (1) may mean less confusion/time spent (1).</p>	6	Maximum of 3 marks for a list-like approach.

Question	Answer	Marks	Guidance
5(d)	<p>Discuss whether or not a country should devote more of its resources to building and operating new railway lines and stations.</p> <p>Up to 5 marks for why it should: It may increase the efficiency of the transport system (1) improve infrastructure (1) meet rising demand (1) reduce travel time (1) lower transport costs (1) making the country's firms more internationally competitive (1) attract MNCs (1) raising net exports (1) increasing output (1). Passengers and freight may switch from road to rail (1) reducing congestion (1) and pollution (1). May increase employment (1) if make use of previously unemployed resources (1). May increase mobility of labour (1) reducing unemployment (1). In long run, may increase government tax revenue (1).</p> <p>Up to 5 marks for why it should not: It will involve an opportunity cost (1) resources might be used more efficiently in producing e.g. healthcare (1) might reflect consumer demand to a greater effect (1) there may currently be underutilisation of the rail system (1). Building railway lines may harm the environment (1) e.g. wildlife habitats may be destroyed (1). Resources may not be suited to the industry (1) e.g. may be a lack of skilled engineers (1).</p>	8	

Question	Answer	Marks	Guidance
6(a)	<p>Define a <i>depreciation of the currency</i>.</p> <p>A fall in the value/price of a currency/exchange rate (1) against another currency/caused by market forces/demand and supply (1).</p>	2	
6(b)	<p>Explain two reasons why demand for a country's exports may be price-inelastic.</p> <p>Exports may lack substitutes/a country may have a monopoly in the product (1) people/firms may find it difficult to switch easily to products from home country or other countries (1). Exports may be of addictive products (1) so a rise in price will not discourage people from buying the product (1). Exports may be low-priced products which take up only a small part of income (1) so a price change will not have a significant impact on the amount people buy (1). Exports may be necessities (1) and so people may continue to buy them in almost the same quantities should their price rise (1).</p>	4	
6(c)	<p>Analyse how the removal of import tariffs could increase a country's output.</p> <p>The removal of import tariffs would reduce the price of imports (1) enable firms to buy better quality products (1). A lower price of imported raw materials (1) would reduce the cost of production (1) this may lower price of finished products (1) increasing demand (1) stimulating firms to produce a higher output (1). A lower price of imports may put pressure on domestic firms to be more competitive (1) this may encourage them to be more efficient (1) raising quality (1) lowering price (1) increasing sales (1) stimulating firms to produce a higher output (1). May attract MNCs into the country (1) as it is a move towards free trade (1). May encourage other countries to remove tariffs (1) increase global output/allow firms to specialise (1).</p>	6	

Question	Answer	Marks	Guidance
6(d)	<p>Discuss whether or not net emigration will reduce poverty in a country.</p> <p>Up to 5 marks for why it might: Net emigration of workers (1) may result in money (remittances) being set home (1) such remittances may increase the income of their families (1) allowing them to buy basic necessities (1). Net emigration may result in ideas being set home (1) workers may later return with better skills (1) raising the country's output (1) increasing employment (1). Wages may be raised (1) to retain workers (1). If a country is overpopulated (1) net emigration may enable there to be better use of resources (1). Net emigration of older people (1) may reduce dependency (1) lower cost of pensions (1) lower healthcare costs (1). Net emigration of unemployed/low-paid workers may reduce the number living in poverty (1).</p> <p>Up to 5 marks for why it might not: Net emigration of workers may reduce output (1) this could lower tax revenue (1) reduce the revenue the government can spend on lowering unemployment (1). Net emigration of skilled workers may discourage MNCs setting up in the country (1) lowering potential output/income (1). Net emigration of workers may leave their dependents relying on government benefits (1). If a country is underpopulated (1) net emigration may mean there is worse use of resources (1)</p>	8	

Question	Answer	Marks	Guidance
7(a)	<p>Define a <i>mixed economy</i>.</p> <p>An economy with a private sector and a public sector (2). An economy where some resources are allocated by the government and some by market forces/the price mechanism (2). An economy where different groups own resources (1).</p>	2	
7(b)	<p>Explain two advantages of working in the tertiary sector rather than the primary sector,</p> <p>Pay may be higher (1) some jobs in the tertiary sector are well-paid e.g. banking/some jobs in the primary sector are low-paid e.g. farm-work (1). Working conditions may be better (1) e.g. working in an office may be more comfortable than working outside in bad weather in the case of farming (1); The work may be less dangerous (1) e.g. there are a number of accidents each year in mining (1). Working hours may be shorter/more convenient (1) e.g. farm workers may have to start early in the morning (1). There may be more fringe benefits (1) e.g. free air travel for pilots and their families (1). There may be more job security (1) as the tertiary sector may be increasing while the primary sector is decreasing (1). May provide greater job satisfaction (1) e.g. nurses may gain satisfaction from helping patients (1).</p>	4	
7(c)	<p>Analyse why a trade union may oppose a rise in working hours.</p> <p>A rise in working hours may reduce working conditions/quality of the job (1) working more hours may result in workers being more stressed/less healthy/having more accidents (1) reduce less leisure time/trade unions usually seek to increase workers' leisure time (1). A rise in working hours may mean that firms need fewer workers (1) increasing unemployment (1) reducing trade union membership (1). Workers may not be compensated by higher wages (1).</p>	6	

Question	Answer	Marks	Guidance
7(d)	<p>Discuss whether a government should pay high wages to workers in the public sector.</p> <p>Up to 5 marks for why it should: High wages may increase workers' motivation/morale (1) increase labour productivity (1) unit wage cost may not rise (1). High wages may attract skilled workers (1) raise the quality of public services (1). High wages may increase total (aggregate) demand (1) this may increase output (1) reduce unemployment (1). Avoid industrial action (1) and so disruption to key services (1). May attract more workers/retain workers (1) may be a shortage of public sector workers (1). May raise living standards of the workers (1).</p> <p>Up to 5 marks for why it should not: High wages may increase labour costs (1) raise government spending (1) this will increase total (aggregate) demand (1) may cause inflation/demand-pull inflation (1). May cut employment (1) to keep wage costs the same (1). Private sector firms may experience difficulty recruiting/retaining workers (1) may raise wages of their workers (1) to retain them (1) unit wage costs may rise (1) causing cost-push inflation (1). Tax revenue may have to be raised to pay the higher wages (1) higher taxes may harm the poor if they are regressive taxes (1). Opportunity cost (1) in terms of e.g. less spending on healthcare (1).</p>	8	



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/22

Paper 2 Structured Questions

February/March 2018

2 hours 15 minutes

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An Answer Booklet is provided inside this Question Paper. You should follow the instructions on the front cover of the Answer Booklet. If you need additional answer paper ask the invigilator for a Continuation Booklet.

Section A

Answer Question 1.

Section B

Answer any **three** questions.

The number of marks is given in brackets [] at the end of each question or part question.



This document consists of **5** printed pages, **3** blank pages and **1** Insert.

Section A

Answer this question.

1 India's high-technology industry

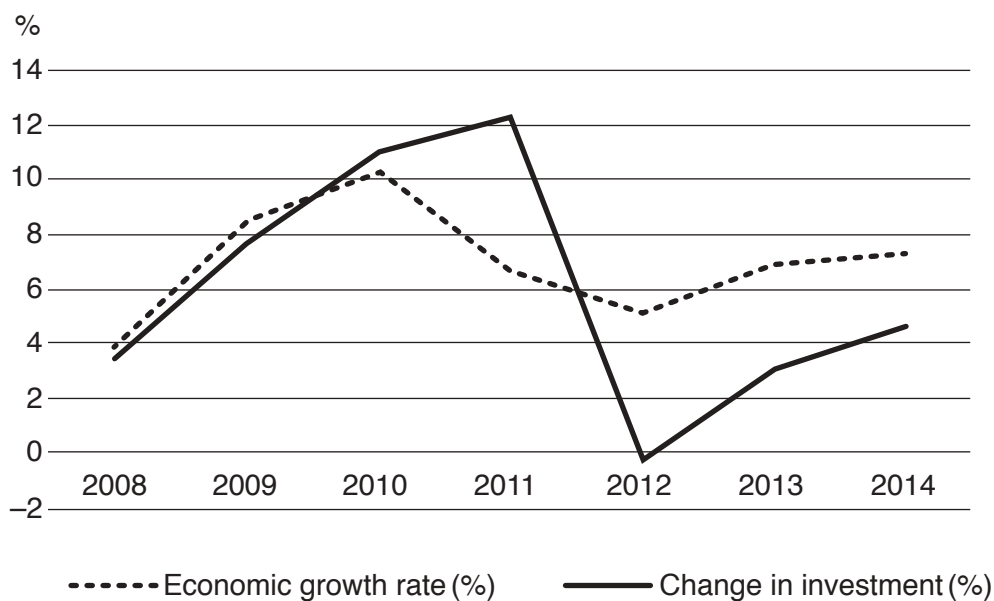
India has a number of expanding industries including construction, engineering, healthcare and retail. Its high-technology industry, which is often referred to as 'hi-tech', is its most rapidly growing industry, adding more than 200 000 jobs a year. It currently employs more than 10 million people and accounts for exports worth US\$90 billion each year. Firms in the industry specialise in research and development, electronics and software production. Software production includes applications (apps) for smartphones and tablets.

One Indian hi-tech firm has developed an app that allows people to look at menus in a range of restaurants, to book a table and to order food. The firm now supplies the app in a number of countries including the Philippines, Turkey and the USA. This Indian hi-tech firm also produces electronic equipment in these countries. One of the reasons for its expansion abroad is the relatively low demand for restaurant meals in India. This situation could change soon as incomes rise and restaurants increase their advertising, including on the firm's app.

India's hi-tech industry is concentrated in Bengaluru (Bangalore). The city has strong links to universities and multinational companies (MNCs) and is home to some of India's most innovative entrepreneurs. Some of these entrepreneurs come from other countries. Immigrants play a large role in the creation and growth of hi-tech firms throughout the world. A number of factors can encourage entrepreneurs to move to another country including a low rate of tax on profits.

An expanding economy is a key influence on the number of new firms that are set up. In turn, economic growth is influenced by how much firms spend on capital goods (investment). Fig. 1 shows India's economic growth rate and the percentage change in investment in India between 2008 and 2014. India's economic growth rate peaked in 2010. It then fell in 2011 and 2012 caused, in part, by a rise in the interest rate and concerns about future economic prospects.

Fig. 1 Economic growth rate and percentage change in investment in India 2008–14



- (a) Identify, using information from the extract, **two** industries that operate in the secondary sector of the Indian economy. [2]
- (b) Explain, using information from the extract, **two** reasons why the price of restaurant meals in India is likely to increase in the future. [4]
- (c) Analyse how a government can encourage enterprise. [5]
- (d) Analyse the extent to which the relationship shown in Fig. 1, between changes in India's investment and its economic growth rate, is the expected one. [4]
- (e) Discuss whether or not a city such as Bengaluru should specialise in one industry. [5]
- (f) Explain, using information from the extract, **two** reasons why some Indian people might have spent less in 2012. [4]
- (g) Discuss whether or not an economy would benefit from its firms producing in other countries. [6]

Section B

Answer any **three** questions in this section.

- 2 It is forecast that by 2022 India will overtake China as the world's most highly populated country. China's birth rate is lower than India's and China has a higher proportion of its population aged over 65. By 2050, it is estimated that 500 million Chinese people and 330 million Indian people will be over 65. Changes in population size and age structure affect the quantity and quality of a country's resources.
 - (a) Define *resources*. [2]
 - (b) Explain **two** reasons why the quality of a country's resources may increase. [4]
 - (c) Analyse the reasons why a country's birth rate may fall. [6]
 - (d) Discuss whether or not a government should be worried about an increase in the proportion of its population that is aged over 65. [8]
- 3 Taxi drivers usually have to buy a licence to carry passengers. The relatively high fixed cost of the licence discourages some people from becoming taxi drivers. Encouraging more people to be taxi drivers would be likely to reduce taxi fares and unemployment. It may, however, increase traffic congestion.
 - (a) Define *fixed cost*. [2]
 - (b) Explain why traffic congestion is an external cost. [4]
 - (c) Analyse how a taxi firm can use information about price elasticity of demand for its service. [6]
 - (d) Discuss whether or not a reduction in unemployment always increases living standards. [8]

- 4 In March 2016, the Canadian government announced increases in government spending including an increased subsidy to environmentally friendly technology. It also announced that high income earners would face an increase from 29% to 33% in the highest rate of income tax. Changes in government spending and taxation can influence a country's inflation rate.
- (a) Define *subsidy*. [2]
 - (b) Explain **two** disadvantages of inflation. [4]
 - (c) Analyse how an increase in government spending may cause inflation. [6]
 - (d) Discuss whether or not an increase in the highest rate of income tax will benefit an economy. [8]
- 5 South Africa has more than 700 state-owned enterprises, a number of which have engaged in vertical integration and horizontal integration. Some of the state-owned enterprises are monopolies, including a railway monopoly. A leading South African economist has argued that more of the country's resources should be devoted to building and operating new railway lines and stations.
- (a) Define *state-owned enterprise*. [2]
 - (b) Explain the difference between vertical integration and horizontal integration. Give an example of each. [4]
 - (c) Analyse how a monopoly could benefit consumers. [6]
 - (d) Discuss whether or not a country should devote more of its resources to building and operating new railway lines and stations. [8]
- 6 The effects of a depreciation of a currency are influenced by the price elasticity of demand of exports and imports. Worldwide there has been a reduction in trade barriers including tariffs. There has also been an increase in the movement of goods and services between countries and, to a lesser extent, the movement of people. Some countries experience net emigration with more people leaving the country than entering it.
- (a) Define *depreciation of a currency*. [2]
 - (b) Explain **two** reasons why demand for a country's exports may be price-inelastic. [4]
 - (c) Analyse how a reduction of its import tariffs could increase a country's output. [6]
 - (d) Discuss whether or not net emigration will reduce poverty in a country. [8]

- 7 France is a mixed economy. During recent years there have been a number of changes in its labour market. More workers are employed in the tertiary sector and fewer workers in the primary sector. Average working hours have increased and public sector workers have received wage rises.
- (a) Define *mixed economy*. [2]
 - (b) Explain **two** advantages of working in the tertiary sector rather than the primary sector. [4]
 - (c) Analyse why a trade union may oppose a rise in working hours. [6]
 - (d) Discuss whether or not a government should increase the wages it pays to workers in the public sector. [8]

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ECONOMICS

Paper 0455/11
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	C	16	C
2	A	17	C
3	D	18	C
4	B	19	B
5	C	20	C
6	D	21	A
7	B	22	D
8	C	23	B
9	D	24	D
10	C	25	B
11	C	26	D
12	B	27	A
13	D	28	B
14	B	29	B
15	D	30	C

General comments

The questions for which most candidates selected the correct answer were **1, 2, 3, 4, 6, 15, 17, 20, 21, 25, 26 and 30**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **5, 18 and 27**. These questions were answered correctly by fewer than 45 per cent of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall.

The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 5

Question 5 was answered correctly by 23% of the candidates who chose option **C**. 27% chose option **A**, 12% chose option **B** and 38% chose option **D**. This question required an understanding of the idea of an equilibrium price in a market. At P_S there will be an excess demand, so buyers will bid up the price for the good which is in short supply. The price will stabilise when the demand and supply become equal at price P_E .

Question 18

Question 18 was answered correctly by 40% of the candidates who chose option **C**. 33% chose option **A**, 22% chose option **B** and 5% chose options **D**. The proportion of income taken as taxation is 20% for weekly incomes of \$100 and \$150. After that the proportion taken in tax is less than 20%. This is a regressive tax – the higher the income the lower the rate of taxation.

Question 27

Question 27 was answered correctly by 23% of the candidates who chose option **A**. 55% chose option **B**, 15% chose option **C** and 7% chose option **D**. Sometimes the use of a quota is confusing. When a quota is increased (option **A**) it means that more of the good is allowed into the country. This is unlike a tariff, where an increase usually results in fewer goods entering the country. More imports with fewer restrictions is an approach towards freer trade.

ECONOMICS

Paper 0455/12
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	C	16	C
2	A	17	C
3	D	18	C
4	A	19	B
5	C	20	D
6	D	21	C
7	B	22	D
8	B	23	B
9	A	24	B
10	D	25	A
11	C	26	D
12	D	27	D
13	A	28	B
14	B	29	A
15	D	30	C

General comments

The questions for which most candidates selected the correct answer were **4, 5, 9, 10, 15** and **30**. These questions were answered correctly by 85 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **1, 3, 11, 20** and **27**. These questions were answered correctly by fewer than 40 per cent of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall.

The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 1

Question 1 was answered correctly by 30% of the candidates who chose option **C**. 16% chose option **A**, 8% chose option **B** and 46% chose option **D**. The *essential* characteristic of a free good is one that has zero opportunity cost.

Question 3

Question 3 was answered correctly by 22% of the candidates who chose option **D**. 4% chose option **A**, 49% chose option **B** and 25% chose option **C**. Option **D** has the largest amount of capital goods and it is capital goods rather than consumer goods which in the long run are more likely to lead to an outward shift in the production possibility curve. **D** and **B** are both on the production possibility curve, but **D** has the higher amount of capital goods.

Question 11

Question 11 was answered correctly by 36% of the candidates who chose option **C**. 22% chose option **A**, 37% chose option **B** and 5% chose option **D**. The engineer earns \$55 000. The tax rate is 20% so the disposable income would be \$44 000. 10% of that is \$4400. The credit card repayment is paid out of the disposable income and is not deducted from the total of \$55 000 before calculating the savings. Those who chose **B**, took 10% of the salary and ignored the consultancy fee and the tax rate.

Question 20

Question 20 was answered correctly by 34% of the candidates who chose option **D**. 29% chose option **A**, 19% chose option **B** and 18% chose option **C**. A recession occurs when there is a negative change in GDP over two consecutive quarters.

Question 27

Question 27 was answered correctly by 26% of the candidates who chose option **D**. 62% chose option **A**, 7% chose option **B** and 5% chose option **C**. Questions about quotas often cause confusion. When a quota is increased, option **A**, more goods are permitted to be imported; this would not be following a trade protection policy.

ECONOMICS

Paper 0455/13
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	16	C
2	B	17	C
3	C	18	C
4	A	19	B
5	B	20	D
6	D	21	A
7	B	22	D
8	C	23	B
9	C	24	B
10	C	25	A
11	D	26	D
12	A	27	A
13	D	28	B
14	B	29	A
15	D	30	C

General comments

The questions for which most candidates selected the correct answer were **1, 2, 3, 4, 6, 8, 9, 15, 16, 26** and **30**. These questions were answered correctly by 85% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **21** and **24**. These questions were answered correctly by fewer than 50% of the candidates.

The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 21

Question 21 was answered correctly by 47% of the candidates who chose option **A**. 8% chose option **B**, 25% chose option **C** and 20% chose option **D**. The 'basket' of goods chosen when considering the changes in price levels is indeed a representative sample of current household spending (option **A**). The 'basket' does not consist of the same unchanging group of goods nor is it the 50 most popular items of spending.

Question 24

Question 24 was answered correctly by 37% of the candidates who chose option **B**. 40% chose option **A**, 12% chose option **C** and 12% chose option **D**. Mobile phone networks have become available in many rural areas in developing countries. Their provision often occurs before the provision of medical research units, transport systems and universities all of which require large fixed costs and a sizeable population in the area to make them worthwhile.

ECONOMICS

<p>Paper 0455/21 Structured Questions</p>

Key messages

A key message from this examination is to read all the words of the question very carefully. For example, **Questions 1(c)** and **1(g)** ask for the impacts on the firms, **4(b)** and **7(d)** the impacts of the consumer, and **5(d)** the impacts on the economy. Although there can be some over-lap between these, it is worth remembering that the motives for each of these groups tend to be very different so it is important for candidates to respond to the specific question asked.

Whilst part **(d)** of the optional questions carries the most marks, they do not need to be excessively long to reach full marks. The best answers scored highly for their use of economic terminology and logical chains of reasoning succinctly. It should be emphasised that no marks are given for repeating the wording of the question.

General comments

Most candidates used their time efficiently to both complete the paper, and to give a length of answer to the various question parts that was appropriate to the marks available.

In **Section A**, there are questions that require specific reference to the extract and failure to do this meant that not only did candidates sacrifice marks, but there was also a high chance of spending too long on the question through thinking about what to write rather than focusing on the information given in the extract.

In **Section B**, the need to produce a two-sided response to part **(d)** seems very well understood. Similarly, almost all candidates answered the **(c)** parts of the optional questions in an analytical manner, without a counter argument, as required. In the **(b)** parts, candidates are often asked to explain **two** reasons or causes; it is important that these are separated into two distinct points of identification and then that each one is explained separately to meet the mark scheme requirements.

Comments on specific questions

Section A

Question 1

- (a) Most candidates were able to identify 2 correct functions; the key requirement was to ensure that the functions were mentioned in the extract. For an identification question such as this, using the exact wording of the extract is sufficient, and is expected.
- (b) Whilst it seemed clear that candidates had a good knowledge of perfect competition characteristics, many found it difficult to apply this to the extract material. The most successful approach was to identify two features that were not true of the perfect competition model, e.g. use of brand names and selling different services, and then contrast these with the equivalent perfect competition characteristics.
- (c) The wording needed to be studied carefully, as the question asks for a bank's motives, and is thus looking for factors that would affect its own performance. The question also implies that selling abroad is 'instead of' not 'as well as' selling in the home country, so issues such as expansion and economies of scale are not automatic. Those candidates that interpreted the question correctly produced some thoughtful answers based on possibilities that the other countries might have, for example, larger populations, higher incomes and willingness to use banks services, lower costs of production, more favourable government policies and less competition. For strong analytical reasoning, it is important that candidates recognise the difference between revenue and profit. A common cause of confusion was to try to introduce arguments that related to exchange rate differences.
- (d)(i) This question was looking for a simple 'no' answer, followed by some supporting evidence. There is no requirement to explain why the relationship shown exists. Here there were plenty of country examples to contradict the view that countries with the higher growth rates tend to have the higher unemployment rates, relative to others in the sample group.
- (ii) The question uses the word 'usually' and not 'always', so a 'yes' could have been backed up with the evidence that only one country (Egypt) was clearly not conforming, or alternatively giving an example of a country that did conform. Some application of numbers from the bar chart was expected.
- (e) This question was generally answered well. The idea was to generalise about the nature of older workers, for example having gained more experience and having had more time for promotions, whereas younger ones might generally be physically stronger and are likely to be more confident with new technology. A few candidates showed misunderstanding of the process of wage setting by writing about peoples' needs in terms of family commitments and lifestyles.
- (f) Almost all candidates recognised that this question was geared towards the labour-intensive nature of farming, and the predominance of subsistence farming.
- (g) Provided that the question was read carefully, to ensure that the focus was on the impact of the company rather than the consumer or the economy, this produced some excellent responses. A high proportion of the available marks could be awarded through consideration of economies of scale (on the plus side) and diseconomies of scale (on the negative side), explaining their meaning and giving an example of each. It could quite reasonably be argued that costs could rise or fall, in which case explanations were needed to justify the different outcomes. Recognising the impact on levels of competition and thus on pricing and profits was another successful strand of analysis.

Section B

Question 2

- (a) Most candidates defined this accurately. Common errors were to refer to demand, or to define relatively inelastic rather than perfectly inelastic. The importance of being precise with wording, and reading the question carefully was evident.
- (b) Many candidates recognised that some firms are in the public sector and would have goals related to welfare rather than profit. There were relatively few candidates able to gain all 4 marks by producing a second reason. There was some confusion between the goal of profit maximisation and the reasons why profits might fall. The best answers chose satisficing, survival or growth strategies with a convincing argument as to why these might be pursued.
- (c) Candidates displayed some impressive knowledge of football and its financing. In order to frame this into an answer using economic analysis, a supply and demand approach was required. Those candidates that answered the question in this way did very well.
- (d) This was a question that produced an impressively wide range of interesting arguments both for and against the idea that governments should use some of their tax revenue to build sports stadiums. The impact on government finances, peoples' health, macro-economic objectives such as employment and balance of payments, and broader social costs and benefits were some of the most common aspects considered. Some confusion was evident when candidates took the view that not everyone would wish to use the stadium, an aspect that is true of government spending in general. However, a successful, if rare, approach was to suggest that stadiums might be more efficiently provided by the private sector. The use of opportunity cost and giving an example of an alternative area of spending featured well in most responses.

Question 3

- (a) This was usually answered well. As a definition question, accuracy in terminology is required, with references to a fall in a currency being too imprecise. The idea of it being a measure of value and being a rate against another currency(s), were both required for a complete definition.
- (b) Some candidates showed an impressive understanding of how a floating exchange rate works, and what advantages might arise. Whilst there are different routes towards gaining full marks, the question does need to be split into two separate advantages with each explained. Weaker answers merely described the system without clearly identifying what the benefits might be.
- (c) Most candidates knew that fiscal policy included both government spending and taxation, and developed a good chain of reasoning that linked changes in one of these to the inflation rate. Candidates need to be aware that inflation can be caused by cost-push factors as well as by too much total demand, and fiscal policies that focus on expanding total supply can also reduce inflation. Some candidates introduced tariffs, but care is required to analyse this correctly; because to reduce demand-pull inflation tariffs would need to be lowered to raise imports and reduce demand for domestic goods.
- (d) A few candidates wrote about a deficit, rather than a fall in a deficit. This made a significant difference to the analysis and highlights the importance of careful reading of the question. There were some very strong answers to this question, forging links between a rise in exports / fall in imports to other economic objectives (growth, unemployment and inflation). Whilst it is perfectly acceptable to argue that higher exports might cause an appreciation of the exchange rate, and then consider how this might affect those objectives, candidates need to beware of getting trapped into a circular argument of explaining issues arising from a resulting rising deficit, which then reverses the main perspective of the question set.

Question 4

- (a) Most candidates had a reasonable understanding of the concept of economies of scale. For an accurate definition, it is vital to specify that the costs are 'average' costs, to distinguish from total costs, which would still be rising with output.
- (b) As with all the (b) part questions, the need to split this into two separate benefits was not always addressed carefully enough. The best answers considered what a consumer would desire – lower prices, more variety, more quality – and explained how free trade could achieve these. Some of the better answers drew links with higher levels of competition, or incorporated the idea that free trade leads to greater specialisation and potentially economies of scale. However, many answers were largely descriptive and went little further than just identifying the outcomes, without any explanation.
- (c) Few candidates gained full marks because they did not explain the process by which reducing transport costs could increase a country's exports and imports. The idea was to generate a chain of explanation based on supply and demand, whereby lower costs would lead to lower prices and then raise demand. Again, a repeat of the wording in the question 'increase a country's exports and imports' was used heavily as analysis without reference to an increase in 'demand'. It should be noted that the question refers to both exports and imports, so a similar thread of analysis can be produced for each to access the marks.
- (d) This question demonstrated some confusion about what living standards meant, and partly reflecting this there were relatively few good answers. The most successful route was to use a clear definition of higher living standards (perhaps using the HDI components of health, education and income per head) and explain why these are important. Saying that higher incomes allows higher consumption of goods and services, and education allows higher productivity and increased long run growth, provides a succinct and convincing case on the plus side. Counter arguments can be that other economic objectives could be more important, with a justification. An alternative approach is to argue that the pursuit of higher living standards could conflict with other objectives – inflation, environment, etc. Some answers became confused by trying to argue that a focus on education would be better than living standards. To do well on this question it is necessary to apply economic concepts in preference to a common-sense approach.

Question 5

- (a) This question gave a wide variety of incorrect responses but provided a straightforward way to access the marks if the meaning of price indices was apparent.
- (b) By contrast, this question was typically answered very well, showing that candidates had a clear understanding of different supply-side policies and how they work.
- (c) The answers to this question were variable. The best answers showed a strong understanding of how inflation affects international competitiveness (and hence exports/imports and the current account), menu costs, investment confidence, savers, etc. Candidates that only argued that inflation would reduce demand and lead to a recession lacked sufficient logic and ended up making a circular argument. In order to argue that inflation causes unemployment, it is necessary to specify that the inflation must be cost-push inflation rather than demand-pull. An approach that wrote about the disadvantages of high inflation was also an acceptable one.
- (d) The effects of stronger trade unions were well understood by most candidates who were able to discuss the benefit of this on the economy. Most candidates focused on the benefits of higher wages, improved health and safety, and the provision of training. The downsides concentrated on industrial disputes and the increased business costs and inflation associated with the higher wages. This was a question where higher wages could be considered both as a cost (for the firms' profits, and for cost-push inflation) and a benefit (to the workers), and it is acceptable to put it on both sides provided they are supported with explanation. A very few confused trade unions with trade blocs.

Question 6

- (a) Most candidates had some understanding that net immigration relates to the movement of people from one country to another. Most responses only gave a partial definition, usually by focusing on the inward movement of people or stating that it is the difference between immigration and emigration. Very few responses recognised that it represents the situation where immigration is greater than emigration. Weaker responses discussed the total number of migrants, rather than how the total changes over a period of time.
- (b) Very few responses recognised that the situation in the stem relates to one of excess demand of a free resource such that a market would respond by raising prices to both stimulate supply and reduce demand. Many candidates were confused by the term *market forces* and discussed actions which only the government or other authorities could undertake.
- (c) This was well answered by candidates who could identify two or more demand factors (e.g. wages, skill levels, price of capital equipment) and could show how the level of labour demand is related to them (e.g. an increase in wages would reduce demand for labour). Weaker responses failed to identify any such factors or analysed factors affecting the supply of labour.
- (d) Most candidates could offer some discussion of how government spending can raise economic growth, but relatively few were able to give a detailed discussion of why it might not. The best approaches were to focus on total government spending as a component of total demand for goods and services, and to consider how different types of supply-side policies (e.g. education, subsidies or infrastructure) would raise productivity and longer-term growth. A common misunderstanding was to suggest that some areas of government spending have no impact on economic growth because they were not useful, such as weapons. A clear grasp of economic growth being a rise in real GDP, which measures the total output of the economy, is a key requirement for doing well on this question.

Question 7

- (a) Most candidates knew that the question referred to the relationship between taxes and income. However, relatively few understood that the important factors are the relationship between the level of income and the proportion of income taken as tax. Weaker responses stated either that the amount of tax paid, or the rate of tax, increased as incomes fell.
- (b) This question was answered well by candidates who understood that social costs are the combination of private benefits *and* external benefits, and could give examples of each. Weaker responses simply gave a range of examples of the benefits of healthcare without classifying them as being examples of either private or social benefits.
- (c) There were excellent answers to this question with candidates having a strong appreciation for the different types of taxes and their purposes. Weaker responses focused on one reason without considering others – typically such answers gave a long list of examples of government spending without considering other reasons (e.g. reducing imports, redistributing incomes, discouraging the consumption of demerit goods).
- (d) Most candidates gained good marks on this question. Candidates were equally happy discussing the reasons why consumers might benefit from privatisation (e.g. lower prices, higher quality etc.) and why they might not (consequences of monopoly power, increased external costs etc.). Weaker responses typically focused on groups in society other than consumers such as taxpayers or producers.

ECONOMICS

<p>Paper 0455/22 Structured Questions</p>

Key messages

There are a number of key messages arising from this examination. Candidates need to:

- Avoid common confusions including *substitutes* and *subsidies*, *commercial* and *central* banks, and *elastic* and *inelastic* demand.
- Stay focused on the question asked. Some candidates wander off the point of the question so that their response appears to answer a different question. For instance, in their answer to **Question 4(d)** some candidates recognised there would be an opportunity cost involved such as spending on healthcare. They then, however, devoted more attention to the benefits of more government spending on healthcare than to the issue of subsidising bus transport.
- Avoid jumping stages in explanations. For instance, in their answer to **Question 6(c)**, some candidates mentioned that deflation would result in a fall in consumer spending without explaining why.
- Clearly indicate the questions answered. Some candidates did not write down the number of the question and others wrote down the wrong number next to their answers.
- Read the stem of the optional questions in **Section B** very carefully. The stems can help avoid confusion and help candidates appreciate the links between the questions parts.

General comments

The vast majority of candidates attempted all the parts to **Question 1** and all the parts to three optional questions. Most candidates answered the **(a)** parts briefly, as is required, and devoted an increasing amount of time to the **(b)**, **(c)** and **(d)** parts. The majority of candidates also recognised the need to explore both sides in the case of the 'Discuss' questions, and not to draw a conclusion.

A pleasing proportion of candidates showed the ability to draw on a range of topics from the syllabus and to apply the concepts to real world issues. There was evidence of the candidates thinking as economists and making use of the skills of an economist, including drawing clear diagrams and assessing issues in a logical and objective manner.

A number of candidates included economic concepts, such as merit goods, public goods, and comparative advantage that are not on the syllabus. It is, of course, possible to gain full marks using only the topics on the syllabus, however, while use of economic concepts not on the syllabus is not expected it is always credited if relevant to the question.

Some candidates needed to show stronger analytical skills. The answers to the **(c)** parts in **Section B** were sometimes rather sketchy and did not always adequately explore the links. For instance, in their answer to **Question 5(c)**, a number of candidates wrote that more women are looking for work because of a fall in the birth rate. They did not, however, bring out the link between a lower birth rate and more women entering the labour force.

A number of candidates also did not include enough economics in their answers to the **(d)** parts. Some of these repeated points and others produced answers based more on general knowledge.

Comments on specific questions

Section A

Question 1

The performance on the first question has been steadily improving. A higher proportion of candidates are showing the ability to interpret the extract and to apply relevant economics in their answers.

- (a) Most candidates were able to identify two relevant fixed costs of production in Fig. 1. A small proportion of candidates revealed some confusion by referring to raw materials as a fixed rather than a variable cost.
- (b) The key to this question was to not only identify two reasons but also to explain them. There was some particularly good explanation of why a rise in the productivity of workers may offset the effect of a rise in the price of vanilla on the price of ice cream.
- (c) This was well answered, with a high proportion of candidates drawing clear and accurate diagrams and providing relevant written comments. The drawing of diagrams has been improving over time. Most candidates now draw diagrams of an appropriate size, using a ruler and not confusing demand and supply curves. In this case, only a small proportion of candidates incorrectly labelled the axes and only a small proportion incorrectly shifted the supply curve.
- (d) The majority of candidates did recognise that most of the data in Table 1 does show a positive relationship with countries with a high GDP per head also having a high HDI. They provided supporting evidence and mentioned that Cuba is an exception. Some also recognised that this is the expected relationship. Only a small proportion, however, actually analysed why there is often a positive relationship or why Cuba is an exception. Some candidates wandered off the focus of the question and wrote, at some length, about the benefits of using HDI as a measure of living standards compared to using GDP per head.
- (e) There were some excellent answers to this question which developed reasons both why a government should encourage people to save more and why it should not. There were some particularly strong comments on the effects of a rise in saving on inflation and employment. Some candidates wrote about the benefits of saving to the individual savers without linking these benefits to whether the government should encourage people to save more.
- (f) Most candidates did pick up on the reference in the extract to cash benefits having the potential to increase school enrolment and attendance of the children of poor families. They developed this reference into a chain of logical links between education and higher income.
- (g) There were some strong answers to this question. Candidates discussed how a market system may influence the allocation of resources to reflect consumer demand, price, and quality. There were some thoughtful comments on market failure. A number of candidates, however, did not focus on consumers and wasted time by discussing the effects on workers and the economy. Some candidates mistakenly wrote about a planned economy.

Section B

Question 2

This was a popular question, although not all candidates explained the points they made in the answers to parts (b), (c) and (d).

- (a) The majority of candidates were able to identify a possible opportunity cost of building an airport. Not all candidates, however, brought out the meaning of opportunity cost.
- (b) There were some interesting answers to this question. Some candidates provided clear explanations of why a government would want its country to turn from a developing into a developed country, for instance, so that a higher output may enable poverty to be reduced. A number of candidates, however, did not go beyond identifying reasons. Some only provided a list of reasons, sometimes more than four, without explaining any of them.
- (c) There was some confusion shown between external costs and private costs of production. There were also some excellent answers which explored a range of external costs that can be caused by the building and expansion of an airport. These answers not only identified external costs but also gave clear analysis why these are external costs.
- (d) Again, there were some excellent answers. A number of these explored the influences of, for instance, contact with consumers and economies and diseconomies of scale. Some candidates, however, made unsupported statements, for instance, a number stated that a small firm would charge a lower price but did not explain why this might be the case. The stronger answers did provide supporting analysis for the points they made. In the case of a smaller firm charging a lower price stronger answers discussed how, for example, a government subsidy could allow a small firm to charge a lower price than a large firm.

Question 3

This was the least popular question. There were some strong answers but a number of those who did answer it struggled on the (b) and (d) parts.

- (a) Most, but not all, candidates were able to give two examples of capital goods that may be used by a farm.
- (b) The key to this question was to recognise the components of the current account of the balance of payments. Some candidates did reveal a strong awareness of the composition of the current account. Of the other three components, it was the possibility of a trade in services deficit which was the most commonly explained.
- (c) Candidates tend to be well informed about economies of scale. To do well on this question, however, candidates were required to apply economies of scale to farming. Not all candidates did this. Of those who did, there was some particularly good analysis of buying and technical economies of scale in the context of farming.
- (d) There was a full range of performance on this question. Some strong answers explored the influences of the nature of resources the developing countries may possess, demand for primary products and the difference in the benefits that may arise from producing primary, secondary and tertiary products. These answers drew on topics from across the syllabus including specialisation, working conditions, demand and supply, and trade protection. A number of candidates, however, did not seem to know how to approach this question. They wrote around the topic and did not apply much economics.

Question 4

This was the most popular question with a relatively high proportion of candidates performing well on the (a) and (d) parts.

- (a) The vast majority of candidates were able to define a substitute and to give a relevant example. A small proportion of candidates revealed a confusion that has been shown in the past. This is the confusion between a *substitute* and a *subsidy*. Reading the stem carefully might have avoided such confusion in this instance.
- (b) As with some other questions, some candidates identified points, in this case advantages, but did not explain them. Those who did explain them tended to focus on the ability to charge high prices and the possibility of low average costs of production. Generally, a good awareness was shown of the nature of monopoly.
- (c) There was a mixed performance on this question. Not all candidates recognised the significance of percentage changes. Instead of mentioning that elastic demand, for instance, occurs when a change in price results in a greater percentage change in quantity demanded, they just referred to a change in price causing a large change in demand. As required by the question, some candidates wrote about how price elasticity of demand can influence profit rather than revenue. A number of candidates confused *elastic* and *inelastic* demand.
- (d) Some candidates provided well thought out answers to this question. There was some good analysis, particularly in terms of why a government should subsidise bus transport. In their answer to this question, candidates did tend to support the comments they made with relevant economic analysis. Candidates showed a good awareness of the nature and effect of a subsidy. There was some interesting discussion about the effects of subsidised bus transport on the poor and the environment.

Question 5

The strongest answers on this question were often to part (c).

- (a) Some confusion was shown with a number of candidates mistakenly identifying a rise in the birth rate as a cause. The two most common reasons given were, nevertheless, a fall in the birth rate and a fall in the death rate.
- (b) Candidates tended to recognise the influence of an increase in demand and explained why this may occur. Not many, however, showed an awareness that price could have risen due to a decrease in supply. Some candidates produced static answers with reference to limited supply,
- (c) There were some excellent answers to this question. Candidates showed a good awareness of the reasons why more women may enter the labour force. Improvements in the education of women were particularly well developed. In the vast majority of cases, the answers were based on economic analysis rather than general knowledge or value judgements.
- (d) Not all candidates established the points they made. For instance, a number of candidates stated that a rise in the birth rate will cause unemployment without giving any reason why this might be the case. Some candidates produced strong answers. A number of these distinguished between the short run and long run effects and examined the use of resources, the size of the labour force, and the dependency ratio.

Question 6

This question was the second least popular question. Some of those who did answer it struggled with the **(b)** and **(d)** parts.

- (a)** A small proportion of candidates confused a commercial bank with a central bank. Most candidates, however, gave an accurate definition.
- (b)** Some candidates provided clear explanations. A number of these explained the role of a stock exchange both in terms of public limited companies and governments raising finance. Some other candidates revealed a lack of awareness of what a stock exchange does.
- (c)** Awareness of the nature of deflation has increased over time. A relatively high proportion of candidates were able to analyse both demand-side and supply-side causes of deflation. A small proportion of candidates wrote about the consequences rather than the causes of deflation.
- (d)** There were some excellent answers to this question. These analysed clearly how some policy measures intended to reduce unemployment may cause inflation, while others may not. Other candidates managed to analyse why government policy measures may cause inflation but could not think of any measures which would not result in a rise in the price level.

Question 7

This question focuses largely on international trade. This topic is not always very popular but this time a relatively high proportion of candidates chose this question and there were some strong answers.

- (a)** This question was well answered. Very few candidates confused an import tariff with an import quota.
- (b)** Some candidates just mentioned that the world would have a higher GDP which, by definition, is what an increase in world output is. Other candidates produced strong answers which examined how higher output could, for instance, increase employment and reduce poverty.
- (c)** There were some well thought out answers to this question. These analysed the effect of a recession both on consumers' willingness and ability to purchase finished imports and firms' willingness and ability to buy imported raw materials. Good links were provided with the application of, for instance, demand theory and the reasons for, and effect of, a depreciation of the currency.
- (d)** A small proportion of candidates did not make good use of their time on this question. They devoted most of their answers to describing different forms of trade restrictions. A pleasing proportion of candidates, however, did analyse in depth the possible effects of removing trade restriction. A very good understanding was shown of the dangers of dumping, the argument for protecting infant industries, and the benefits of free international trade.

ECONOMICS

<p>Paper 0455/23 Structured Questions</p>

Key messages

Use of the correct economic terminology is essential for success in this examination. Precise use of terms can also save the candidate a lot of time when answering questions. For example, it is very difficult to explain exports and imports clearly without using these precise terms, but many candidates avoid them and use very long phrases involving goods produced by the home country and sold to another country. Similarly, profit and productivity have precise meanings in economics, but candidates often use them carelessly when they really mean revenue and output respectively.

There were two questions in this examination where a diagram was required, **5(c)** and **6(c)**. It is very important that diagrams are clearly labelled in each instance and there are marks available for this labelling. In a supply and demand diagram five labels are required: two on the axes - price (p) and quantity (q), two on the curves - demand (D) and supply (S), as well as an arrow or label indicating the shift/movement.

It is also very important to read the wording of the questions very carefully in order to avoid answering a different question. For example, **Question 1(c)** requires the candidate to *use the table* and analyse the link between water shortage and low GDP per head, but it does not require the candidate to speculate on reasons beyond those suggested by the table. Similarly, **Question 3(b)** asks for the *advantages to a country* of specialisation, but many candidates answered in terms advantages to workers which was not asked for or, therefore, required.

General comments

The majority of candidates follow the rubric instructions correctly; however there are still those who do not answer four questions in total (one compulsory plus three optional choices) as requested. Those candidates who answer all seven questions are at a great disadvantage, because they do not have sufficient time available to answer any of the questions satisfactorily. It is also not acceptable to take various parts from all seven questions and answer a selection of the candidate's choosing.

It is also very important for candidates to understand that answering a question successfully does not involve writing everything that they know about a topic. Selection and precision is vital, as is consideration of the command word and the number of marks available. In **Section B** part **(a)** usually requires a concise identification or definition and no more. Candidates who spend a long time on part **(a)** questions invariably have insufficient time for the longer part **(d)** questions. Further, the stem of each question in **Section B** should be read very carefully because, although candidates do not have to refer to it in their answers (unlike referring to the extract in Section A questions), it helps candidates to appreciate the links between the questions parts and avoid confusion.

Comments on specific questions

Section A

Question 1

- (a) Most candidates could satisfactorily use the extract to identify two causes of low life expectancy in developing countries
- (b) (i) The key to a good answer was an understanding of the nature of the economic problem – the allocation of limited resources. Those candidates who used this concept were then able to link this to water shortages. Answers without this concept were consequently too vague.
- (ii) The correct approach to this question was to take the relevant information from the extract and use economic theory to apply it to the problem of worsening water shortages. In this case, the best approach was to show how population increases (demand) and climate change (supply) would cause the problem to become worse.
- (c) As indicated in the key messages above, it is very important for candidates to use the data as requested by the question. Most were able to show that there is an inverse link shown in the table between risk of water shortage and GDP per head. The key to a good answer, however, was to use examples of countries from the data to support this view and then refer to Saudi Arabia as a country that contradicts it.
- (d) It was encouraging to see most candidates performing this elasticity of demand calculation correctly. The most common mistake was to perform the division upside down, with $10/0.7$ producing a result of 14 – common sense would have indicated that water does not have such a very high elasticity!
- (e) Good answers used the concept of elasticity of demand to explain that an increase in price would increase revenue. Weaker answers either ignored elasticity or confused revenue with profit. It is very important for candidates to understand that profit is basically revenue minus costs, and that it cannot be used as another word for revenue.
- (f) There was a clear distinction here between precise answers which gave a clear explanation of the inability to afford essentials, and answers which were too vague about poverty.
- (g) Candidates main problem with this question was misunderstanding of the term *natural* resources. Natural resources are a factor of production (land) which can be combined with other factors of production to produce goods and services. Having understood this, it was a straightforward task to discuss the importance of land in comparison to other factors in the production process, such as labour, capital, and enterprise.

Section B

Question 2

- (a) This question was usually answered well. Some candidates, however, gave answers about the willingness to strike and the size of membership which might have been more appropriate for part (b).
- (b) Most candidates could identify two impacts of trade unions on member welfare, but many did not develop the answer any further by explaining the significance of increased wages and improved working conditions.
- (c) The best answers to this question focused on types of unemployment. Reduced spending on healthcare for example, would cause structural unemployment for doctors and nurses, whilst reduced government spending overall will reduce total (aggregate) demand causing cyclical unemployment.
- (d) It was relatively straightforward for candidates to establish a link between a reduction in the number of candidates and poorer healthcare, but many then found it difficult to develop their answer. The key to a good answer was to discuss how poorer health would affect productivity in an economy and then to examine how, for example, technology might be able to replace doctors.

Question 3

- (a) A surprising number of answers were unclear about the distinction between a tariff and a quota. Those candidates who defined tariffs (taxes on imports) had misunderstood the question.
- (b) The best answers to this question were focused on efficiency and the ability to trade. An explanation of economies of scale in this context would have added to the quality of answers.
- (c) As indicated in the key messages above, a major difficulty faced by many candidates who attempted this question was a reluctance to use the specific economic terms *exports* and *imports*. This often led to confusion and a lack of clarity in answers. In addition, it is important to note that some candidates got this question the wrong way round and looked at import quotas imposed by the home country rather than the other country. This of course, led to incorrect answers and illustrates the importance of reading the question very carefully.
- (d) The answers to this question were mostly of a good standard. Candidates were able to identify price and quality aspects of increased private provision – arguments both for and against – and better answers then proceeded to discuss market failures such as monopoly and externalities. Some answers, however, assumed that more private provision would provide greater variety and choice but this is not guaranteed: privatisation often results in rationalisation and a reduction in the number of products available – bus privatisation in the UK is a good example of this.

Question 4

- (a) This question was usually answered well, with candidates able to identify two of the many functions of a central bank. Some candidates, however, confused fiscal policy and monetary policy and so incorrectly identified tax and government spending.
- (b) It was clear from answers to this question that not many candidates had a comprehensive understanding of how the CPI is calculated. It was not necessary to give detailed numerical examples, but answers needed to include a basket, price changes, and particularly weights. Weighting was considered by very few candidates and this inevitably had a detrimental effect upon the quality of answers. The marks available for this question should have been a guide to candidates that four marks requires four stages in the calculation of the CPI.
- (c) Almost all of those who attempted this question produced competent answers on the impact of interest rates upon saving, but there was considerable confusion about investment. The most common error here was to assume that saving and investment is the same thing, but saving is income not consumed whereas investment is the acquisition of capital.
- (d) Identification of supply-side policy measures was usually good. The most popular approach was to discuss the impact of subsidies but analysis of taxation policies was often too vague. If supply-side taxation policies are to be considered then it is necessary to look at the impact of adjustments to different types of taxation, such as corporation tax and income tax. The most successful approach was a discussion of education and training, comparing the short-term effects on government spending with the long-term effects upon productivity and economic growth.

Question 5

- (a) Answers to this question were divided between those who had a clear understanding of progressive taxation and those who were too vague. It is important for candidates to understand that the key to a correct definition here is to explain that progressive taxes take a higher proportion of income from low income earners. It is not sufficient to say 'the rich pay more' or 'the poor pay less'.
- (b) The best approach to this question was to explain that the government would want to reduce poverty in order to reduce spending on things such as welfare benefits. It is important for candidates to understand, however, that reducing poverty is not necessarily the same as reducing unemployment. The unemployed will tend to be poor, but many households can still be in poverty when there is full employment if they are in jobs which pay a very low wage. Similarly, if the government increases unemployment benefit significantly then fewer households will be in poverty.
- (c) This question was not answered well on the whole. There was a lot of confusion displayed in answers, with diagrams showing demand moving to the right rather than supply moving to the left because of an increase in the cost of production. Quantity demanded moves along the supply curve to the left because of the shift in the supply curve caused by an increase in sales tax and this causes the higher price paid by consumers.
- (d) Very few candidates spotted the theory implied by this question, namely that cutting direct taxes produces an incentive to work harder whilst increasing indirect taxes is intended to have the same effect. The most popular approach, for which some credit could be given, was to discuss the effect of indirect taxes on harmful goods such as cigarettes – comparing the externalities involved with the regressive nature of such taxes. It was rare to see indirect taxes on imports discussed.

Question 6

- (a) Most candidates could give a general idea of capital-intensive production but precision in answers was much rarer. The most common answer was to say that capital-intensive relies heavily on machines or does not use much labour, but it was important to compare the two for a satisfactory answer. It is also possible to compare capital use with factors other than labour (land and enterprise), but this was hardly ever seen in answers.
- (b) It was encouraging to see consideration of external costs, with examples, given in answers to this question. There was still, however, considerable confusion about the meaning of market failure demonstrated in many answers. It is very important that candidates do not confuse market failure with business failure, in this case for example, the potential for the exhaustion of oil reserves in Saudi Arabia. Very few candidates clearly defined market failure as an inefficient allocation of resources.
- (c) Some candidates, having chosen **Question 6**, decided to ignore this section altogether. This is not a good strategy because, as a consequence, only 14 marks were then available for the whole question. Those who did attempt this question often demonstrated good understanding of production possibility curves and were able to draw the relevant diagram, clearly labelled with the two products - kerosene and LPG - on the axes. (It was good to see less confusion with supply and demand diagrams where price and quantity are the axes labels.)
- (d) As indicated in the key messages above, the most significant issue for candidates was ensuring that they read the question carefully before commencing their answer. The question concerned benefits, or otherwise, to *consumers* but many candidates directed their answers to benefits to workers or the economy instead. Good answers examined the benefits of removing monopoly powers in terms of competition, choice and quality, comparing that with the disadvantages in terms of the benefits of economies of scale and the consequent reduction in average costs and prices.

Question 7

- (a) A clear, concise definition was rarely seen in answers to this question. Most candidates had some idea of a recession as falling economic growth, but this is not sufficient as an answer. A good definition must give some indication that the candidate understands that a recession involves *negative* economic growth and an idea of the time span involved, i.e. two consecutive quarters.
- (b) Most candidates could explain that a recession involved falling incomes with reduced spending as a consequence, but not many could provide a second reason such as the uncertainty which a recession is likely to cause in the minds of consumers.
- (c) The most significant weakness in answers was a tendency to answer one half of the question but ignore the other. The question concerned both government spending *and* tax revenue, so analysis of both was required for a satisfactory answer. Rising unemployment is likely to cause an increase in government spending on items such as unemployment benefits, but it will also reduce tax revenue from both direct and indirect taxes.
- (d) As indicated in the key messages above, it is very important to use precise economic terms in the context of this question. If the candidate uses the terms *exports* and *imports* the question becomes relatively straightforward, but discussing demand for products or prices in general confuses the issue and it is often unclear whether these products are exports or imports. Using these specific terms the candidate could then explain that, with cheaper exports, demand for exports increases and with dearer imports, demand for imports reduces. The best candidates were then able to consider the impact of elasticity of demand: inelastic demand for imports would mean that a depreciation would not have a great effect for example.



Grade thresholds – June 2018

Cambridge IGCSE™ Economics (0455)

Grade thresholds taken for Syllabus 0455 (Economics) in the June 2018 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 11	30	23	20	18	15	12	10	8
Component 12	30	22	19	17	15	12	10	8
Component 13	30	24	21	18	15	12	10	8
Component 21	90	54	45	36	30	24	17	10
Component 22	90	66	54	41	35	29	22	15
Component 23	90	58	48	38	33	28	23	18

Grade A* does not exist at the level of an individual component.

The maximum total mark for this syllabus, after weighting has been applied, is **150**.

The overall thresholds for the different grades were set as follows.

Option	Combination of Components	A*	A	B	C	D	E	F	G
X	11, 21	111	97	83	69	57	46	35	24
Y	12, 22	127	109	91	73	62	52	41	30
Z	13, 23	119	103	87	71	61	51	42	33



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/11

Paper 1 Multiple Choice

May/June 2018

MARK SCHEME

Maximum Mark: 30

Published

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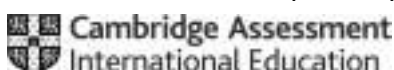
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Question	Answer	Marks
1	C	1
2	A	1
3	D	1
4	B	1
5	C	1
6	D	1
7	B	1
8	C	1
9	D	1
10	C	1
11	C	1
12	B	1
13	D	1
14	B	1
15	D	1
16	C	1
17	C	1
18	C	1
19	B	1
20	C	1
21	A	1
22	D	1
23	B	1
24	D	1
25	B	1
26	D	1
27	A	1
28	B	1

Question	Answer	Marks
29	B	1
30	C	1



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/12

Paper 1 Multiple Choice

May/June 2018

MARK SCHEME

Maximum Mark: 30

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Question	Answer	Marks
1	C	1
2	A	1
3	D	1
4	A	1
5	C	1
6	D	1
7	B	1
8	B	1
9	A	1
10	D	1
11	C	1
12	D	1
13	A	1
14	B	1
15	D	1
16	C	1
17	C	1
18	C	1
19	B	1
20	D	1
21	C	1
22	D	1
23	B	1
24	B	1
25	A	1
26	D	1
27	D	1
28	B	1

Question	Answer	Marks
29	A	1
30	C	1



Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS

0455/13

Paper 1 Multiple Choice

May/June 2018

MARK SCHEME

Maximum Mark: 30

Published

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Question	Answer	Marks
1	A	1
2	B	1
3	C	1
4	A	1
5	B	1
6	D	1
7	B	1
8	C	1
9	C	1
10	C	1
11	D	1
12	A	1
13	D	1
14	B	1
15	D	1
16	C	1
17	C	1
18	C	1
19	B	1
20	D	1
21	A	1
22	D	1
23	B	1
24	B	1
25	A	1
26	D	1
27	A	1
28	B	1

Question	Answer	Marks
29	A	1
30	C	1



ECONOMICS

0455/21

Paper 2 Structured Questions

May/June 2018

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.

<p>GENERIC MARKING PRINCIPLE 1:</p> <p>Marks must be awarded in line with:</p> <ul style="list-style-type: none"> 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.
<p>GENERIC MARKING PRINCIPLE 2:</p> <p>Marks awarded are always whole marks (not half marks, or other fractions).</p>
<p>GENERIC MARKING PRINCIPLE 3:</p> <p>Marks must be awarded positively:</p> <ul style="list-style-type: none"> 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.
<p>GENERIC MARKING PRINCIPLE 4:</p> <p>Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.</p>
<p>GENERIC MARKING PRINCIPLE 5:</p> <p>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).</p>
<p>GENERIC MARKING PRINCIPLE 6:</p> <p>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.</p>

Question	Answer	Marks	Guidance
1(a)	Identify, using information from the extract, TWO functions of a commercial bank. Providing savings accounts (1) lending (1) setting interest rates on loans (1).	2	If more than two given, just look at the first three.
1(b)	Explain, using information from the extract, TWO reasons why the banking market in Morocco is NOT an example of perfect competition. Three banks control more than two-thirds of the market (1) implies high % of market/dominance/hot large number of small firms/ price maker (1). The banks use brand names (1) there is no advertising/no brand loyalty in perfect competition (1). Set own interest rates (1) in perfect competition, firms are price takers/prices determined by the market (1). Provide different services (1) the product is homogeneous in perfect competition (1).	4	
1(c)	Analyse why a commercial bank may prefer to sell its services in foreign countries rather than its home country. It may make more profit (1) demand for banking services may be higher (1) demand may be falling in home country but rising abroad (1) due to e.g. higher incomes/larger population (1) less competition (1). Costs of production may be lower abroad/efficiency higher (1) due to e.g. lower rents/lower wages (1). There may be a greater availability of skilled labour abroad (1) due to better education (1). Foreign governments may provide subsidies (1) have lower rates of tax (1). Unfavourable domestic policies (1) e.g. restrictions on the money supply (1) limits the bank's ability to make profits domestically (1). Selling services abroad may help to reduce risks (1).	5	
1(d)(i)	Analyse whether the information in Fig.1 supports the view that: (i) countries with high population growth rates have a high unemployment rate Generally no (1) supporting evidence e.g. countries with the highest population growth rate, Uganda and Benin, had the lowest unemployment rates (1).	2	Accept any relevant country evidence.

Question	Answer	Marks	Guidance
1(d)(ii)	<p>Analyse whether the information in Fig.1 supports the view that: (ii) the youth unemployment rate is usually twice that of the overall unemployment rate.</p> <p>Generally yes (1) Supporting example (1) Egypt is the exception (youth unemployment rate almost four times as high) (1). Morocco is exactly twice (1) no other country is exactly twice (1).</p>	2	
1(e)	<p>Discuss whether or not older workers are always paid more than younger workers.</p> <p>Up to 3 marks for why older workers may be paid more: Older workers may have been with a firm for a long time (1) may have gained promotion (1) developed skills (1) gained experience (1) may have undertaken training (1) may be in managerial jobs (1) may be more productive (1).</p> <p>Up to 3 marks for why older workers may not be paid more: May be less productive (1) less fit for physical work (1) may be out of date with new technology (1) lack new ideas (1) may have had less education in the past (1). May be less occupationally mobile (1) less willing/able switch jobs (1). May be less geographically mobile (1) less willing/able to move in search of higher paid employment (1).</p>	5	Accept skills or efficiency on either side. One mark if given on both sides. More marks can only be awarded if a reason for better skills is given.
1(f)	<p>Explain, using information from the extract, ONE reason why a relatively poor country may have a low unemployment rate.</p> <p>A large proportion of its population is employed in agriculture (1) in subsistence farming (will employ family members) (1) labour-intensive (1) would employ a high proportion of labour (1) relative to capital (1) Lack finance to invest in new (labour-saving) technology (1). No specific skills required for (subsistence) agriculture / low entry requirements for unskilled (1).</p>	4	

Question	Answer	Marks	Guidance
1(g)	<p>Discuss whether or not commercial banks in Morocco would benefit from further mergers.</p> <p>Up to 4 marks for why they might: The merger would give the banks / firms more market power (1) a relatively quick way to grow (1) may be able to raise price (1) without losing too many customers (1). It could be a horizontal merger (1) which may enable greater advantage to be taken of economies of scale (1) example (1) lower (average) costs (1) lower prices / increased demand (1) higher profit (1).</p> <p>Up to 4 marks for why it might not: The reduction in competition may make the banks / firms complacent (1) may not try to keep costs down (1). The firms may experience diseconomies of scale (1) example (1) higher (average) costs (1) higher prices / reduced demand (1) lower profit (1). Costs of integrating firms such as redundancies/loss of morale (1). Large firms may lose customers due to lack of personal touch (1).</p>	6	Accept profits and/or costs on either side. One mark if given on both sides. More marks can only be awarded if a reason for change in profits is given.

Question	Answer	Marks	Guidance
2(a)	<p>Define perfectly inelastic supply.</p> <p>A change in price causes no change in supply (2). Correct formula (1). A PES of 0 (1).</p>	2	
2(b)	<p>Explain TWO reasons why a firm may NOT aim to earn maximum profit.</p> <p>A firm may be trying to grow (1) to capture a larger share of the market/to increase pay and status of managers (1). A firm may be trying to maximise sales revenue (1) to make it easier to grow/gain market share (1). A firm may be aiming for a reasonable but not maximum profit/profit sacrificing (1) in order to pursue other goals (1). e.g. raising wages to keep workers happy (1). A firm may not know what output will maximise profit (1) due to lack of information about costs/demand (1). A firm may be trying to survive (1) in difficult situations (1). May be in public sector/charity (1) and thus have goals related to social welfare/reducing inequalities (1).</p>	4	
2(c)	<p>Analyse why Premier League footballers receive very high wages.</p> <p>High demand (1) due to high demand for the services of footballers (1) many people want to watch football matches in stadiums (1) on television (1). Football clubs receive high incomes (1) compete for players (1). Low supply (1) have to be skilled (1) not many possess the skills (1). Premier League players may have strong bargaining power (1) through strong professional organisation/trade union/agents (1). To compensate for negative aspects of the job (1) e.g. risk of personal injury (1) other relevant example (1).</p>	6	<p>Up to 2 marks for a relevant diagram – 1 for high demand and 1 for low supply.</p> <p>Max 4 marks if no specific application to footballers.</p>

Question	Answer	Marks	Guidance
2(d)	<p>Discuss whether or not a government should spend some of its tax revenue on building sports stadiums.</p> <p>Up to 5 marks for why it should: Building sports stadiums may encourage people to participate in sport (1) increase health/living standards (1). It can generate jobs (1) increase incomes (1) reduce poverty (1). Sports stadiums and sporting events may attract foreign tourists (1) improve the current account of the balance of payments (1). Generate government revenue which could be spent on e.g. health (1).</p> <p>Up to 5 marks for why it should not: It will involve an opportunity cost (1) the tax revenue could be used on e.g. education (1). It may generate external costs (1) e.g. noise suffered by local residents (1). The private sector may be more efficient in building the stadiums (1) profit motive (1). Wasteful use of government funds (1) since benefits may be mainly private benefits (1). Those who visit the sports stadiums may be richer (1) than some of the taxpayers (1) redistribution of income from the poor to the rich (1). Could result in a budget deficit (1) or need to raise taxes (1).</p>	8	Accept, but do not expect, references to public and merit goods.

Question	Answer	Marks	Guidance
3(a)	<p>Define devaluation.</p> <p>A fall in the value (1) of a (fixed) exchange rate (1). Fall in value of currency (1) relative to another (1). Fall/decrease in exchange rate (1). Fall/decrease in currency (0).</p>	2	<p>‘Exchange rate’ means one currency relative to another.</p> <p>‘Currency’ means one currency on its own – mark as Too Vague</p>
3(b)	<p>Explain TWO advantages of a floating exchange rate.</p> <p>It should automatically eliminate current account imbalances (1) by floating down when there is a deficit (1). No currency reserves are needed (1) as the government will not intervene to influence the value of the currency (1). No government intervention needed (1) as the exchange rate will be at the market price / determined by supply and demand (1). The exchange rate is not a policy target (1) policy measures do not have to be used to influence its value (1).</p>	4	
3(c)	<p>Analyse how fiscal policy measures could reduce inflation.</p> <p>A rise in taxes (1) causes a fall in disposable income/rise in costs (1) fall in government spending (1) will reduce total (aggregate) demand (1) reduce demand-pull inflation (1). Government spending on education/training/subsidies (1) lower taxes (1) could reduce costs of production (1) will increase total (aggregate) supply (1) lower cost-push inflation (1). Lower taxes on imports would reduce cost-push inflation (1).</p>	6	

Question	Answer	Marks	Guidance
3(d)	<p>Discuss whether or not a reduction in a current account deficit on the balance of payments will benefit an economy.</p> <p>Up to 5 marks for why it might: May mean that demand for imports has fallen (1) and/or demand for exports has risen (1) higher total (aggregate) demand (1) may increase GDP/create economic growth (1) reduce unemployment (1). Will reduce debt (1) not have to borrow as much to finance it (1). May cause appreciation of exchange rate (1) leading to lower inflation (1).</p> <p>Up to 5 marks for why it might not: If the deficit is reduced by buying fewer imports of raw materials (1) and capital goods (1) may reduce GDP (1) lower exports in the longer run (1). If fewer imports are being purchased because of a recession (1) GDP will be falling (1). If fewer imports are being purchased because trade restrictions are introduced (1) there may be retaliation (1) with tariffs/quotas being imposed one exports (1). Higher total (aggregate) demand might lead to (demand-pull) inflation (1). Exchange rate may appreciate (1) can reduce total demand/worsen the deficit in the long run (1).</p>	8	Accept higher total demand on either side. One mark if given on both sides. More marks can only be awarded if a reason why this leads to a benefit/cost is given.

Question	Answer	Marks	Guidance
4(a)	<p>Define <i>economies of scale</i>.</p> <p>A fall in average costs (1) resulting from an increase in output/scale of production (1).</p>	2	Reward an accurately labelled diagram.
4(b)	<p>Explain TWO benefits consumers may gain from free trade.</p> <p>Lower prices (1) increases purchasing power (1) due to greater competition or economies of scale (1). Better quality (1) improve living standards (1) due to greater competition (1). Greater availability/variety of products (1) products can be purchased that are not made in the domestic economy (1). Higher exports can lead to economies of scale (1) and therefore lower prices (1).</p>	4	Maximum of 2 marks for each benefit identified and explained.
4(c)	<p>Analyse how reducing transport costs could increase a country's exports and imports.</p> <p>Lower transport costs may reduce costs of production (1) lower costs may reduce export prices (1) making the country's products more internationally competitive (1) increase demand for exports (1). Could attract more MNCs to set up (1) which tend to export high proportion of output (1). Higher export revenue would enable a country to buy more imports (1). Lower transport costs may enable a country to specialise to a greater extent (1) this would encourage it to export the products it is good at producing (1) and import the products it is not so good at producing (1). Lower transport costs will reduce the cost of getting imports to market (1) lower price of imports (1) increase demand for imports (1). Lower transport costs for consumers can increase purchasing power and increase import spending (1). Could encourage tourism (1) increasing exports and imports of services (1).</p>	6	It is possible to gain full marks with reference to either just exports or just imports.

Question	Answer	Marks	Guidance
4(d)	<p>Discuss whether or not raising living standards is the most important economic objective for developing countries.</p> <p>Up to 5 marks for why it might be: Giving people access to basic necessities (1) may take them out of poverty (1). Suggests higher incomes per head (1) allowing people to consume more goods and services (1). Improving healthcare (1) reduce death rates/people more fit for work (1) <i>raise productivity (1) raise output/generate economic growth (1)</i>. Improving education (1) may increase skills (1) <i>raise productivity (1) raise output/generate economic growth (1)</i>. Better quality housing (1) can reduce illness (1) <i>raise productivity (1) raise output/generate economic growth (1)</i>.</p> <p>Up to 5 marks for why it might not be: Raising livings standards may cause higher inflation (1) a rising current account deficit (1). Inflation may be more of a problem (1) costs of inflation (max 2). Unemployment might be more of a problem (1) costs of unemployment (max 2). Current account deficit might be more of a problem (1) costs of current account deficit (max 2). Living standards is an average concept (1) and may be associated with rising inequality (1). Some measures that could improve living standards such as taxing polluting firms (1) may reduce economic growth (1) and so may result in lowering living standards (at least in the short run) (1). It may be more important to maintain living standards (1) (because) a rising population (1) may be putting pressure on resources (1).</p>	8	<p>The chain of response <i>raise productivity (1) raise output/generate economic growth (1)</i> can only be credited once.</p> <p>A maximum of 3 marks for a list-like approach.</p>

Question	Answer	Marks	Guidance
5(a)	Identify TWO price indices. RPI (1) CPI (1).	2	Reward but do not expect other valid indices.
5(b)	Explain TWO supply-side policy measures. Improvements in education/training (1) to raise skills/labour productivity (1). Cutting income tax (1) to encourage the reward for working (1). Cutting corporation tax (1) to encourage enterprise/increase investment/lower costs of production (1). Privatisation (1) transferring assets from the public to the private sector/to stimulate competition/improve efficiency (1). Deregulation (1) removing rules and restrictions/increase competition/lower costs of production (1). Subsidies (1) may reduce costs of production/stimulate output (1).	4	1 mark each for up to 2 identifications, plus up to 2 marks for explanation
5(c)	Analyse why a government may want to reduce its country's inflation rate. A lower inflation rate may increase a country's international competitiveness (1) increase exports (1) reduce imports (1) improve the current account position (1). A lower inflation rate may create greater certainty (1) encourage investment (1) increase economic growth (1). A lower inflation rate may benefit savers (1) create funds for investment (1). A lower inflation rate will reduce the rate at which money loses its purchasing power/value (1) protect living standards (1) make products more affordable (1) helps people on fixed incomes (1). If cost-push inflation, total demand will fall/unemployment rise (1). Lower inflation tends to have larger benefits for the poor than the rich (1) and helps towards reducing inequality (1). There may be hyperinflation (1) which could lead to a breakdown in economic activity (1).	6	Reward an approach that analyses the disadvantages of inflation.

Question	Answer	Marks	Guidance
5(d)	<p>Discuss whether or not increasing the strength of trade unions will benefit an economy.</p> <p>Up to 5 marks for why it might: Stronger bargaining power with employers (1) may improve working conditions of workers (1) increase health and safety (1). May raise the wages of workers (1) may reduce poverty (1) may increase labour productivity (1) through increasing worker morale/motivation (1). May counterbalance the power of employers (1) protecting the rights of workers (1). May provide worker training (1) increasing skills/productivity (1).</p> <p>Up to 5 marks for why it might not: May lead to more industrial disputes (1) e.g. strikes/go slows (1) reduce output (1) may discourage investment/discourage MNCs (1) which would damage long run economic growth (1). May cause inflation (1) by raising labour costs (1) make products less internationally competitive (1) increasing a current account deficit/reducing a current account surplus (1). Higher wage costs could reduce profits (1) raise unemployment (1).</p>	8	<p>NB: Max 5 marks for a static answer (i.e. that discusses benefits and drawbacks of trade unions, not the impact of the <i>increasing strength</i> of TUs).</p>

Question	Answer	Marks	Guidance
6(a)	<p>Define <i>net immigration</i>.</p> <p>More people coming to live in the country than leaving the country to live elsewhere (2). The number of immigrants exceeding emigrants (2). The difference between immigration and emigration (1). People coming to live in the country (1).</p>	2	
6(b)	<p>Explain how market forces would respond to a shortage of drinking water.</p> <p>A shortage means demand exceeds supply (1) price would rise (1) more would be supplied (1) due to the profit motive (1) price signal sent to producers (1) demand would also contract (1). Demand likely to be price inelastic (1) leading to large rise in price (1).</p>	4	Up to 2 marks for a relevant diagram, showing demand being greater than supply (1) and price below equilibrium (1).
6(c)	<p>Analyse what determines the demand for labour.</p> <p>Demand for goods and services (1) demand for labour is a derived demand (1). Productivity/skills (1) higher productivity will increase demand for labour (1). Wage rates (1) higher wage rates will reduce demand for labour (1). Price of capital (1) higher price may increase demand for labour if they are substitutes (1) higher price will reduce demand for labour if they are complements (1). Non-wage costs e.g. employer's contribution to pension scheme (1) higher costs reduce demand for labour (1). Taxes on employment of labour (1) higher taxes reduce demand for labour (1). Government employment subsidies (1) higher subsidies will increase demand for labour (1).</p>	6	

Question	Answer	Marks	Guidance
6(d)	<p>Discuss whether or not increased government spending will increase economic growth.</p> <p>Up to 5 marks for why it might: Higher government spending will increase total (aggregate) demand (1) higher total demand may encourage firms to increase output (1). Higher government spending on education/training (1) health (1) may raise labour productivity (1) increase productive potential/long run economic growth (1). Higher government spending on infrastructure (1) will reduce costs of production (1) encouraging firms to expand (1). Higher government spending on R & D (1) would lower costs/raise productive potential (1).</p> <p>Up to 5 marks for why it might not: Higher government spending may increase inflation (1) this may make products less internationally competitive (1) reducing net exports (1) reducing output (1). Higher government spending may not increase total demand if offset by e.g. lower consumer expenditure (1). Higher government spending may not increase total demand if it is accompanied by higher taxation (1). Higher government spending on education/training may not increase labour productivity if it does not raise the quality of education/training (1). Higher benefits (1) may reduce incentives to work (1). Government spending may be spent wastefully/inefficiently (1).</p>	8	

Question	Answer	Marks	Guidance
7(a)	<p>Define regressive tax.</p> <p>A tax that takes a lower percentage of the income of the rich/higher percentage of the income of the poor (2). A tax that falls more heavily on the poor (1). Disadvantages the poor/higher burden on the poor/higher rate for the poor (1).</p>	2	
7(b)	<p>Explain why the social benefit of healthcare is greater than the private benefit.</p> <p>Social benefit includes both private and external benefits (1). Healthcare also provides external benefits (1). Example of private benefits identified as a private benefit e.g. profits of provider, wages of doctors, higher life expectancy of consumer (max 2). Examples of external benefits identified as external benefits/recognised as 3rd party impacts e.g. higher labour productivity, higher output, reduction in spread of diseases (max 2).</p>	4	
7(c)	<p>Analyse why a government imposes taxes.</p> <p>To raise revenue (1) to finance government spending/example of spending (1). To discourage the consumption of certain products (1) example/external costs (1). To discourage the production of certain products (1) example/external costs (1). To discourage the consumption of imports (1) improve the current account position on the balance of payments (1). To redistribute income (1) taxing the rich more (1). To influence economic activity (1) raising taxes to reduce total (aggregate) demand (1) to control (demand-pull) inflation (1).</p>	6	Accept but do not expect reference to public and merit goods.

Question	Answer	Marks	Guidance
7(d)	<p>Discuss whether or not consumers are likely to benefit from state-owned enterprises becoming private sector firms.</p> <p>Up to 5 marks for why they might: There may be more competition in the markets (1) this may force down prices (1) increase quality (1). Firms will be influenced by the profit motive (1) this may make them more responsive to changes in consumer demand (1). State-owned enterprises may be slow in making decisions (1) due to bureaucratic control (1) may not respond quickly enough to consumer demands (1).</p> <p>Up to 5 marks for why they might not: State-owned enterprises might have taken into account social costs and social benefits (1) rather than just private costs and private benefits (1) main goal may be economic welfare (1). Private sector firms may merge (1) form monopolies (1) (use market power to) push up price (1) they may become complacent (1) lower quality (1). Private sector may not have sufficient finance for large-scale projects (1) consumers would lose out on the benefits (1).</p>	8	Accept quality and prices on either side, but only one mark if given on both sides. More marks can only be awarded if a reason for change in quality/prices are given.



ECONOMICS

0455/22

Paper 2 Structured Questions

May/June 2018

MARK SCHEME

Maximum Mark: 90

Published

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

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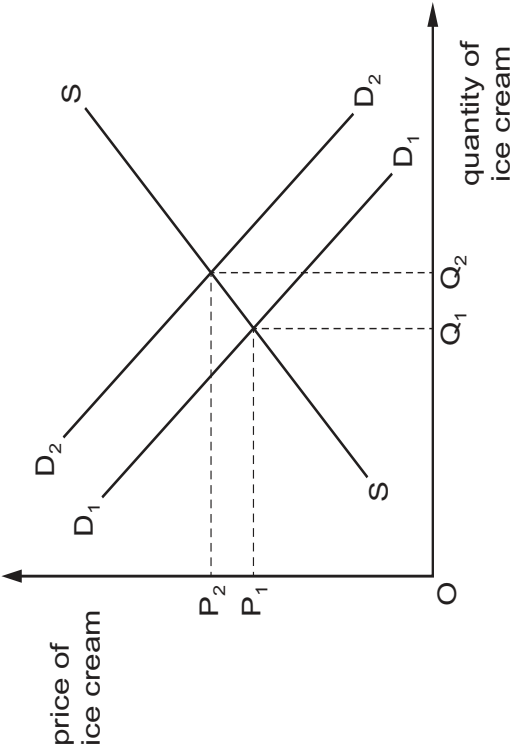
This document consists of **18** printed pages.

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.

<p>GENERIC MARKING PRINCIPLE 1:</p> <p>Marks must be awarded in line with:</p> <ul style="list-style-type: none"> • 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.
<p>GENERIC MARKING PRINCIPLE 2:</p> <p>Marks awarded are always whole marks (not half marks, or other fractions).</p>
<p>GENERIC MARKING PRINCIPLE 3:</p> <p>Marks must be awarded positively:</p> <ul style="list-style-type: none"> • 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.
<p>GENERIC MARKING PRINCIPLE 4:</p> <p>Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.</p>
<p>GENERIC MARKING PRINCIPLE 5:</p> <p>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).</p>
<p>GENERIC MARKING PRINCIPLE 6:</p> <p>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.</p>

Question	Answer	Marks	Guidance
1(a)	<p>Identify <u>two</u> fixed costs of production in Fig.1.</p> <p>One mark each for any 2 from: insurance, security, rent, lighting and wages.</p>	2	If more than two examples are given, consider only the first three.
1(b)	<p>Explain, using information from the extract, <u>two</u> reasons why a rise in the price of vanilla might <u>not</u> cause an increase in the price of ice cream.</p> <p>Ice cream is a luxury product (1) likely to have elastic demand / producers will be concerned that a rise in price could cause a fall in revenue/profit/demand (1). Ice cream has substitutes (1) likely to have elastic demand / producers will be concerned that a rise in price could cause a fall in revenue / loss of customers / loss of demand (1). Rise in productivity of workers (1) fall in labour costs / lower costs may offset a rise in the price of vanilla (1). Fall in another cost identified in the pie chart (1) may offset a rise in the price of vanilla (1),</p>	4	

Question	Answer	Marks	Guidance
1(c)	<p>Analyse, using a demand and supply diagram, the effect of an increase in income on the market for ice cream.</p> <p>Up to 4 marks for a diagram:</p> <ul style="list-style-type: none"> • axes correctly labelled – price and quantity or P and Q (1) • demand and supply curves correctly labelled, S (1) • demand curve D_1 shifted to the right D_2 (1) • correct equilibriums identified either by lines drawn to both axes or equilibrium prices clearly identified e.g. E_1 and E_2 (1)  <p>1 mark for written analysis:</p> <ul style="list-style-type: none"> • an increase in income increases purchasing power (1) • people buy more ice cream when they have more money/income (1) • demand will increase as ice cream is a luxury good • price will rise 	5	

Question	Answer	Marks	Guidance
1(d)	<p>Analyse the extent to which the relationship shown in Table 1 between countries' GDP per head and their HDI value is the expected one.</p> <p>Generally, in the same order / positively related / countries with highest GDP per head have the highest HDI (1) countries with high incomes generally spend more on education and healthcare (1) supporting evidence e.g. Argentina has highest GDP per head and highest HDI (1).</p> <p>Egypt higher in terms of GDP per head but lower in terms of HDI than Cuba (1).</p> <p>Cuba may have a high life expectancy (1) indicating good healthcare (1).</p> <p>Cuba may have a high number of mean and expected years of schooling (1) indicating a strong education system / more educated population (1).</p>	4	<p>Reward 1 mark for a supported conclusion that it is generally the expected relationship.</p> <p>Marks may be gained in relation to Cuba by mentioning Egypt may have less good healthcare and education.</p>
1(e)	<p>Discuss whether or not a government should encourage people to save more.</p> <p>Up to 3 marks for why it should:</p> <p>More savings can fund investment / enable people to set up a business (1) higher investment can increase economic growth (1) higher economic growth can increase living standards (1). A government may make use of money in government-run saving schemes (1) e.g. to fund infrastructure projects (1).</p> <p>More savings can reduce consumer spending (1) which will lower total (aggregate) demand (1) which can reduce inflation (1).</p> <p>More savings can reduce demand for imports (1) improve the current account position (1).</p> <p>More savings can help people cope with emergencies / increase wealth / for future use (1) prepare for retirement (1) in case of unemployment (1) spend on education (1) reduce need for government expenditure e.g. pensions/education (1) enabling the government to spend on other <i>named</i> area (1).</p> <p>Up to 3 marks for why it should not:</p> <p>More saving may reduce output / cause recession (1) increase unemployment (1) cause deflation (1).</p> <p>More saving will increase deposits at banks (1) this may encourage them to lend to uncreditworthy customers (1) causing banks to collapse (1).</p>	5	<p>Accept response from the perspective of why it should not, by discussing why it would be better for the government to encourage spending,</p> <p>Reward change in consumer spending and total demand in either why it should, or why it should not, but not in both.</p>

Question	Answer	Marks	Guidance
1(f)	<p>Explain, using information from the extract, how cash benefits given to the poor can reduce poverty.</p> <p>May enable them to send their children to school for longer (1) this may increase their children's skills (1) qualifications (1) increase their job opportunities / start a business (1) increase their earning potential / living standards (1) enable them to purchase more goods and services (1) including basic necessities (1).</p>	4	<p>Maximum of 1 mark for a way cash benefits may reduce poverty, if not linked to education.</p> <p>Reward but do not expect reference to an implied multiplier effect resulting from the higher spending creating more jobs.</p>
1(g)	<p>Discuss whether or not a market system benefits consumers.</p> <p>Up to 4 marks for why it might:</p> <p>In theory there will be consumer sovereignty (1) with firms being responsive to consumer demand (1).</p> <p>The price mechanism allocates resources automatically / profit motive provides an incentive to respond to consumer demand (1) avoiding delays in responding to changes in demand (1). There may be a high level of competition (1) keeping price low (1) increasing efficiency (1) keeping quality high (1) providing choice (1).</p> <p>Up to 4 marks for why it might not:</p> <p>Those with low incomes will lack purchasing power (1) the market will not produce what they want (1).</p> <p>Monopolies may develop (1) driving up price (1) reducing quality (1).</p> <p>Consumers may not always be fully informed (1) e.g. cigarettes (harmful / demerit goods) may be overconsumed (1) e.g. healthcare (beneficial / merit goods) under consumed (1) there may be external costs (1) market failure may occur (1).</p> <p>Some consumers may find too much choice confusing (1) advertising can distort consumer choice (1).</p>	6	<p>Reward but do not expect reference to public goods.</p>

Question	Answer	Marks	Guidance
2(a)	What may be the opportunity cost of building an airport? Opportunity cost is the (next) best alternative foregone (1). Relevant example e.g. building a hospital (1).	2	
2(b)	Explain two reasons why a government would want to turn its country from a developing into a developed country. Developed countries tend to have higher GDP/output/economic growth (1) reduces poverty (1) Developed countries tend to have higher living standards (1) due to earning higher incomes / higher GDP per head (1) Developed countries may have better education (1) e.g. resulting in more skilled workers (1) so improving productivity (1). Developed countries tend to have better healthcare (1) resulting in longer life expectancy / lower death rate (1). Developed countries tend to have more economic power (1) stronger in international negotiations (1). Developed countries tend to have a higher proportion of workers employed in the tertiary sector (1) which may mean better working conditions (1). Tax revenue may be higher (1) enabling more government expenditure (1).	4	Accept response from the perspective of the disadvantages of developing countries. Accept any reason that is linked to improved macroeconomic performance or improved living standards.
2(c)	Analyse the external costs that can be caused by the building and expansion of an airport. External costs are harmful effects on third parties / social costs minus private costs (1). Building and operating an airport will cause noise pollution (1) air pollution (1) which will be experienced by those living near the airport (1) reducing their health (1). Traffic congestion may be caused (1) delaying people's journeys (1). The prices of houses close to the airport may fall (1) reducing local residents' wealth (1) local residents may be displaced (1). Train companies may lose revenue (1) as people switch from train travel to air travel (1). Environmental damage / global warming (1) e.g. loss of wildlife habitats (1).	6	Accept pollution on its own as one example. Also allow visual pollution, but maximum of 2 marks for types of pollution.

Question	Answer	Marks	Guidance
2(d)	<p>Discuss whether people would prefer to buy a product from a small firm or a large firm.</p> <p>Up to 5 marks for why they might prefer to buy from a small firm: May be flexible (1) quick to respond to changes in consumer demand (1) as do not have to consult others (1). May provide a personal service (1) can get to consumers and their requirements (1) adapt to particular requirements (1). May be specialised (1) produce high quality products (1). Small firms may receive government subsidies (1) enabling them to keep price low / quality high (1). Unlikely to experience diseconomies of scale (1) <i>example</i> (1).</p> <p>Up to 5 marks for why they might prefer to buy from a large firm: Lower prices (1) due to lower costs (1) because of economies of scale (1) <i>example</i> (1). Better known brands (1) due to advertising (1). Wider variety (1) better quality (1) better after sales (1) due to more funds to invest (1).</p>	8	<p>Accept response from either perspective.</p> <p>Accept better quality for either side, but only one mark if given on both sides. More marks can only be awarded if it is established why there may be better quality.</p>

Question	Answer	Marks	Guidance
3(a)	<p>Identify <u>two</u> examples of capital goods that may be used by a farm.</p> <p>One mark each for each of two examples e.g. tractor, farm buildings.</p>	2	
3(b)	<p>Explain how a country could have a trade in goods surplus but a deficit on the current account on the balance of payments.</p> <p>Trade in goods surplus means exports (of goods) exceeds imports (of goods) (1) trade in goods is only one part of the current account (1) <i>identification of two of the three other components</i> (1) there could be a larger deficit on the trade in services balance (1) <i>example of a service item decreasing</i> (1) there can be a larger deficit on income (primary) balance (1) <i>example of an income item increasing</i> (1) there could be a larger deficit on current transfers (secondary) balance (1) <i>example of a current transfer item decreasing</i> (1) or a combination of deficits on other items (1). A current account deficit means more money will be leaving than entering the country (1).</p>	4	
3(c)	<p>Analyse the economies of scale from which a farm may benefit.</p> <p>Buying (purchasing) economies (1) e.g. buying seed in bulk at reduced price (1). Technical economies (1) using up to date / efficient equipment e.g. combine harvesters (1). Managerial economies (1) employing specialist workers e.g. farm managers (1). Financial economies (1) borrowing at a lower rate of interest/finding it easier to obtain a loan (1). Risk bearing economies (1) a farm may grow a variety of crops (1).</p>	6	<p>Maximum of 4 marks unless at least one type of economy of scale is related specifically to a farm e.g. buying seed in bulk.</p> <p>Also credit analysis of external economies of scale.</p> <p>Maximum of 3 marks for a list-like approach.</p>

Question	Answer	Marks	Guidance
3(d)	<p>Discuss whether or not developing countries benefit from producing mainly primary products.</p> <p>Up to 5 marks for why they might: May have the resources to produce high quality (1) low cost primary products (1). If more can be exported (1) revenue can be used for development (1). Specialisation can reduce average costs (1) increasing output (1) enabling advantage to be taken of economies of scale (1). Demand for primary products may be increasing (1) some primary products can be sold for high prices (1) e.g. oil (1) increasing living standards (1). May be able to raise revenue (1) as demand for some primary products, e.g. oil, is price-inelastic (1). Countries may lack education (1) primary sector provides some unskilled jobs (1).</p> <p>Up to 5 marks for why they might not: Demand for primary products does not tend to rise as rapidly as demand for manufactured products and services (1) tend to have less valued added (1). The production of some primary products may be adversely affected by bad weather and diseases (1) disrupting supply (1) resulting in fluctuating income (1) working conditions may be poor (1). Developed countries may impose trade restrictions on primary products from developing countries (1). The primary sector does not tend to offer many high skilled jobs (1) low pay (1) low living standards (1). There are risks of overspecialisation (1) a more diversified economy would be in a stronger position to resist economic downturns (1). Developing countries will be dependent on other countries for manufactured goods and services (1).</p>	8	<p>Accept as an alternative to the first two points that developing countries may have the resources to produce high quality primary products at low cost, that they may not have the resources to produce high quality secondary / tertiary products at low cost.</p> <p>Reward but do not expect reference to comparative advantage.</p>

Question	Answer	Marks	Guidance
4(a)	<p>Define a <i>substitute</i> and give an example.</p> <p>A rival product / a product that can be used instead of another (1) e.g. bus travel and car travel / oranges and apples (1).</p>	2	
4(b)	<p>Explain <u>two</u> advantages a firm may gain from being a monopoly.</p> <p>May be able to charge high prices / price maker (1) due to lack of competition (1) enabling it to earn a high profit (1). May produce at lower costs (1) due to economies of scale / charge lower prices (1). May produce high quality products (1) as high profits enable it to invest and innovate (1). May be able to compete with foreign firms (1) gain a wider market / export more (1). May have stronger bargaining power with suppliers (1) keeping costs low (1).</p>	4	
4(c)	<p>Analyse how price elasticity of demand for a product influences the revenue a firm receives.</p> <p><i>Formula or definition of PED</i> (1). If demand is elastic, a rise in price will cause a fall in revenue (1) because the quantity demanded will fall by more than the rise in price (1) in percentage terms (1) <i>example of type of product with elastic demand</i> e.g. a luxury (1). If demand is inelastic, a rise in price will cause a rise in revenue (1) because the quantity demanded will fall by less than the rise in price (1) in percentage terms (1) <i>example of a product with inelastic demand</i> e.g. one without a substitute (1). If demand is perfectly inelastic, a rise in price will cause an equally proportionate rise in revenue (1) because the quantity demanded will not change (1). If demand is perfectly elastic, a rise in price will cause revenue to fall to zero (1) because people will stop buying the product (1). If demand is unitary, a rise in price will leave total revenue unchanged (1) as the proportionate change in quantity demanded and price will be the same (1).</p>	6	Accept as reasons why demand may be price-elastic, availability of substitutes and why demand may be price-inelastic, lack of substitutes.

Question	Answer	Marks	Guidance
4(d)	<p>Discuss whether or not a government should subsidise bus transport.</p> <p>Up to 5 marks for why it should: A subsidy will lower costs, (1) it may encourage a rise in bus travel (1) reducing bus fares (1). It may reduce poverty / redistribute income (1) the poor tend to use buses more than the rich (1) better quality travel (1). Bus travel creates fewer external costs than car travel (1) reduce pollution (1) reduce traffic congestion (1) increase employment / reduce unemployment (1) increase labour mobility (1).</p> <p>Up to 5 marks for why it should not: It will involve an opportunity cost (1) the government might instead spend more on e.g. education / raise taxes (1). Bus companies may not pass on the subsidy to passengers (1) subsidies may make bus companies complacent (1) not try to keep their costs low (1) may not improve quality (1). Rail transport may be more efficient (1) may provide more social benefits (1) generate lower social costs (1).</p>	8	Reward but do not expect reference to bus transport being a merit good.

Question	Answer	Marks	Guidance
5(a)	<p>Identify <u>two</u> causes of an ageing population.</p> <p>One mark each for each of two from: A fall in the birth rate (1) a fall in the death rate / longer life expectancy (1) net emigration of young people / net immigration of old people (1).</p>	2	Accept causes that would result in a fall in the birth rate or fall in the death rate. These may be two causes of a fall in the birth rate or a fall in the death rate e.g. better healthcare and better nutrition.
5(b)	<p>Explain why the price of housing may increase.</p> <p>Increase in demand (1) due to e.g. increase in income / rise in population (1). Decrease in supply (1) due to e.g. rise in costs of production (1).</p>	4	
5(c)	<p>Analyse why more women may enter the labour force.</p> <p>May be a reduction in gender discrimination (1) a change in social attitudes (1) making it easier for women to get jobs (1) be promoted (1). There may be a rise in the pay available to women (1) increasing the opportunity cost of not being in the labour force (1). There may be a fall in the birth rate (1) making it easier for women to work (1). There may be improvements in the education of women (1) increasing their skills / raising their earning potential (1). There may be a rise in part-time and/or flexible employment (1) making it easier for women to combine working and caring for families (1). Increases in the cost of living (1) may create a need for higher family income / to support their family (1). Government measures to encourage the entry of women into the labour force (1) e.g. provision of free or subsidised childcare (1).</p>	6	

5(d)	<p>Discuss whether or not a rise in the birth rate will benefit an economy.</p> <p>Up to 5 marks for why it might: A higher birth rate will increase the labour force in the long run (1) increase the potential output (1) total (aggregate) demand may rise (1). It will lower the average age of the population, (1) younger workers may be occupationally mobile (1) geographically mobile (1) may be able to work with the latest technology (1). There may be rise in tax revenue (1). If the country is underpopulated (1) better use might be made of resources in the long run (1). Demand for products related to children will increase (1) benefiting e.g. toy industry (1).</p> <p>Up to 5 marks for why it might not: A higher birth rate will increase the number of dependents (1) resources that could have been used to e.g. increase the quality of healthcare will have to be devoted to providing more healthcare services to mothers and children (1) there will be an opportunity cost (1). It will reduce the size of the labour force in the short run (1) as mothers leave it to have children (1). If the country is overpopulated (1) resources may be depleted more quickly (1).</p>	8	Reward but do not expect reference to the idea of an optimum population size.
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6(a)	<p>Define <i>commercial bank</i>.</p> <p>Two marks from: A financial institution (1) that offers services to people/households/firms (1) <i>examples of services</i> (1) that is profit orientated (1) (usually) in the private sector (1).</p>	2	
6(b)	<p>Explain how a stock exchange could encourage economic growth.</p> <p>A stock exchange enables firms to raise finance by issuing shares (1) by providing a market for shares / enables shares to be bought and sold (1) finance allows firms to invest (1) which increases their ability to produce more (1). A stock exchange helps firms merge (1) enabling firms to take greater advantage of economies of scale (1) reducing costs of production (1) increasing international competitiveness (1) capturing more market share (1). If stock exchange is doing well (1) wealth/dividends may rise (1) causing higher spending (1). Allows sales of government bonds/securities (1) money raised can be spent on e.g. infrastructure (1).</p>	4	
6(c)	<p>Analyse what can cause deflation.</p> <p>A fall in the price level could be caused by a fall in total (aggregate) demand (1). This may be due to a fall in consumer expenditure / rise in saving (1) a fall in borrowing (1) a fall in investment (1) due to e.g. a lack of confidence (1) spending may be delayed due to the expectation that prices may be lower in the future (1) deflationary demand-side policy measures (1) e.g. a rise in the rate of interest (1) rise in direct taxation (1). Exports may fall (1) due to e.g. fall in incomes abroad (1) a rise in exchange rate (1). A rise in total (aggregate) supply (1) due to e.g. advances in technology (1) increased investment (1) reduced costs of production (1) increase in productivity (1) supply-side policy measures (1) resulting from e.g. improvements in education and training (1).</p>	6	

6(d)	<p>Discuss whether or not government policy measures to reduce unemployment will cause inflation.</p> <p>Up to 5 marks for why they might: Increased government spending and/or lower taxes / expansionary fiscal policy (1) lower interest rates and/or increased money supply / expansionary monetary policy (1) will increase total (aggregate) demand/spending (1) may reduce cyclical unemployment / more workers may be employed to meet the higher demand (1) but may cause demand-pull inflation (1). Higher demand may also cause cost-push inflation (1) as demand for workers rises (1) firms may compete for workers (1) causing wage rates to rise (1).</p> <p>Up to 5 marks for why they might not: An increase in demand may not push up prices if unemployment is initially high (1) firms will be able to attract more workers by just offering jobs (1) they will not have to raise wages (1). The government may use supply side policy measures to reduce unemployment (1) e.g. improved education and training/privatisation/deregulation (1) such policy measures may reduce costs (1) may increase total (aggregate) supply by as much as total (aggregate) demand (1). The government may use price controls (1).</p>	8	
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Question	Answer	Marks	Guidance
7(a)	<p>Define <i>import tariff</i>.</p> <p>A tax (1) imposed on products purchased from other countries / imports (1).</p>	2	
7(b)	<p>Explain <u>two</u> benefits of an increase in world output.</p> <p>Higher output may increase employment (1) better use of resources (1). Higher output may increase incomes (1) reduce poverty / raise living standards (1) increase choice (1). Higher output may increase government tax revenue (1) to increase education/healthcare (1). Higher output may include higher agricultural output (1) reduce risk of malnutrition (1).</p>	4	
7(c)	<p>Analyse how a recession may reduce a country's imports.</p> <p>A recession is a decrease in GDP (1) over 6 months or more / two consecutive quarters (1). A recession is likely to reduce incomes (1) increase unemployment (1) reduce confidence levels (1) consumer spending is likely to fall (1). As output is falling (1) firms are likely to buy less raw materials from abroad (1) buy fewer capital goods from abroad (1). During recessions governments may impose trade restrictions which will reduce imports (1). A recession may cause a depreciation of the currency (1) making imports more expensive (1).</p>	6	

7(d)	<p>Discuss whether or not a developing country will benefit from the removal of trade restrictions.</p> <p>Up to 5 marks for why it might: Developing countries tend to have more trade restrictions on their products (1). The removal of trade restrictions on the country's products can enable a country to specialise in the products it is best at producing (1) they can be sold at a lower price which may increase demand in foreign markets (1). The removal of trade restrictions that the country imposes may mean it can purchase raw materials (1) and capital equipment (1) at a lower price (1) reducing costs of production (1). Consumers may enjoy a greater variety of products (1) greater availability of products (1) lower prices (1) higher quality (1). Domestic firms may respond to greater competition by becoming more efficient (1). The removal of trade restrictions may increase inward investment / attract MNCs (1).</p> <p>Up to 5 marks for why it might not: Infant industries (1) may not be able to survive without protection (1) because they cannot take advantage of economies of scale (1). Declining industries (1) may go out of business more quickly (1) causing unemployment (1). Strategic industries (1) may go out of business disrupting the rest of the economy (1). There may be dumping (1) with foreign firms selling products at below cost price (1) to drive domestic firms out of business (1) and then raising price (1). Demerit goods may be imported (1). May result in imports exceeding exports, (1) causing a current account deficit (1). Tax revenue may fall (1) revenue from tariffs may account for a relatively high proportion of a developing country's tax revenue (1).</p>	8	
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ECONOMICS

0455/23

Paper 2 Structured Questions

May/June 2018

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.

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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.

<p>GENERIC MARKING PRINCIPLE 1:</p> <p>Marks must be awarded in line with:</p> <ul style="list-style-type: none"> 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.
<p>GENERIC MARKING PRINCIPLE 2:</p> <p>Marks awarded are always whole marks (not half marks, or other fractions).</p>
<p>GENERIC MARKING PRINCIPLE 3:</p> <p>Marks must be awarded positively:</p> <ul style="list-style-type: none"> 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.
<p>GENERIC MARKING PRINCIPLE 4:</p> <p>Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.</p>
<p>GENERIC MARKING PRINCIPLE 5:</p> <p>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).</p>
<p>GENERIC MARKING PRINCIPLE 6:</p> <p>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.</p>

Question	Answer	Mark	Guidance
1(a)	<p>Identify, using information from the extract, <u>two</u> causes of low life expectancy in developing countries.</p> <ul style="list-style-type: none"> • Poor healthcare facilities • lack of access to safe water • lack of basic sanitation • not enough food production • absolute poverty 	2	
1(b)(i)	<p>Explain, using information from the extract, how the water shortage is an example of the economic problem.</p> <p>The economic problem consists of the allocation of scarce resources amongst competing ends (1). Water supply is at critically low levels (1) showing resources are scarce / limited (1). Rising demand from growth of cities (1) and rising agricultural production (1) wants are unlimited (1).</p>	4	
1(b)(ii)	<p>Explain, using information from the extract, why the problem of water shortages is likely to become even worse in the future.</p> <p>Water is being undervalued (1) this has led to it being wasted (1) and the prices do not reflect scarcity that will arise in the future (1) this means that as demand continues to rise (1) the gap between wants and the amount of the resource will increase (1). Climate change (1) will cause water supplies to become increasingly scarce (1). Population will continue to rise / cities will expand (1) increasing demand (1) and exceeding the ability of supply to match demand (1).</p>	4	

Question	Answer	Mark	Guidance
1(c)	<p>Analyse, using Table 1, the extent to which a high risk of water shortage in a country / region causes low GDP per head.</p> <p>The data indicates a link (1) the greater the degree of water scarcity (i.e. the higher the water risk score) the lower the GDP per capita. (1) Canada / Germany have the lowest water risk scores and the highest GDP per capita (1). Pakistan / Western Sahara have high water risk scores and low GDP per capita (1). Saudi Arabia illustrates that this relationship is not perfect (1) and demonstrates that other factors contribute towards GDP per capita (1)</p>	5	
1(d)	<p>Calculate, using the information in the extract, the price elasticity of demand for water.</p> <p>PED = (–) 0.07 (2) Correct working –0.7% / 10% or –0.07% or 0.7 (1)</p>	2	

Question	Answer	Mark	Guidance
1(e)	<p>Discuss whether or not private firms supplying water should increase their prices.</p> <p>Up to 3 marks for why they should:</p> <p>An increase in price will increase total revenue (1) as demand is price inelastic (1) meaning an increase in price causes a less than proportional decrease in quantity demanded (1) some of the extra funds could be used to increase the supply of water (1) reducing its shortage (1) and improve the quality of water (1). Higher prices may reduce demand (1) helping to eliminate the shortage / achieve market equilibrium (1). As population is increasing (1) rising prices are needed to ration extra demand (1). Current prices do not take account of the long run costs of failing to conserve supplies (1) higher prices will encourage more efficient use of water / less waste (1).</p> <p>Up to 3 marks for why they should not:</p> <p>Water is a necessity / has very inelastic demand (1) raising prices will harm consumers (1) and will fall more heavily on the poor / the poor will be unable to afford water (1) increase absolute poverty (1) increase inequality (1). Higher water prices can reduce health (1) reduce life expectancy (1) as less people will have access to safe water / basic sanitation (1). Higher water prices reduce income available to spend on other necessities e.g. education (1).</p>	5	
1(f)	<p>Explain what is meant by <i>absolute poverty</i>.</p> <p>Individuals cannot afford the necessities essential for survival (1) such as food, water, shelter, warmth and clothing (1) individuals living on less than a certain amount per day, e.g. \$1.</p>	2	

Question	Answer	Mark	Guidance
1(g)	<p>Discuss whether or not a country's economic growth rate depends mostly on the availability of its natural resources.</p> <p>Up to 4 marks for why they might:</p> <p>Natural resources are an important factor of production (1) Countries endowed with natural resources have a good productive capacity as a result (1), boosting the growth that they can enjoy (1). A lack of natural resources such as water can cause poverty / ill health (1). This can harm productivity (1). Countries with insufficient natural resources are reliant on other countries to provide them (1) worsening the current account and reducing the economic growth rate (1) and if a country does not have enough other resources to trade it must rely upon its own natural resources (1). Natural resources are important in agriculture (1) countries with a lack of natural resources may not produce enough food (1) leading to poorer nutrition (1) poorer health and lower productivity (1). Natural resources are essential for the construction of infrastructure e.g. roads and schools (1) Other economic sectors (secondary and tertiary) depend upon natural resources (primary) (1).</p> <p>Up to 4 marks for why they might not:</p> <p>Other factors of production are equally / more important e.g. capital investment or education for skills (1). Through trade (1) a country can obtain from other countries the natural resources it lacks (1) It depends upon what countries specialise in (1) and whether they face trade restrictions (1) if they can import raw materials from other countries their growth will not be limited (1). Finding natural resources can take a long time (1) slowing down economic growth (1). There are many countries in the world with significant natural resources but poor economic growth rates / standard of living (1) and many countries with limited resources but high growth rates, such as Singapore (1).</p>	6	

Question	Answer	Mark	Guidance
2(a)	<p>Identify <u>two</u> influences on the strength of a trade union's collective bargaining power.</p> <ul style="list-style-type: none"> • size of membership • financial position • level of employment • government legislation • willingness to take industrial action 	2	If more than 3 answers given only consider the first three.
2(b)	<p>Explain the likely impact of trade unions on the welfare of their members.</p> <p>Increase or maintain wages of members (1) increase or maintain material standard of living (1).</p> <p>Improve or maintain working conditions (1) e.g. improved safety / less stress (1).</p> <p>Protect workers' rights (1) e.g. working hours / sick pay / paternity leave (1).</p> <p>Protect jobs (1) reduce risk of unemployment (1).</p> <p>Provide training (1) helping employees find better jobs / better paid jobs (1).</p>	4	
2(c)	<p>Analyse the impact of a reduction in government expenditure on healthcare on a country's unemployment rate.</p> <p>Less spending on healthcare may result in less employment of doctors and nurses (1) causing structural unemployment (1) but may mean less skilled (cheaper) doctors and nurses employed (1) leaving unemployment rate the same (1).</p> <p>Lower government spending is contractionary fiscal policy (1) this will reduce total (aggregate) demand (1) firms' output will fall (1) causing demand for labour to fall (1) as derived demand (1) causing cyclical unemployment (1).</p> <p>Quantity / quality of healthcare may decline (1) this may reduce labour productivity (1) international competitiveness (1) reducing demand for the country's products and labour (1).</p>	6	

Question	Answer	Mark	Guidance
2(d)	<p>Discuss whether or not a decrease in the number of doctors will reduce living standards.</p> <p>Up to 5 marks for why it might:</p> <p>If there are less doctors patients may receive worse quality healthcare (1) reducing life expectancy (1). The productive capacity of the economy could fall in the long run (1) as a result of life expectancy falling / more sick days as a result of a worse quality health service (1). Worse healthcare can decrease productivity (1) causing wages to fall (1). A shortage of doctors would cause their wages to rise (1) making health care less affordable / less available / poor patients can't afford it (1).</p> <p>Up to 5 marks for why it might not:</p> <p>Technological advancement (1) could mean the quality of healthcare is improving even though the number of doctors is falling (1) / increased expenditure on facilities / equipment (1) could offset the impact of fewer doctors (1) Access to healthcare is more important in determining living standards in the country (1) – there may be less doctors but if healthcare is now more affordable living standards on the whole may be rising (1). If population is increasing (1) less need for doctors / number of doctors per head may not change (1)</p>	8	

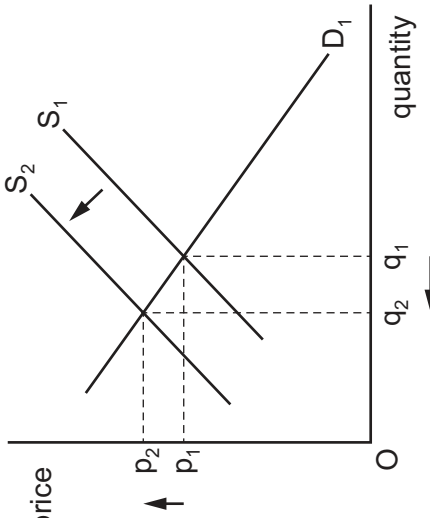
Question	Answer	Mark	Guidance
3(a)	<p>Define <i>import quota</i>.</p> <p>Limit (1) on quantity of good or service allowed in to a country / bought from abroad / imported (1).</p>	2	
3(b)	<p>Explain <u>two</u> advantages to a country of specialisation.</p> <p>Generates economies of scale (1) enabling a country to be more internationally price competitive (1) Improves productivity / efficiency (1) by producing what the country is best at (1) Increases GDP (1) by making better use of scarce resources (1) allowing country to export more (1) Increases purchasing power of consumers (1) who through trade can purchase goods and services from the most efficient producers (1)</p>	4	
3(c)	<p>Analyse the impact on an economy of the removal of import quotas imposed by other countries.</p> <p>Likely to increase exports (1) improving the current account of the balance of payments (1). Extra revenue earned could be spent on imports (1) increasing variety / choice (1). Allows country to specialise more (1) making better use of resources (1). Rising total (aggregate) demand (1) could increase the demand for labour (1) reducing unemployment (1) and causing economic growth (1). Higher demand could cause inflation (1) demand-pull (1) reducing purchasing power (1).</p>	6	

Question	Answer	Mark	Guidance
3(d)	<p>Discuss whether or not an increase in the role of the private sector will benefit an economy.</p> <p>Up to 5 marks for the benefits:</p> <p>The profit incentive (1) will result in countries taking advantage of specialisation (1), making better use of scarce resources (1) and in doing so increasing total output (1). May be an increase in competition (1) lowering price (1) raising quality (1). More efficient allocation of resources (1) lower production costs (1) the price mechanism means there are no shortages or surpluses (1) with high consumer sovereignty (1).</p> <p>Up to 5 marks for the drawbacks:</p> <p>Poverty could increase (1) as a result of rising inequality (1) and some individuals being unable to access the gains of the market economic system because they are out of work / on low incomes (1)</p> <p>Higher prices (1) private companies could exploit market power e.g. monopoly (1)</p> <p>Goods with external benefits (merit goods) e.g. healthcare may be under-provided (1) goods with external costs (demerit goods) may be over-provided e.g. tobacco.</p> <p>Market failure occurs (1) as externalities are not considered by the market mechanism (1) example (1)</p>	8	Accept, but do not expect, reference to public goods

Question	Answer	Mark	Guidance
4(a)	<p>Identify <u>two</u> functions of a central bank.</p> <ul style="list-style-type: none"> • Control money supply • Issue notes • Set interest rates • Maintain price stability / low inflation • Act as a lender of last resort / lend money to government / lends to commercial banks • Ensure stability of financial system • Manage foreign exchange reserves 	2	
4(b)	<p>Explain how the Consumer Prices Index (CPI) is calculated.</p> <p>A representative basket of most commonly purchased goods and services is constructed (1) the price of these goods and services is monitored over time (1) the goods and services are 'weighted' (1) according to the proportion of disposable income they account for (1) annual price changes are measured (1) and multiplied by weights (1) weighted price changes are measured against a base year (1).</p>	4	Up to 2 marks for correct numerical examples.
4(c)	<p>Analyse the impact of a cut in interest rates on saving and investment.</p> <p>Saving is expected to fall (1) as the return from saving falls (1), reducing opportunity cost of spending (1), causing individuals to spend more (1) and borrow more (1). Investment will rise (1) as it becomes cheaper for firms to borrow (1), reducing the cost of investment (1) and making investment more profitable (1).</p>	6	

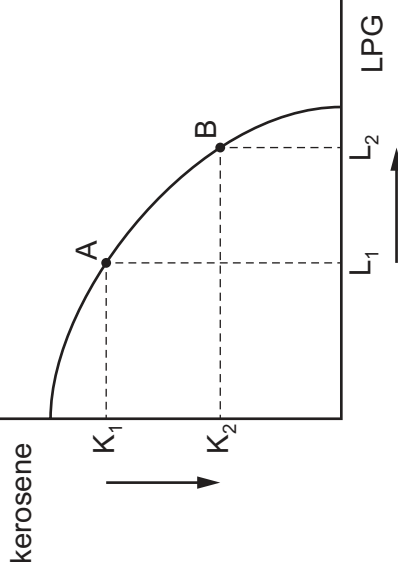
Question	Answer	Mark	Guidance
4(d)	<p>Discuss the impact of supply-side policy measures on government expenditure and on government revenue.</p> <p>Up to 5 marks for why it might increase government expenditure and decrease tax revenue:</p> <p>Policies such as subsidies may be expensive (1) if funded through borrowing government spending on interest payments will increase (1) gains from supply side policies take a long time to materialise (1) meaning in the short run there may be no increase in tax revenue (1).</p> <p>Cut in income tax (1) may decrease income tax revenue in short run (1).</p> <p>Cut in corporation tax (1) may decrease corporation tax revenue in short run (1).</p> <p>Privatisation in the long run may reduce government revenue (1) if privatised firms have been profitable (1)</p> <p>Up to 5 marks for why it might decrease government expenditure and increase tax revenue:</p> <p>Supply side policies will increase the productive capacity of the economy (1) which will enable long run growth to be achieved (1) and more tax revenue from sales of goods and services (1) and from higher income (1).</p> <p>Income tax receipts may increase in the long run if more people are working (1) and corporation tax receipts may increase if firms are making bigger profits (1).</p> <p>Spending on education and training (1) is likely to increase employment (1) reducing spending on welfare benefits (1) increasing income tax revenue (1).</p> <p>Deregulation may not alter government spending and tax revenue in the short run (1) but may increase tax revenue in the long run if efficiency increases (1).</p> <p>Privatisation in the short run may increase government revenue (1) from the sale of shares (1).</p>	8	

Question	Answer	Mark	Guidance
5(a)	<p>Define <i>progressive tax</i>.</p> <p>A tax that takes a higher percentage of income of the rich / lower percentage of income of the poor (2). Falls more heavily on the rich / imposes a higher burden on the rich (1). A tax which is used to reduce income inequality (1).</p>	2	
5(b)	<p>Explain <u>two</u> reasons why a government may want to reduce poverty.</p> <p>Reduce income inequality (1) raise living standards (1). To increase tax revenue (1) as average incomes / GDP will rise (1). To improve the country's HDI / develop the country (1). Reduce healthcare expenditure (1) as the poor will be fitter (1). Increase labour productivity (1) leading to more output / lower unemployment (1).</p>	4	

Question	Answer	Mark	Guidance
5(c)	<p>Analyse, using a supply and demand diagram, the effect of increasing a sales tax.</p> <p>Award up to 4 marks for a correct diagram:</p>  <ul style="list-style-type: none"> • Axes labels P and Q (1) • Supply and demand curves correctly labelled (1) • Supply curve shifting left (1) • Original and new equilibrium positions identified (1) <p>Award up to 2 marks for associated explanation:</p> <p>Increasing tax raises a firm's costs of production (1). A higher price (1) may be passed on to consumers (1).</p>	6	

Question	Answer	Mark	Guidance
5(d)	<p>Discuss whether a government should increase indirect taxes and whether it should reduce direct taxes.</p> <p>Up to 5 marks for why the government should do this:</p> <p>Incentives to work may increase (1) if low income then the extra income from work (1) could reduce poverty (1) if high income then the individuals could work harder (1) generating economic growth (1).</p> <p>Raising indirect taxes on goods with external costs (demerit goods) e.g. cigarettes (1) can help to reduce market failure (1) e.g. health of the country improves (1).</p> <p>Up to 5 marks for why the government shouldn't do this:</p> <p>Indirect taxes tend to be regressive (1) whilst direct taxes are progressive (1) so this will worsen inequality / poverty in a country (1).</p> <p>Both policies may lead to inflation (1) indirect tax increases push up prices of goods and services (1) direct tax cuts increase total (aggregate) demand (1).</p> <p>Individuals may save any cuts in direct tax (1) minimising the economic impact (1). It could cause individuals to spend more on imports (1) worsening the balance of payments (1).</p> <p>Tax take could fall (1) as indirect taxes can be avoided whereas direct taxes cannot (1).</p>	8	

Question	Answer	Mark	Guidance
6(a)	<p>Identify <u>two</u> features of a capital-intensive production process.</p> <p>Process which relies heavily on capital goods e.g. machines (1) does not use much labour (1) relies less on other factors of production e.g. land (1).</p>	2	
6(b)	<p>Explain how market failure might occur in the oil industry.</p> <p>Market failure is when there is an inefficient allocation of resources (1). There is over-consumption / over-production of oil (1) because the external costs (1) are ignored by the market mechanism (1), such as pollution / global warming / harm to the environment (1). There are cases of monopoly power (1) restricting output (1) pushing up price (1).</p>	4	

Question	Answer	Mark	Guidance
6(c)	<p>Analyse, using a production possibility curve (PPC) diagram, the effect of reallocating resources from kerosene to LPG.</p> <p>Award up to 4 marks for a correct diagram:</p>  <ul style="list-style-type: none"> • Axes labels LPG and kerosene (1) • Curve / downward sloping line drawn to axes (1) • Two production points illustrating increased production of LPG (1) • New production point indicated (1) <p>Award up to 2 marks for associated explanation:</p> <p>Reallocating resources will involve a movement along the PPC (1) this will involve an opportunity cost (1).</p>	6	Accept points on the curve with arrow from A to B.

Question	Answer	Mark	Guidance
6(d)	<p>Discuss whether or not removing a firm's monopoly power will benefit consumers.</p> <p>Up to 5 marks for why it might:</p> <p>More choice for consumers (1) improved competition (1) will causes prices to fall (1) which will increase consumers' real disposable income (1). The monopoly may be experiencing diseconomies of scale (1) with high (average) costs of production (1) Quality is likely to improve (1) as firms will innovate in order to win customers (1). Competition will force firms to be more efficient in order to survive (1). They will look to reduce costs in order to remain competitive (1) and will invest in research and development to maintain market share (1).</p> <p>Up to 5 marks for why it might not:</p> <p>A monopoly firm can take advantage of economies of scale (1) reducing (average) costs of production (1) example (1) the removal of monopoly power may increase prices for consumers, reducing their welfare (1) Consumers may rely upon the reputation of a monopoly (1) for quality / customer service (1) too much choice can lead to confusion / inconvenience for consumers (1). The firm may be state owned (1) may take into account the full social costs and benefits (1) may have charged low prices (1) to make products affordable (1).</p>	8	

Question	Answer	Mark	Guidance
7(a)	<p>Define recession.</p> <p>A fall in GDP / negative economic growth (1) for two successive quarters / 6 months or more (1)</p>	2	
7(b)	<p>Explain why a recession is likely to reduce consumer spending.</p> <p>Rise in unemployment (1) reduced income (1) reduced ability to spend (1). Consumers save more (1) for fear of future / increased pessimism (1). Likely to be associated with lower prices (1) consumers delay purchases (1).</p>	4	
7(c)	<p>Analyse the consequences of rising unemployment on a government's spending and tax revenue.</p> <p>Pressure on the government budget will increase (1) as tax revenue will fall (1) from both direct (income) taxes (1) and indirect (spending) taxes (1). Expenditure on unemployment benefits will increase (1) spending in other areas will increase (1) e.g. healthcare (1) higher spending on benefits involves an opportunity cost (1) e.g. education (1). A government may increase spending and reduce taxes to increase total demand (1) to reduce cyclical unemployment (1). Taxes may have to rise (1) creating a disincentive to work and enterprise (1).</p>	6	

Question	Answer	Mark	Guidance
7(d)	<p>Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession.</p> <p>Up to 5 marks for why it might:</p> <p>Depreciation means foreign consumers have to exchange less units of their currency for one unit of domestic currency (1), making exports cheaper (1) raising export demand (1) and imports more expensive (1) reducing demand for imports (1) as domestic consumers will find domestic goods and services relatively cheaper (1). Firms have more domestic and foreign demand (1) and will increase output to meet this demand (1) preventing a recession (1). Net exports will increase (1) increasing aggregate demand (1).</p> <p>Up to 5 marks for why it might not:</p> <p>Demand for imports may be inelastic (1) and a depreciation will not have a great effect (1). Demand for exports may be inelastic (1) so export demand will not boost output (1). If there is a recession in main export markets then demand for exports may still fall (1) even if they are now relatively cheaper (1). It may cause cost-push inflation (1) as domestic firms have to pay more for imported inputs (1). Depreciation may worsen investor confidence (1) reducing investment and causing a recession (1).</p>	8	



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS

Paper 1 Multiple Choice

0455/11

May/June 2018

45 minutes

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)



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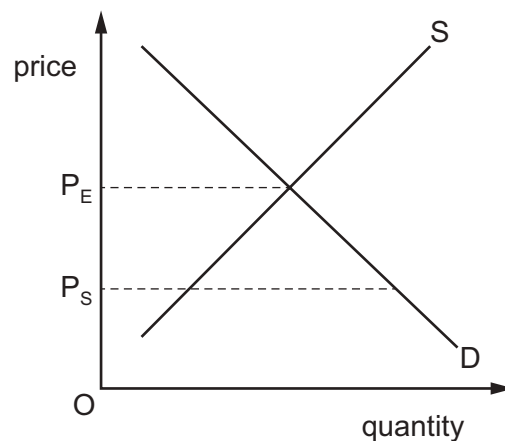


- 1 The Norwegian government chose to spend the profits from oil on stocks, bonds and property. The possibility of improving domestic infrastructure, therefore, was not taken.

Which economic concept does this best illustrate?

- A cost of production
 - B finite resources
 - C opportunity cost
 - D production possibility frontier
- 2 What would be classified by an economist as the factor of production known as land?
- A a discovery of oil in the South China sea
 - B an oil rig bought by an oil company
 - C money held by the oil companies in their bank accounts
 - D the productivity of oil workers
- 3 What is the cause of the economic problem facing all countries?
- A climate change and global warming
 - B significant quantities of unemployed resources
 - C uneven distribution of income and wealth
 - D unlimited wants in relation to limited resources
- 4 Which activity takes place in the tertiary sector?
- A assembling computers
 - B giving legal advice
 - C harvesting grain
 - D making bread

- 5 In the diagram, suppliers have set the price of a product at P_S . Economic theory predicts that the equilibrium price of the product will rise to P_E .



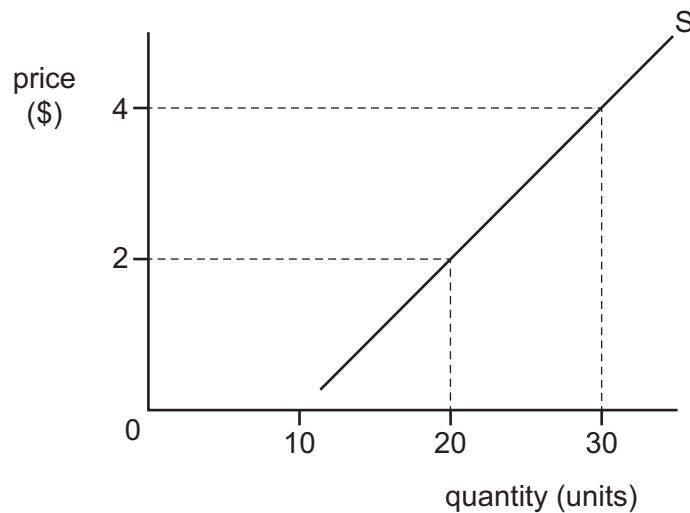
What is the reason for this movement in price?

- A Demand for the product will increase.
 - B No more of the product can be supplied.
 - C Some consumers are willing to pay higher prices.
 - D Suppliers are facing rising costs.
- 6 A government approved the construction of a new railway line connecting major cities. It would be built by a private company but be funded partly through taxation. It would create many jobs. People living on the route worried about the harm to their environment.

Which concepts are directly involved in this statement?

- A excess demand and public corporation
- B government subsidies and perfect competition
- C market system and income distribution
- D private benefit and external cost

- 7 The diagram shows the supply curve for a good.



What is the price elasticity of supply when the price rises from \$2 to \$4?

- A** 0.2 **B** 0.5 **C** 1 **D** 2
- 8 What is a function of a central bank?
- A** accepting deposits from the public
B determining tax rates
C implementing monetary policy
D lending to businesses
- 9 What is likely to lead to an increase in the wages of university lecturers?
- A** an increase in the fringe benefits provided to university lecturers
B an increase in the tuition fees paid by university students
C government policies reducing the length of the training for university lecturers
D increased demand from students to study at university
- 10 When is a trade union likely to have more power to increase its members' wages?
- A** when imports are increasing
B when labour supply is increasing
C when output is increasing
D when unemployment is increasing

- 11** The table shows the percentage (%) of income saved by different age groups.

age (years)	15–29	30–39	40–49	50–64	65+
% of income saved	–30	–5	+15	+30	–10

What can be concluded from the table?

- A** Over the age range shown total savings equalled total dissavings.
- B** The 15–29 age group has the lowest level of income.
- C** The 50–64 age group saves the highest percentage of its income.
- D** The 65+ age group has a lower income than the 30–39 age group.
- 12** Which characteristic can exist both in monopoly and in perfect competition?
- A** freedom of entry
- B** many buyers
- C** many sellers
- D** perfectly elastic demand curve
- 13** An industry is experiencing diseconomies of scale.

What will be happening to long run average cost and total cost?

	long run average cost	total cost
A	decreasing	decreasing
B	decreasing	increasing
C	increasing	decreasing
D	increasing	increasing

- 14** A firm that sells its product for \$6 a unit has the following total costs.

output (units)	0	10	20	30
total costs (\$)	40	100	120	150

Which statement is correct?

- A** Average cost is lowest when 10 units are produced.
 - B** The firm does not make any profit when 20 units are sold.
 - C** The firm has no fixed costs.
 - D** Total variable costs fall continuously over these outputs.
- 15** Which statement about fixed costs is correct?
- A** They exist only in the long run.
 - B** They include raw material and direct labour costs.
 - C** They increase at the same rate as output.
 - D** They must be paid even if there is no output.
- 16** What would a government reduce as part of an expansionary monetary policy to increase employment?
- A** government spending
 - B** the money supply
 - C** the rate of interest
 - D** unemployment benefit
- 17** What is an aim of government policy?
- A** income tax
 - B** interest rates
 - C** stable prices
 - D** unemployment

- 18 The table shows the amount of tax to be paid at different weekly incomes.

weekly income (\$)	100	150	200	250
weekly tax (\$)	20	30	36	40

Which statement describes the system of income tax as income rises over this range?

- A It is progressive throughout.
 - B It is proportional then becomes progressive.
 - C It is proportional then becomes regressive.
 - D It is regressive throughout.
- 19 Which situation involving the building industry is **most** likely to be investigated by a government body set up to control restrictive practices?
- A a builder purchasing a plot of land for development of housing
 - B groups of suppliers of building materials agreeing to fix prices
 - C several builders bidding for the same contracts
 - D several builders using different sources of supply
- 20 An economy is experiencing two consecutive quarters of negative economic growth.
- What is this economy experiencing?
- A budget deficit
 - B inflation
 - C recession
 - D trade deficit
- 21 What is included in the calculation of a consumer prices index (CPI)?
- A the price of a basket of goods and services
 - B the price of exports and the price of imports
 - C the value of the currency on international markets
 - D the wages of consumers

- 22** There was a fall in investment spending by businesses in the third quarter of 2015.

What would be the likely result of this?

- A** an increase in economic growth
- B** an increase in exports
- C** an increase in incomes
- D** an increase in unemployment

- 23** The table shows units of output, value of output and number of people employed in an industry over three years.

	output (units, millions)	output value (\$ millions)	number employed (000)
year 1	10	10	5
year 2	21	25	7
year 3	32	40	8

What can be concluded from the table?

- A** Inflation has increased.
- B** Productivity has increased.
- C** Profit has increased.
- D** Working population has increased.

- 24** What is found in a typical developed country?

- A** fast rate of economic growth
- B** high population growth
- C** limited use of technology
- D** significant tertiary employment

- 25** Which characteristic will show that a country has significant absolute poverty?

- A** A majority of the population will have less than average income.
- B** Basic living needs are not being met.
- C** Most people do not have mobile phones.
- D** There is a high number of people living in rural areas.

- 26** The government of a developing country allows a multinational mining company to mine minerals in order to improve the standard of living of the local people.

Which action by the multinational company (MNC) will **not** lead to an improvement in the standard of living of the local people?

- A** building roads to assist transport
- B** exporting mineral ore
- C** providing skills training
- D** returning profits overseas

- 27** A country has decided that it wants to increase free trade with its trading partners.

Which measure would help it achieve this objective?

- A** a higher quota on imported cars
- B** a subsidy to domestic car producers
- C** an embargo on cars produced in other countries
- D** higher tariffs on imported goods

- 28** In 2012 the UK held the Olympic Games, which attracted a large number of visitors from foreign countries.

Which item of the UK's current account balance will have benefited directly from this event?

- A** export trade in goods
- B** export trade in services
- C** import trade in goods
- D** import trade in services

- 29** The Mexican currency (the peso) has fallen in value against the US dollar.

What will be the effect of this on the Mexican economy?

- A** a decrease in tariffs on imports
- B** a decrease in the price of exports
- C** a decrease in the price of imports
- D** a decrease in the volume of exports

30 The table shows the rice yield in four countries.

country	rice yield (kilos per hectare)
Japan	64
China	53
Bangladesh	20
Thailand	20

What may be concluded from this information?

- A** Bangladesh and Thailand produce the same amount of rice.
- B** Japan produces more than three times as much rice as Bangladesh.
- C** Japan produces the largest amount of rice per hectare.
- D** Japan produces the largest amount of rice per person employed.

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Cambridge International General Certificate of Secondary Education

ECONOMICS

Paper 1 Multiple Choice

0455/12

May/June 2018

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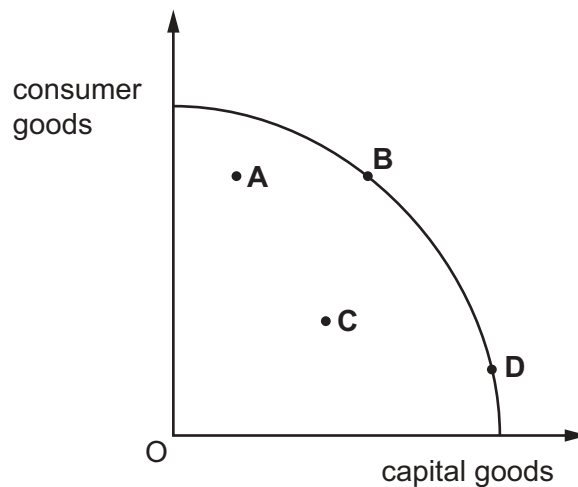


- 1 In economics, natural sunlight is classified as a free good.

What is the reason for this?

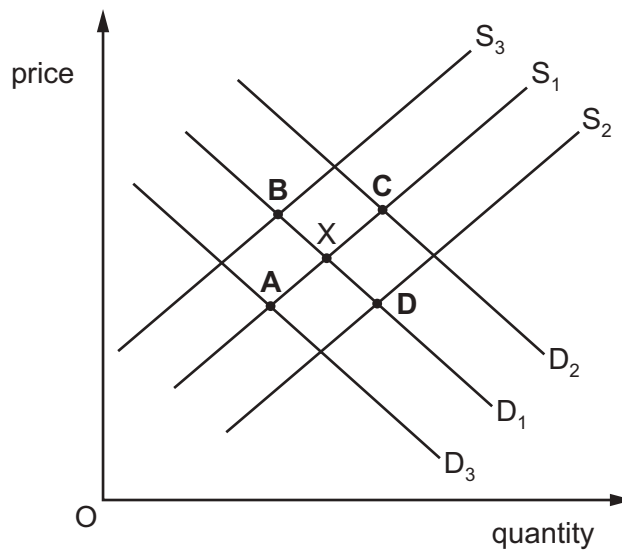
- A Sunlight is a gift of nature.
 - B Sunlight is a renewable resource.
 - C There is no opportunity cost of using sunlight.
 - D Unlimited amounts of sunlight can be consumed.
- 2 What would be classified as the factor of production capital for an airline?
- A the aircraft operated by the airline
 - B the money the airline keeps in the bank
 - C the pilots the airline uses
 - D the shares of the airline quoted on the stock market
- 3 The diagram shows a production possibility curve (PPC).

Which position is **most** likely to lead to the greatest outward shift of the PPC?



- 4 What is a major advantage of a market economic system over a mixed economic system?
- A All production of goods and services is determined by consumer demand.
 - B Ownership of resources is divided between private and public sectors.
 - C Producers include any external costs they create in the price of the good.
 - D There will always be an even distribution of income and wealth.

- 5 The diagram shows the market for beef in the US with the original equilibrium at X. What will be the new equilibrium position if incomes in the US rise?



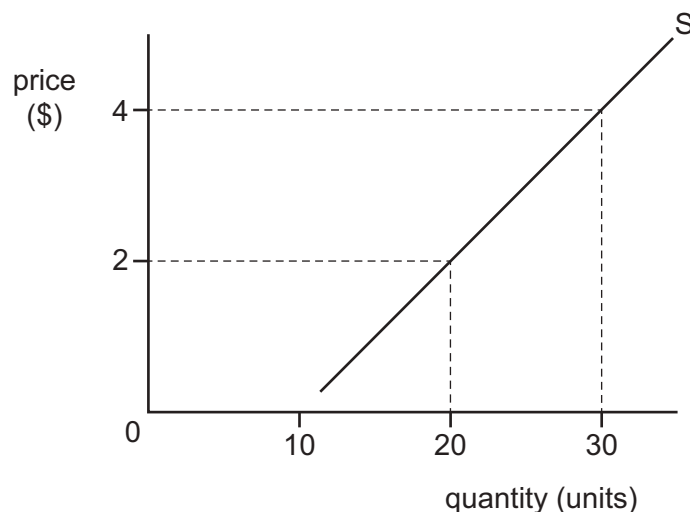
- 6 The table shows government estimates of the private and external benefits and costs of building a new dam.

	\$ million
private benefits	250
external benefits	325
private costs	200
external costs	150

What is the difference between the social benefits and social costs of building the dam?

- A** \$25 million **B** \$50 million **C** \$175 million **D** \$225 million

- 7 The diagram shows the supply curve for a good.



What is the price elasticity of supply when the price rises from \$2 to \$4?

- A** 0.2 **B** 0.5 **C** 1 **D** 2
- 8 What does a commercial bank **not** provide?
- A** cash
B bonds
C loans
D mortgages
- 9 What will be likely to increase the wages of airline pilots?
- A** Incomes increase in the world's major economies.
B Terrorist attacks decrease tourist travel.
C The cost of aviation fuel rises.
D The world economy goes into recession.
- 10 What is **most** likely to help a trade union's claim for wage increases in an industry?
- A** a decrease in the price of a close substitute for the product
B a decrease in the qualifications needed for the job
C an increase in the number of workers
D an increase in the profits of the industry

- 11 The table shows some information for a computer engineer in 2015.

	\$
salary	40 000
fees earned from consultancy	15 000
credit card repayment	5 000

Income tax is fixed at 20%. The engineer saved 10% of the disposable income.

How much was saved?

- A** \$3200 **B** \$4000 **C** \$4400 **D** \$5500
- 12 What is a characteristic of a perfectly competitive firm?
- A** absence of competitors
B non-price competition
C one dominant firm
D price taker
- 13 What is a possible cause of diseconomies of scale?
- A** an increase in extra administration
B an increase in raw materials costs
C an increase in taxation on company profits
D an increase in the national minimum wage
- 14 A firm that sells its product for \$6 a unit has the following total costs.

output (units)	0	10	20	30
total costs (\$)	40	100	120	150

Which statement is correct?

- A** Average cost is lowest when 10 units are produced.
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- C** They increase at the same rate as output.
- D** They must be paid even if there is no output.

16 Which is a supply-side policy?

- A** increasing interest rates
- B** increasing taxation
- C** providing training courses
- D** selling government bonds

17 What is an aim of government policy?

- A** income tax
- B** interest rates
- C** stable prices
- D** unemployment

18 A government has the following revenue.

	revenue (\$ m)
corporation profits tax	20
inheritance tax	30
duty on imports	40
income tax	50
sales tax (VAT)	200

What is the total amount of indirect tax revenue?

- A** \$140 m
- B** \$200 m
- C** \$240 m
- D** \$270 m

19 Which situation involving the building industry is **most** likely to be investigated by a government body set up to control restrictive practices?

- A** a builder purchasing a plot of land for development of housing
- B** groups of suppliers of building materials agreeing to fix prices
- C** several builders bidding for the same contracts
- D** several builders using different sources of supply

20 The table shows the change in Gross Domestic Product (GDP) of four countries.

Which country has experienced a recession?

	quarterly percentage change in GDP			
	Q1 %	Q2 %	Q3 %	Q4 %
A	−6.0	1.0	−2.0	1.0
B	0.0	−1.0	0.0	−0.1
C	0.1	0.1	0.1	−3.0
D	1.0	1.0	−0.5	−0.5

21 What determines the weights in the consumer prices index (CPI)?

- A** the average income received by the various households
- B** the average increase in the prices of the different goods
- C** the proportion of income spent by the average household on particular goods
- D** the proportion of income that the average household saves

22 There was a fall in investment spending by businesses in the third quarter of 2015.

What would be the likely result of this?

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- C** an increase in incomes
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year 3	32	40	8

What can be concluded from the table?

- A** Inflation has increased.
 - B** Productivity has increased.
 - C** Profit has increased.
 - D** Working population has increased.
- 24** Which feature is found in a developed country rather than a developing country?
- A** high levels of rural to urban migration
 - B** highly organised international financial markets
 - C** low proportion of workforce in service industries
 - D** low school-leaving age
- 25** Over two-thirds of the world's poorest people live in rural areas. They are mainly involved in subsistence agriculture.

What explains why poverty remains at a high level for subsistence farming families?

- A** a lack of finance to buy machinery to improve productivity
- B** low international prices for food due to overproduction
- C** the size of families is too small to work the land
- D** women are discouraged from doing agricultural work

- 26** The government of a developing country allows a multinational mining company to mine minerals in order to improve the standard of living of the local people.

Which action by the multinational company (MNC) will **not** lead to an improvement in the standard of living of the local people?

- A** building roads to assist transport
- B** exporting mineral ore
- C** providing skills training
- D** returning profits overseas

- 27** A country wishes to follow a policy of trade protection.

Which action would it take?

- A** increase the level of import quotas
- B** reduce import tariffs
- C** remove exchange controls
- D** subsidise export producers

- 28** In 2012 the UK held the Olympic Games, which attracted a large number of visitors from foreign countries.

Which item of the UK's current account balance will have benefited directly from this event?

- A** export trade in goods
- B** export trade in services
- C** import trade in goods
- D** import trade in services

- 29** In 2015, the value of the South African currency (the rand) depreciated against the US dollar.

What effect did this have on the US economy?

- A** Exports to South Africa became more expensive.
- B** The current account deficit of the US decreased.
- C** The US experienced higher levels of inflation.
- D** Unemployment in the US decreased.

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Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS

Paper 1 Multiple Choice

0455/13

May/June 2018

45 minutes

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)



READ THESE INSTRUCTIONS FIRST

Write in soft pencil.

Do not use staples, paper clips, glue or correction fluid.

Write your name, Centre number and candidate number on the Answer Sheet in the spaces provided unless this has been done for you.

DO NOT WRITE IN ANY BARCODES.

There are **thirty** questions on this paper. Answer **all** questions. For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice in **soft pencil** on the separate Answer Sheet.

Read the instructions on the Answer Sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

Any rough working should be done in this booklet.

This document consists of **10** printed pages and **2** blank pages.



- 1 The introduction of robots has meant that many firms now require fewer workers to produce their goods and services.

According to this statement, which factor of production is replacing workers?

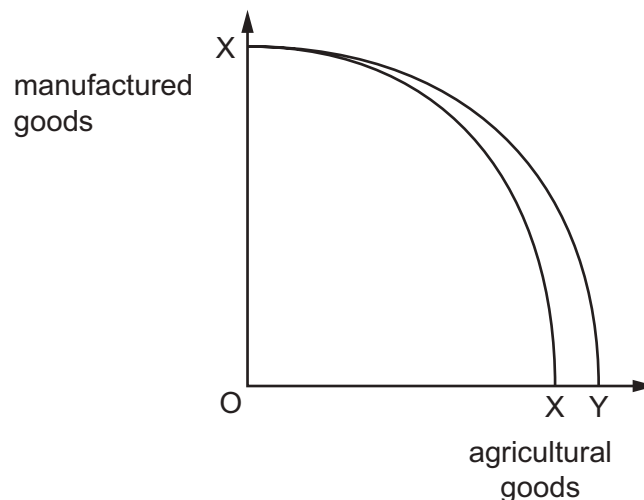
- A capital
- B enterprise
- C labour
- D land

- 2 Economics textbooks identify the existence of scarcity as the basic economic problem.

What is it that makes scarcity a problem?

- A It can cause inflation and unemployment.
- B It is impossible to satisfy unlimited wants.
- C It is the first priority of governments.
- D It only affects the richest countries.

- 3 The diagram shows a country's original production possibility curve XX.



What could cause the country's production possibility curve to move from XX to XY?

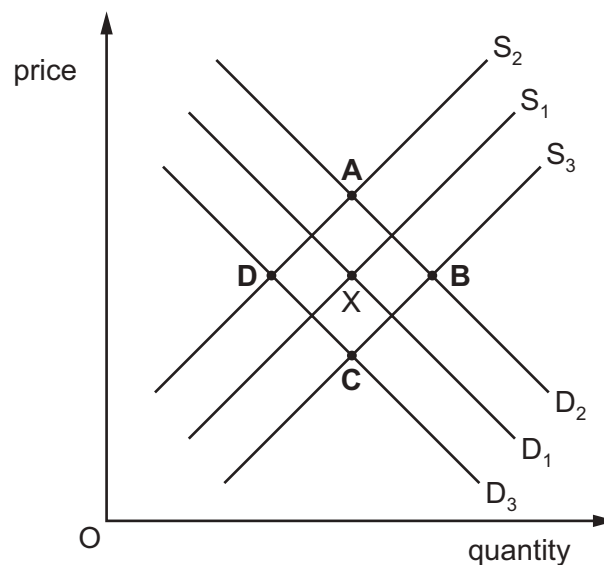
- A a decrease in the price of manufactured goods
- B a major war
- C an improvement in fertilisers
- D an increase in the employment rate

4 What is a benefit of the free market system?

- A Innovation is encouraged to increase profits.
- C Negative externalities can be controlled.
- B Subsidies can be used to encourage exports.
- D The distribution of goods and services is fair.

5 The diagram shows the demand curve D_1 and supply curve S_1 for healthcare in an economy. The original equilibrium is X.

What will be the new equilibrium if the economy experiences sustained economic growth and the government reduces planning controls on the building of new hospitals?

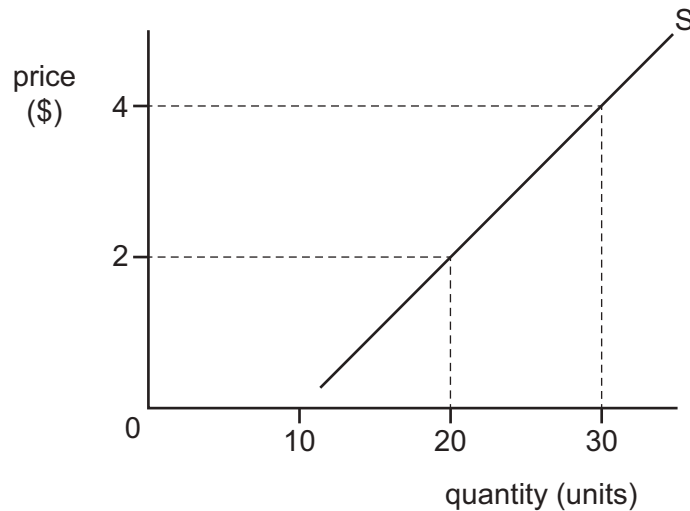


6 A private firm is one of a few suppliers of electricity in an economy. It is fined by the government for pollution from its coal-fired power stations which affect the health of those living nearby.

What does this situation involve?

- A a government policy of nationalising an electricity supplier
- B a market structure for electricity that is perfect competition
- C a monopoly electricity supplier that ignores government controls
- D external costs that are the result of electricity production

- 7 The diagram shows the supply curve for a good.



What is the price elasticity of supply when the price rises from \$2 to \$4?

- A** 0.2 **B** 0.5 **C** 1 **D** 2
- 8 What is **not** a function of a central bank?
- A** It is the lender of last resort to financial institutions.
B It is the sole issuer of notes and coins.
C It lends to individual firms and consumers.
D It manages the national debt for the government.
- 9 Which change will make a manufacturing company replace labour with capital to maintain the most efficient combination of factors of production?
- A** The price of machinery has increased.
B The productivity of labour has increased.
C The productivity of machinery has increased.
D The supply of labour has increased.
- 10 What is the most likely reason a firm might welcome the introduction of a trade union for its workers?
- A** Unions advise on the level of company dividends.
B Unions press for higher minimum wage rates.
C Unions simplify the process of wage bargaining.
D Unions wish to operate labour-intensive production methods.

11 What is **least** likely to lead to an increase in consumer spending on a new car?

- A a decrease in the cost of car repairs
- B a decrease in the price of petrol
- C a decrease in the rate of interest
- D a decrease in train fares

12 What is a characteristic of perfect competition?

- A Firms sell an identical product.
- B New firms cannot enter the market.
- C The market is controlled by one firm.
- D There is a high degree of market concentration.

13 A television manufacturer claims to have the most technically advanced production in the industry.

What is this **most** likely to mean when compared with its rival producers?

- A It has a greater share of the television market.
- B It is a more diversified company.
- C It is less likely to be disrupted by strike action.
- D It needs a more highly skilled workforce.

14 A firm that sells its product for \$6 a unit has the following total costs.

output (units)	0	10	20	30
total costs (\$)	40	100	120	150

Which statement is correct?

- A Average cost is lowest when 10 units are produced.
- B The firm does not make any profit when 20 units are sold.
- C The firm has no fixed costs.
- D Total variable costs fall continuously over these outputs.

15 Which statement about fixed costs is correct?

- A** They exist only in the long run.
- B** They include raw material and direct labour costs.
- C** They increase at the same rate as output.
- D** They must be paid even if there is no output.

16 In many countries the government provides financial help to firms who wish to produce electricity using wind turbines.

Which kind of policy measure is this?

- A** deregulation
- B** maximum price
- C** subsidy
- D** taxation

17 What is an aim of government policy?

- A** income tax
- B** interest rates
- C** stable prices
- D** unemployment

18 A government seeks to redistribute income from the rich to the poor.

Which combination of policy measures is most likely to achieve this aim?

	income tax	sales tax	state benefit
A	decrease	decrease	decrease
B	decrease	increase	increase
C	increase	decrease	increase
D	increase	increase	decrease

- 19** Which situation involving the building industry is **most** likely to be investigated by a government body set up to control restrictive practices?
- A** a builder purchasing a plot of land for development of housing
 - B** groups of suppliers of building materials agreeing to fix prices
 - C** several builders bidding for the same contracts
 - D** several builders using different sources of supply
- 20** What is a likely consequence of economic growth?
- A** decreased levels of employment
 - B** decreased levels of exports
 - C** decreased levels of output
 - D** decreased levels of poverty
- 21** A basket of goods is used to calculate a country's rate of inflation.
What is included in the basket of goods?
- A** a representative sample of current household spending
 - B** all goods bought in the country
 - C** the spending on an unchanging group of necessities
 - D** the 50 most popular items of household spending
- 22** There was a fall in investment spending by businesses in the third quarter of 2015.
What would be the likely result of this?
- A** an increase in economic growth
 - B** an increase in exports
 - C** an increase in incomes
 - D** an increase in unemployment

- 23 The table shows units of output, value of output and number of people employed in an industry over three years.

	output (units, millions)	output value (\$ millions)	number employed (000)
year 1	10	10	5
year 2	21	25	7
year 3	32	40	8

What can be concluded from the table?

- A Inflation has increased.
 - B Productivity has increased.
 - C Profit has increased.
 - D Working population has increased.
- 24 Provision of services in rural districts of developing countries tends to occur later than those in urban areas.

For which service would this **not** be correct?

- A medical research units
 - B mobile phone networks
 - C modern transport systems
 - D university teaching departments
- 25 The table shows a country's past and predicted age structure, as a percentage (%), from 2000 to 2150. The working age range is 15–64.

age	2000 %	2050 %	2100 %	2150 %
65 and over	7	14	25	28
15–64	63	68	60	56
14 and under	30	18	15	16

Which statement describes the behaviour of the dependency ratio over the period?

- A It falls and then rises.
- B It falls continuously.
- C It rises and then falls.
- D It rises continuously.

- 26** The government of a developing country allows a multinational mining company to mine minerals in order to improve the standard of living of the local people.

Which action by the multinational company (MNC) will **not** lead to an improvement in the standard of living of the local people?

- A** building roads to assist transport
- B** exporting mineral ore
- C** providing skills training
- D** returning profits overseas

- 27** What would have the most severe restriction on the volume of international trade in steel?

- A** an embargo
- B** a licence system
- C** a quota
- D** a tariff

- 28** In 2012 the UK held the Olympic Games, which attracted a large number of visitors from foreign countries.

Which item of the UK's current account balance will have benefited directly from this event?

- A** export trade in goods
- B** export trade in services
- C** import trade in goods
- D** import trade in services

29 The table refers to a country's balance of payments on current account.

	\$bn
goods exports	100
goods imports	125
services exports	60
services imports	50
income and transfers balance	+10

What can be concluded from the table?

- A** a current account deficit of \$5bn
- B** a current account surplus of \$5bn
- C** a goods and services deficit of \$35bn
- D** a goods and services surplus of \$15bn

30 The table shows the rice yield in four countries.

country	rice yield (kilos per hectare)
Japan	64
China	53
Bangladesh	20
Thailand	20

What may be concluded from this information?

- A** Bangladesh and Thailand produce the same amount of rice.
- B** Japan produces more than three times as much rice as Bangladesh.
- C** Japan produces the largest amount of rice per hectare.
- D** Japan produces the largest amount of rice per person employed.

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ECONOMICS

Paper 2 Structured Questions

0455/21

May/June 2018

2 hours 15 minutes

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Section A

Answer Question 1.

Section B

Answer any **three** questions.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **5** printed pages, **3** blank pages and **1** Insert.



Section A

Answer this question.

1 Banking and unemployment in Morocco

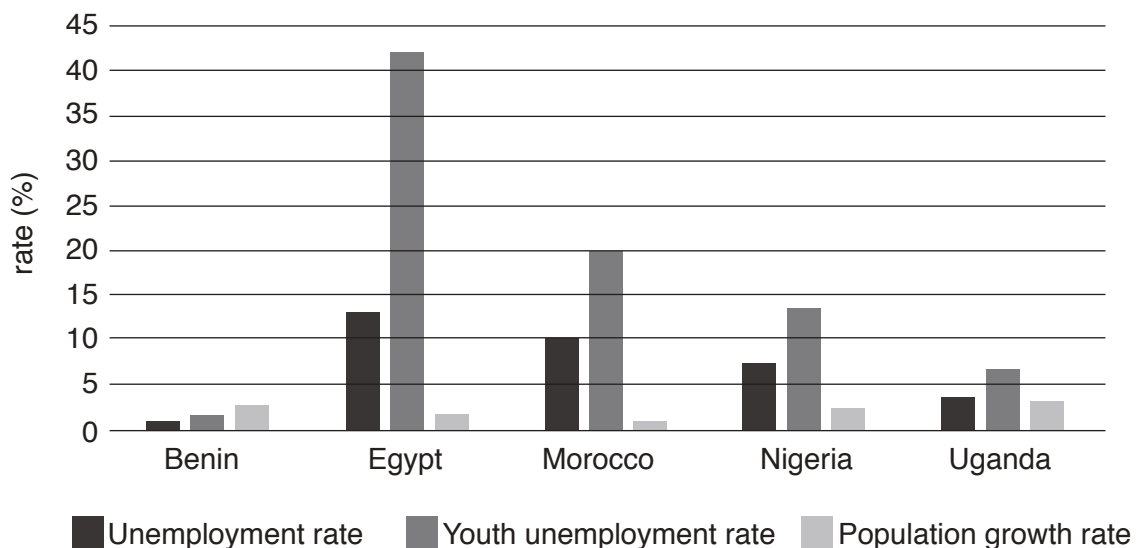
Morocco's banking industry has been described as one of the best in Africa. It has some of Africa's largest commercial banks, but three out of nineteen control more than two-thirds of the market. These three have grown mostly through mergers and it is expected more mergers will occur between Moroccan banks in the future.

The banks make use of brand names, set their own interest rates on loans and provide some different services. The larger banks tend to lend to large firms. Small and medium sized firms find it more difficult to get loans.

More than 60% of the population now make use of the services of commercial banks. The proportion of families opening savings accounts at commercial banks is increasing.

Moroccan banks now have branches in 22 African countries as well as a number of European countries. They are also expanding in Morocco, creating more jobs. Morocco has a relatively high unemployment rate. Fig. 1 shows the unemployment rate in 2015 in a range of African countries including Benin, a relatively poor country. Benin has a large labour-intensive, subsistence farming sector. Fig. 1 also shows youth unemployment and population growth. Unemployment rates vary between different groups. Youth unemployment is often twice the rate of the overall unemployment rate.

Fig. 1 The unemployment rate, youth unemployment rate and population growth rate in selected African countries in 2015



In Morocco, the population is increasing at a faster rate than new jobs are being created. The rising unemployment rate is affecting wage rates in the country. As with unemployment, wage rates vary between different groups. Older workers, for example, tend to be paid more than younger workers.

- (a) Identify, using information from the extract, **two** functions of a commercial bank. [2]
- (b) Explain, using information from the extract, **two** reasons why the banking market in Morocco is **not** an example of perfect competition. [4]
- (c) Analyse why a commercial bank may prefer to sell its services in foreign countries rather than in its home country. [5]
- (d) Analyse whether the information in Fig. 1 supports the view that:
- (i) countries with high population growth rates have a high unemployment rate [2]
 - (ii) the youth unemployment rate is usually twice that of the overall unemployment rate. [2]
- (e) Discuss whether or not older workers are always paid more than younger workers. [5]
- (f) Explain, using information from the extract, **one** reason why a relatively poor country may have a low unemployment rate. [4]
- (g) Discuss whether or not commercial banks in Morocco would benefit from further mergers. [6]

Section B

Answer any **three** questions in this section.

- 2 In England football stadiums are usually built and financed by the private sector, but in some countries the stadiums are built and financed by the government. Many football stadiums in the English Premier League are full on match days. In the short run the supply of seats is perfectly inelastic. The football clubs could actually raise prices, still sell their tickets and so raise their profits. Premier League footballers currently receive very high wages.
- (a) Define *perfectly inelastic supply*. [2]
 - (b) Explain **two** reasons why a firm may **not** aim to earn maximum profit. [4]
 - (c) Analyse why Premier League footballers receive very high wages. [6]
 - (d) Discuss whether or not a government should spend some of its tax revenue on building sports stadiums. [8]
- 3 In 2014, the government of Kazakhstan devalued its currency, the tenge. A year later the country still had a current account deficit. Therefore, in 2016 it considered adopting a floating exchange rate which might help to remove the deficit. However, it had concerns that this might affect the country's inflation rate which was already high at 17%.
- (a) Define *devaluation*. [2]
 - (b) Explain **two** advantages of a floating exchange rate. [4]
 - (c) Analyse how fiscal policy measures could reduce inflation. [6]
 - (d) Discuss whether or not a reduction in a current account deficit on the balance of payments will benefit an economy. [8]
- 4 In 2015, the Tripartite Free Trade Area (TFTA) was established. It covers 26 countries and is the biggest free trade area in Africa. Removing trade restrictions can enable economies to take greater advantage of economies of scale. Some economists argue that improving Africa's roads would be more beneficial and would do more to reduce a current account deficit on the balance of payments and raise living standards.
- (a) Define *economies of scale*. [2]
 - (b) Explain **two** benefits consumers may gain from free trade. [4]
 - (c) Analyse how reducing transport costs could increase a country's exports and imports. [6]
 - (d) Discuss whether or not raising living standards is the most important economic objective for developing countries. [8]

- 5 The government of Slovenia has introduced a range of supply-side policy measures to influence the country's inflation rate. Among other factors affecting the economy is a change in trade union membership and strength.
- (a) Identify **two** price indices. [2]
 - (b) Explain **two** supply-side policy measures. [4]
 - (c) Analyse why a government may want to reduce its country's inflation rate. [6]
 - (d) Discuss whether or not increasing the strength of trade unions will benefit an economy. [8]
- 6 More than 80% of Qatar's population are immigrants. Net immigration has helped to meet the country's demand for labour. As well as a shortage of workers, the country has a shortage of drinking water. The government has run public campaigns to stop people using their free supply of drinking water to fill their swimming pools and water their gardens. In 2016, the government increased its spending to increase the country's economic growth rate.
- (a) Define *net immigration*. [2]
 - (b) Explain how market forces would respond to a shortage of drinking water. [4]
 - (c) Analyse what determines the demand for labour. [6]
 - (d) Discuss whether or not increased government spending will increase economic growth. [8]
- 7 More governments are imposing taxes on unhealthy food and drinks. Such taxes are usually regressive. Some of these governments are also increasing their spending on healthcare. In other countries healthcare is provided by the private sector. The number of state-owned enterprises is declining in a number of countries due to privatisation.
- (a) Define *regressive tax*. [2]
 - (b) Explain why the social benefit of healthcare is greater than the private benefit. [4]
 - (c) Analyse why a government imposes taxes. [6]
 - (d) Discuss whether or not consumers are likely to benefit from state-owned enterprises becoming private sector firms. [8]

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ECONOMICS

0455/22

Paper 2 Structured Questions

May/June 2018

2 hours 15 minutes

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Section A

Answer Question 1.

Section B

Answer any **three** questions.

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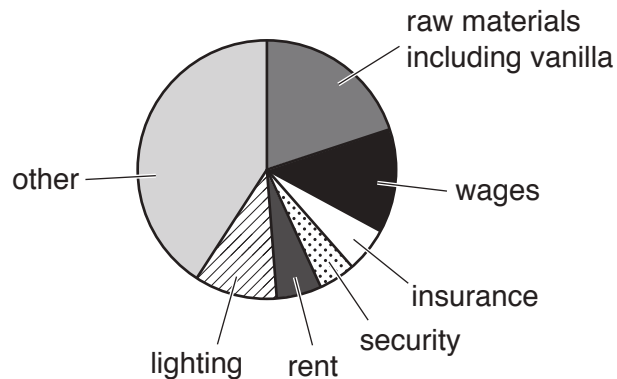
Section A

Answer this question.

1 Crisis in the ice cream market

Vanilla is used in the production of soft drinks, cakes and perfumes. Its main use, however, is in the production of ice cream. Fig. 1 shows the different costs of making ice cream for one firm.

Fig. 1 The costs of producing ice cream for one firm



Madagascar is the world's largest supplier of vanilla followed by Mexico and Tahiti. At the start of 2016, economists expected the price of ice cream to increase as the price of vanilla had risen by 130% in 2015. This was largely because of the poor harvests in Madagascar which reduced the output of vanilla in 2015.

Ice cream is seen as a luxury product in most countries. It has a range of substitutes and this is one reason why producers do not always pass on higher costs to consumers. In 2015, there were a number of other changes in the production of ice cream including a rise in the productivity of the workers.

As well as vanilla, Madagascar produces a number of other primary products including coffee and sugar. Nearly 80% of the country's labour force is employed in the primary sector. The country has a relatively low Gross Domestic Product (GDP) per head and a relatively low Human Development Index (HDI) value as shown in Table 1. This limits the amount that people in Madagascar save.

Table 1 GDP per head and HDI in selected countries in 2015

Country	GDP per head (US\$)	HDI
Argentina	22 400	0.836
Bangladesh	3 600	0.570
Cuba	10 200	0.769
Egypt	11 500	0.690
Ghana	4 300	0.579
Madagascar	1 500	0.510

Half of Madagascar's population live in poverty. The government is trying to reduce poverty by introducing a programme of cash benefits. It is hoped that one effect of this will be to increase school enrolment and attendance of the children of poor families. To increase economic growth, the government has sold off a number of state-owned enterprises and is moving the economy towards a market system.

- (a) Identify **two** fixed costs of production in Fig. 1. [2]
- (b) Explain, using information from the extract, **two** reasons why a rise in the price of vanilla might **not** cause an increase in the price of ice cream. [4]
- (c) Analyse, using a demand and supply diagram, the effect of an increase in income on the market for ice cream. [5]
- (d) Analyse the extent to which the relationship shown in Table 1 between countries' GDP per head and their HDI value is the expected one. [4]
- (e) Discuss whether or not a government should encourage people to save more. [5]
- (f) Explain, using information from the extract, how cash benefits given to the poor can reduce poverty. [4]
- (g) Discuss whether or not a market system benefits consumers. [6]

Section B

Answer any **three** questions in this section.

- 2** Swaziland is a small African country where six in ten people live in poverty and most firms are small and use little capital equipment. In October 2015 it opened a new airport. Some economists suggest that the building of the airport involved a high opportunity cost and caused a range of external costs. The building of the airport is part of the government's plan to turn the country from a developing into a developed country.
- (a) What may be the opportunity cost of building an airport? [2]
 - (b) Explain **two** reasons why a government would want to turn its country from a developing into a developed country. [4]
 - (c) Analyse the external costs that can be caused by the building and expansion of an airport. [6]
 - (d) Discuss whether people would prefer to buy a product from a small firm or a large firm. [8]
- 3** Farms in the USA are getting larger. One dairy farm in the state of Indiana has over 38 000 cows. Farms in the USA compete with farms in both developed and developing countries. The value of the farms' exports of milk appears in the trade in goods section of the current account of the USA's balance of payments.
- (a) Identify **two** examples of capital goods that may be used by a farm. [2]
 - (b) Explain how a country could have a trade in goods surplus, but a deficit on the current account on the balance of payments. [4]
 - (c) Analyse the economies of scale from which a farm may benefit. [6]
 - (d) Discuss whether or not developing countries benefit from producing mainly primary products. [8]
- 4** In the UK, bus journeys outside London have fallen by nearly 40% since 1980. This fall in demand has been largely due to a rise in bus fares, a rise in income and changes in the price and quality of substitutes. On some routes there are monopolies operating and this lack of competition can push up the price.
- (a) Define a *substitute* and give an example. [2]
 - (b) Explain **two** advantages a firm may gain from being a monopoly. [4]
 - (c) Analyse how price elasticity of demand for a product influences the revenue a firm receives. [6]
 - (d) Discuss whether or not a government should subsidise bus transport. [8]

- 5 In October 2015, the Chinese government switched from its one child policy to a two child policy partly because of the challenges caused by an ageing population. The birth rate was falling anyway due to rising female participation in the labour force, improvements in education, later marriages and the rapidly rising price of housing.
- (a) Identify **two** causes of an ageing population. [2]
 - (b) Explain why the price of housing may increase. [4]
 - (c) Analyse why more women may enter the labour force. [6]
 - (d) Discuss whether or not a rise in the birth rate will benefit an economy. [8]
- 6 In February 2016, share prices on stock exchanges fell throughout the world. There were a number of reasons for this; including concerns about the slowdown in world growth, the possibility of deflation and unemployment, and fears that some commercial banks could go out of business.
- (a) Define *commercial bank*. [2]
 - (b) Explain how a stock exchange could encourage economic growth. [4]
 - (c) Analyse what can cause deflation. [6]
 - (d) Discuss whether or not government policy measures to reduce unemployment will cause inflation. [8]
- 7 World output has grown in recent years, but a number of countries have experienced a recession. The removal of trade restrictions such as import tariffs has slowed down, reducing the growth of world trade.
- (a) Define *import tariff*. [2]
 - (b) Explain **two** benefits of an increase in world output. [4]
 - (c) Analyse how a recession may reduce a country's imports. [6]
 - (d) Discuss whether or not a developing country will benefit from the removal of trade restrictions. [8]

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ECONOMICS

0455/23

Paper 2 Structured Questions

May/June 2018

2 hours 15 minutes

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Section A

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Section B

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Section A

Answer this question.

1 The global water crisis

In 2015, the World Economic Forum identified the water crisis as the world's biggest risk. Across many Asian and African nations the water supply was at critically low levels, insufficient to meet the rising demand. Demand has risen because of the expansion of cities and population growth requiring much more agricultural production.

Water scarcity is a problem shared by many developing countries which have a low life expectancy. A third of all their healthcare facilities are estimated to lack access to safe water and basic sanitation. Water shortages harm public health – 80% of all illnesses in developing countries are caused by poor water and sanitation conditions. Water shortages also restrict the amount of food production. Table 1 shows the risk of water shortage (highest risk is 5) and Gross Domestic Product (GDP) per head measured in US\$.

Table 1 Risk of water shortage and GDP per head for countries/regions in 2015

Country/region	Risk of Water Shortage (highest risk = 5)	GDP per head (US\$)
Algeria	3.4	4 318
Canada	1.2	43 332
Germany	1.9	40 997
Pakistan	4.3	1 450
Saudi Arabia	5.0	20 813
Western Sahara	5.0	2 500

The shortage of water has led various countries and regions to experiment with privatising their supply. However, because water is a necessity, private supply has in some cases resulted in consumers suffering from significant price increases. A 10% increase in the price of water is estimated to result in only a 0.7% decrease in quantity demanded. This means that governments have to regulate water markets to protect consumers.

Some economists argue that consistent undervaluing of water has led to it being used inefficiently. This is because prices fail to take into account the long-run consequences of not conserving this valuable resource. With much of the world facing a hotter and drier future as a result of climate change, water will become increasingly scarce.

More than 663 million people are estimated to live without access to clean water. The World Bank funds a range of projects designed to tackle this and in doing so reduce levels of absolute poverty. Improving access to natural resources is seen as essential in promoting economic development in some of the world's poorest nations.

- (a) Identify, using information from the extract, **two** causes of low life expectancy in developing countries. [2]
- (b) (i) Explain, using information from the extract, how the water shortage is an example of the economic problem. [4]
- (ii) Explain, using information from the extract, why the problem of water shortages is likely to become even worse in the future. [4]
- (c) Analyse, using Table 1, the extent to which a high risk of water shortage in a country/region causes low GDP per head. [5]
- (d) Calculate, using the information in the extract, the price elasticity of demand for water. [2]
- (e) Discuss whether or not private firms supplying water should increase their prices. [5]
- (f) Explain what is meant by absolute poverty. [2]
- (g) Discuss whether or not a country's economic growth rate depends mostly on the availability of its natural resources. [6]

Section B

Answer any **three** questions from this section.

- 2** In 2016, the trade union representing doctors in the UK was involved in collective bargaining with the government over proposed changes to doctors' contracts. The trade union considered that the aim of the changes was to reduce the cost to the government of providing healthcare. It may also result in fewer individuals training to become doctors in the future.
- (a) Identify **two** influences on the strength of a trade union's collective bargaining power. [2]
 - (b) Explain the likely impact of trade unions on the welfare of their members. [4]
 - (c) Analyse the impact of a reduction in government expenditure on healthcare on a country's unemployment rate. [6]
 - (d) Discuss whether or not a decrease in the number of doctors will reduce living standards. [8]
- 3** In the 1990s Cambodia became a mixed economy. One of the results of this was specialisation in the clothing industry. In 2005, import quotas for clothing in the key markets of the USA and the EU were removed. Clothing now accounts for 80% of Cambodia's exports. The increased role of the private sector has resulted in a rise in malnutrition in Cambodia.
- (a) Define *import quota*. [2]
 - (b) Explain **two** advantages to a country of specialisation. [4]
 - (c) Analyse the impact on an economy of the removal of import quotas imposed by other countries. [6]
 - (d) Discuss whether or not an increase in the role of the private sector will benefit an economy. [8]
- 4** In early 2016, the central bank of the Republic of Turkey cut interest rates five times. This was despite an inflation rate of 7.6%. The economy had a combination of a low saving rate and weak investment. To stimulate economic growth the Turkish government announced a package of reforms including subsidies for research and investment.
- (a) Identify **two** functions of a central bank. [2]
 - (b) Explain how the Consumer Prices Index (CPI) is calculated. [4]
 - (c) Analyse the impact of a cut in interest rates on saving and investment. [6]
 - (d) Discuss the impact of supply-side policy measures on government expenditure and on government revenue. [8]

- 5 The state of California has the most progressive tax system in the USA. The tax system helps reduce high poverty rates. Policy makers are considering reforming sales tax in the state to include services, while reducing the use of direct taxes.
- (a) Define *progressive tax*. [2]
 - (b) Explain **two** reasons why a government may want to reduce poverty. [4]
 - (c) Analyse, using a supply and demand diagram, the effect of increasing a sales tax. [6]
 - (d) Discuss whether a government should increase indirect taxes and whether it should reduce direct taxes. [8]
- 6 The production process in the oil industry is capital-intensive. The pollution it generates means it is one cause of environmental market failure. A Nigerian oil monopoly is starting to produce more environmentally friendly liquefied petroleum gas (LPG), rather than kerosene, in an attempt to reduce pollution. The Nigerian government intends to split the monopoly firm into separate companies to improve efficiency.
- (a) Identify **two** features of a capital-intensive production process. [2]
 - (b) Explain how market failure might occur in the oil industry. [4]
 - (c) Analyse, using a production possibility curve (PPC) diagram, the effect of reallocating resources from kerosene to LPG. [6]
 - (d) Discuss whether or not removing a firm's monopoly power will benefit consumers. [8]
- 7 In 2016, there were fears that the Singaporean economy could enter a recession because of falling demand from China, its biggest export market. One of the results of a recession is likely to be a fall in consumer spending. A previous recession in 2008 had led to unemployment increasing from 1.6% to 3.4%. Singapore's central bank therefore decided to intervene in the foreign exchange market to influence the value of the currency.
- (a) Define *recession*. [2]
 - (b) Explain why a recession is likely to reduce consumer spending. [4]
 - (c) Analyse the consequences of rising unemployment on a government's spending and tax revenue. [6]
 - (d) Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession. [8]

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