Cambridge Assessment International Education

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

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ECONOMICS **0455/11**

Paper 1 Multiple Choice **October/November 2017**

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	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**

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Question	Answer	Marks
29	B	**1**
30	B	**1**

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ECONOMICS **0455/12**

Paper 1 Multiple Choice **October/November 2017**

MARK SCHEME

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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**

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Question	Answer	Marks
29	A	**1**
30	B	**1**

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ECONOMICS **0455/13**

Paper 1 Multiple Choice **October/November 2017**

MARK SCHEME

Maximum Mark: 30

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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**

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Question	Answer	Marks
29	D	**1**
30	C	**1**

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ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2017**

MARK SCHEME

Maximum Mark: 90

Published

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Question	Answer	Mark
1(a)	**Identify, from the extract, <u>two</u> factors of production employed in producing cigarettes.** Workers/labour (1) capital (1).	**2**
1(b)	**Explain <u>two</u> reasons why firms merge.** **1 mark each for each of two reasons identified:** • 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 **1 mark each for each of two explanations:** • 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)	**Calculate, using information from the extract, the percentage decrease in the number of cigarette firms in China from 2009 to 2014** 80% (2). Correct working e.g. 160/200 × 100 (1).	**2**
1(c)(ii)	**Calculate, using information from the extract, the total tax revenue that the Chinese government received in 2014.** 16 000 billion yuan (2). 16 000 billion OR yuan (1). Correct working i.e. 800 billion × 100/5 (1). Note: 16 000 billion = 16 000 000 000 000 or 1.6×10^{13}	**2**

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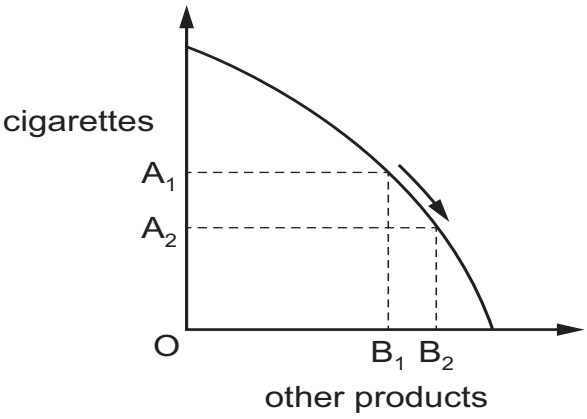
Question	Answer	Mark
1(d)	**Analyse, using a production possibility curve diagram, the effect of moving factors of production from producing cigarettes to producing other products.** **Up to 3 marks for the diagram**: Axes correctly labelled (1). Curve / downward-sloping straight line drawn to the axes (1). Movement along curve from cigarettes to other products (1) shown by an arrow on the curve or by change in combinations.  **Up to 2 marks for explanation**: Opportunity cost of producing more other products / devoting more resources to other products (1) means producing fewer cigarettes (1).	**5**
1(e)	**Discuss whether people in countries with a high HDI always enjoy a high standard of living.** **Up to 3 marks for why they might:** 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). 1 mark for a general idea of what the HDI includes. **Up to 3 marks for why they might not:** 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). 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).	**5**

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Question	Answer	Mark
1(f)	**Explain, using information from the extract and Fig. 1, what happened to the market for fruit in the UK in 2015.** The diagram shows demand increasing (1) price rising (1) revenue increasing (1) supply extending / quantity of fruit consumed increasing (1). This is due to the information campaign / people being better informed about the benefits of fruit (1). Inelastic demand (1) inelastic supply (1).	**4**
1(g)	**Discuss the arguments for and against the Chinese Government increasing the tax on cigarettes.** **Up to 4 marks for why it should:** 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). 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). **Up to 4 marks for why it should not:** 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). May reduce output of cigarettes in the country / tobacco firms may close (1) may increase unemployment (1). May lead to an illegal market in cigarettes / cheap alternatives (1) people not paying the tax (1).	**6**

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Question	Answer	Mark
2(a)	**Define 'equilibrium price'.** The price where demand and supply are equal (2). Market clearing price (1) which ensures no surplus or shortage (1). The price which will not change (1) unless market conditions change (1). Note: award 2 marks for correctly drawn diagram.	**2**
2(b)	**Explain <u>two</u> reasons why a worker may continue in a job despite a cut in pay.** **1 mark each for each of two reasons identified:** • 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. **1 mark each for each of two explanations given:** • 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**

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

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Question	Answer	Mark
3(a)	**Define 'perfect competition'.** 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)	**2**
3(b)	**Explain <u>two</u> influences on the size of firms.** **1 mark each for each of two influences identified:** • size of market • availability of finance/capital • type of business organisation • influence of government policies • age of firms • skills of entrepreneurs • goals of entrepreneurs. **1 mark each for each of two explanations given:** • 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)	**Analyse the causes of an increase in labour productivity.** Improved education/training (1) workers will be skilled/specialised (1) capable of producing a higher output per hour (1). Advances in technology (1) better quality of capital goods (1) with more and better capital goods workers can produce more (1). Better working conditions (1) contented workers may be more productive (1). Better health (1) healthier workers can produce more (1) Higher wages (1) may motivate workers more (1). Fall in employment (1) the less productive workers tend to lose their jobs first (1) the more productive workers will remain (1).	**6**

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

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Question	Answer	Mark
4(a)	**What is used to measure a country's inflation rate?** CPI / RPI / other relevant named measure (2) A weighted (1) price index (1)	**2**
4(b)	**Explain <u>two</u> reasons for conserving resources.** **1 mark each for each of two reasons identified:** • 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. **1 mark each for each of two explanations given:** • 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)	**Analyse how subsidies given to farmers could raise living standards.** 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). Reduced costs for farmers (1) increases their profits/income (1). Subsidies for capital equipment e.g. tractors (1) improve productivity (1) increasing farm outputs / incomes (1). More/better quality food may make the poor healthier (1) increasing their earning capacity (1). The poor may be able to spend less on food (1) allowing them to buy other basic necessities (1). Note: reward increase in supply (1) lower price (1) if shown on a diagram.	**6**

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Question	Answer	Mark
4(d)	**Discuss whether a rise in direct taxes will reduce economic growth.** **Up to 5 marks for why it might:** A rise in income tax will reduce disposable income (1) this may reduce consumer expenditure (1) lower total demand (1) reduce firms' output (1). 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). 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). **Up to 5 marks for why it might not:** A rise in income tax may not reduce consumer expenditure if savings fall (1) wages increase by more than tax rise (1). A rise in corporation tax may not reduce investment if firms reduce savings/dividend payments (1). A rise in income tax may reduce spending on imports (1) this would reduce a current account deficit (1) increase net exports (1). The extra tax revenue earned (1) may increase government spending (1) this could offset any fall in consumer expenditure and investment (1).	**8**

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Question	Answer	Mark
5(a)	**Define a 'subsidy'.** 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).	**2**
5(b)	**Explain <u>two</u> causes of a decrease in demand for oil.** **1 mark each for each of two reasons identified:** • 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. **1 mark each for each of two explanations:** • 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. Note: accept an increase in the price of oil as a possible reason.	**4**
5(c)	**Analyse the advantages of being a sole trader.** Flexible / can respond quickly to changes in demand (1) as one person makes all the decisions (1). Easy to set up (1) limited finance / limited paperwork needed (1). Can provide a personal service (1) get to know customers personally (1). Profit incentive (1) owner will get all the profits (1). Sole trader has total control (1) can decide e.g. hours of work, holidays (1) May have good relationships with staff (1) less industrial disputes (1).	**6**

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Question	Answer	Mark
5(d)	**Discuss whether a government should be concerned about a growing deficit on the current account of its balance of payments.** **Up to 5 marks for why it should:** 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). 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). Country may be dependent on foreign products (1) causing security concerns (1). 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). Need to cover the deficit with e.g. borrowing/attracting investment from abroad (1). **Up to 5 marks for why it should not:** 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). The deficit on current account may be balanced out by a surplus elsewhere (1) e.g. direct investment (1). The deficit may have been caused by a fall in incomes abroad (1) these may rise in the future, increasing exports (1). 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). A deficit reduces total demand (1) and this can reduce demand-pull inflation (1). Note: reward but do not expect reference to other parts of the balance of payments.	**8**

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Question	Answer	Mark
6(a)	**Identify <u>two</u> ways in which a high rate of unemployment may affect firms.** Low demand for products (1) falling prices / lower revenue (1). Good supply of workers (1) downward pressure on wages (1). Trade union action (1) to protect workers' jobs (1).	**2**
6(b)	**Explain <u>two</u> causes of deflation.** **1 mark each for each cause identified**: • 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. **1 mark each for each of two causes explained:** • 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**

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

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

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Question	Answer	Mark
7(a)	**Identify <u>two</u> ways in which the expenditure patterns of the poor and the rich are different.** The rich spend more / the poor spend less (1). Poor spend a higher proportion on basic necessities / needs e.g. food (1) rich spend a higher proportion on luxuries / wants (1). Poor spend a higher proportion (1) of their income than the rich (1) or the reverse argument.	**2**
7(b)	**Explain <u>two</u> reasons why a commercial bank may prefer to lend to the rich rather than to the poor.** **1 mark each for each of two reasons identified:** • 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. **1 mark each for each of two explanations of the reasons:** • 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)	**Analyse the effects that an increase in the labour force will have on an economy.** 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). An increase in the labour force may reduce inflation pressure (1) enable supply to increase to match higher demand (1). 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). 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). If not employed, will increase unemployment rate (1) higher spending on benefits (1).	**6**

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Question	Answer	Mark
7(d)	**Discuss whether providing loans to the poor will reduce poverty.** **Up to 5 marks for why it might:** Loans will enable the poor to buy more basic necessities (1) e.g. housing, food, clothing (1) reduces absolute poverty (1). 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). 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). Loans may enable the poor to spend more on healthcare (1) raising living standards (1). **Up to 5 marks for why it might not:** Loans may be spent on items that do not increase earning potential (1) e.g. cigarettes (1). The poor may get into debt / may be unable to repay the loan (1) lose their collateral/home (1). Paying interest (1) may reduce the ability to buy basic necessities (1) high interest rates (1) may be charged to the poor (1). 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.	**8**

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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**	

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Question	Answer	Marks	Guidance
1(b)	**Explain <u>two</u> problems caused by inflation.** 1 mark each for each of two problems identified: • 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. 1 mark each for each of two explanations: • 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.

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

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Question	Answer	Marks	Guidance
1(d)	**Analyse why an increase in unemployment might cause an increase in government spending.** 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). 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). Government may provide subsidies to firms (1) to encourage them to increase output and employment (1). Government may spend more on education (1) to increase skills of workers (1) reduce structural unemployment (1). Unemployment may increase poverty (1) leading to more spending on other benefits (1). Government may employ more workers in the public sector (1) to reduce unemployment / will increase wage bill (1). Government may spend on infrastructure (1) to raise labour mobility (1).	**5**	Maximum of 3 marks for a list-like approach.

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Question	Answer	Marks	Guidance
1(e)	**Discuss whether the supply of workers for unskilled jobs will be high in a country.** Up to 3 marks for why it might: 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). Unskilled jobs may provide good non-wage benefits (1) example e.g. short working hours (1). 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). Most workers may be employed in the primary sector (1) which may offer largely unskilled jobs (1). May be high unemployment (1) so some skilled workers may have to apply for unskilled jobs (1). May be high unemployment benefit (1) discourages incentive to work (1). Up to 3 marks for why it might not: Unskilled jobs are likely to be relatively poorly paid (1) wage rate is a key influence on jobs workers select (1). Unskilled jobs may offer poor working conditions (1) example e.g. hard manual work (1). Unskilled workers may emigrate to other countries (1) if wages/working conditions are better in other countries (1). Work may be capital-intensive (1) requiring high skills (1).	**5**	

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Question	Answer	Marks	Guidance
1(f)	**Explain, using information from the extract and Fig. 1, what happened to the market for food in 2015.** 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).	**4**	
1(g)	**Discuss whether a decrease in income tax would reduce deflation.** Up to 4 marks for why it might: 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). Up to 4 marks for why it might not: 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). 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). A decrease in income tax may reduce government spending (1) higher consumer spending may be offset by lower government spending (1). May act as incentive to work (1) may increase productivity / efficiency (1) lower costs of production / increase total (aggregate) supply (1). Consumers may spend on imports (1).	**6**	

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Question	Answer	Marks	Guidance
2(a)	**Define 'average costs'.** Total cost divided by output (2). Cost per unit / average fixed cost plus average variable cost (1).	**2**	
2(b)	**Explain <u>two</u> factors that would increase the supply of entrepreneurs in an economy.** 1 mark each for each of two factors identified: • 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 1 mark each for each of two explanations given: • 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**	

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Question	Answer	Marks	Guidance
2(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.** Reducing the tax will lower costs of production (1) increase supply – *written or drawn* (1). A complement is a product bought to use with another product (1) a fall in its price would increase demand for this product – *written or drawn* (1). Effect on price is uncertain (1) would depend on relative size of changes (1). Quantity would rise – *written or drawn* (1).	**6**	

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether low unemployment in a country will encourage multinational companies (MNCs) to set up there.** Up to 5 marks for why it might: 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). 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). Production may be capital-intensive (1) and so labour shortages may not be a significant problem (1). Other benefits may be greater than higher labour costs (1) e.g. not having to pay an import tariff (1). Up to 5 marks for why it might not: 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). 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).	**8**	

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Question	Answer	Marks	Guidance
3(a)	**What is a possible opportunity cost of working?** Opportunity cost is the (next) best alternative forgone (1). Opportunity cost is leisure / education / retirement / raising a family (1).	**2**	
3(b)	**Explain <u>two</u> reasons why older workers tend to earn more than young workers.** 1 mark each for each of two reasons identified: An older worker (or vice versa): • may have gained more qualifications • may have received more training • may have gained experience • may have been promoted • length of service. 1 mark each for each of two explanations given: • 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.

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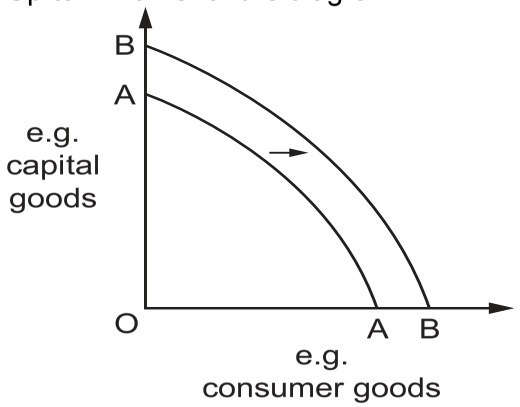
Question	Answer	Marks	Guidance
3(c)	**Analyse, using a production possibility curve diagram, how an increase in labour productivity will affect an economy.** Up to 4 marks for the diagram:  Axes correctly labelled (1). Original production possibility curve / straight downward sloping line drawn to the axes (1). New PPC (1). Indication of shift to the right – arrow or labelling (1). Up to 2 marks for written explanation: 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).	6	

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Question	Answer	Marks	Guidance
3(d)	**Discuss whether the rich in one country will save more than the rich in another country.** Up to 5 marks for why they might: 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). The interest rate may be higher in the country (1) greater financial return from saving / save more / spend less (1). 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). 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). Up to 5 marks for why they might not: 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). There may be more of a culture of saving in another country (1). There may be more / greater range of financial institutions in another country (1) encouraging more saving there (1). 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). There may be higher inflation / greater expectation of higher inflation in the future (1) encouraging higher spending now (1).	**8**	

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Question	Answer	Marks	Guidance
4(a)	**Name two factors of production used in making cars.** 1 mark each for each of two factors identified: • car workers / labour • car factory / capital • car firm owner / entrepreneur • water/land	**2**	
4(b)	**Explain how two methods of trade protection may reduce imports.** 1 mark each for each of two methods identified: • tariffs • quotas • embargoes • exchange control • voluntary export restraint (VER) • quality standards • subsidies • expensive paperwork 1 mark each for each of two explanations given: • 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**	

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Question	Answer	Marks	Guidance
4(c)	**Analyse the social costs created by car production and car use.** Social costs are private costs plus external costs (1). 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). 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).	**6**	Maximum 4 marks if no reference to cars.

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

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Question	Answer	Marks	Guidance
5(a)	**What is meant by a labour-intensive industry?** An industry which has a high proportion of labour compared with the proportion of other factors of production used (2). An industry which uses a large amount of labour (1).	2	
5(b)	**Explain two reasons why a country may stop exporting a product.** 1 mark each for each of two reasons identified: ☐ 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. 1 mark each for each of two explanations: ☐ 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	

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Question	Answer	Marks	Guidance
5(c)	**Analyse the effects of an increase in unemployment on inflation.** A rise in unemployment may reduce incomes (1) lower spending (1) lower total demand (1) lower demand-pull inflation (1). 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). 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).	**6**	

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Question	Answer	Marks	Guidance
5(d)	**Discuss whether having a relatively small population is an advantage or a disadvantage for an economy.** Up to 5 marks for why it might be an advantage: A small population may mean that resources will last over a longer time period (1) enabling economic growth to continue (1). There may be less environmental damage (1) less risk of overcrowding (1). 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). May be less imports (1). Up to 5 marks for why it may be a disadvantage: 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). 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). May be less exports (1).	**8**	Reward but do not expect reference to the optimum population size.

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Question	Answer	Marks	Guidance
6(a)	**Identify <u>two</u> influences on the size of a country's population.** 1 mark each for each of two influences identified: • birth rate • death rate • migration.	**2**	Accept as influences, factors that would affect size of population.
6(b)	**Explain <u>two</u> causes of an increase in living standards.** 1 mark each for each of two causes identified: • rise in income / fall in poverty / fall in unemployment / rise in employment • improvements in education • improvements in healthcare • increase in leisure time. 1 mark each for each of two causes explained: • 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**	

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Question	Answer	Marks	Guidance
6(c)	**Analyse how an increase in the rate of interest could increase unemployment.** 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). Rise in the rate of interest may increase firms' costs of production (1) this may encourage firms to reduce their output (1). 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).	**6**	

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether a government should increase tax rates during a recession.** Up to 5 marks for why it should: 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). 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). 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). 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). Up to 5 marks for why it should not: 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). 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). Higher tariffs may provoke retaliation (1) reduce both imports and exports (1).	**8**	Accept a counterargument i.e. the government should instead reduce tax rates during a recession.

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Question	Answer	Marks	Guidance
7(a)	**Define 'specialisation'.** The concentration/focus (1) on one task/product / what they are best at (1).	**2**	
7(b)	**Explain <u>two disadvantages</u> that workers may experience from specialising.** 1 mark each for each of two disadvantages identified: • 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. 1 mark each for each of two explanations of the disadvantages: • 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**	

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Question	Answer	Marks	Guidance
7(c)	**Analyse how a country could reduce its reliance on imports.** Replacing imports with domestic products (1) by producing more domestic products / reducing price of domestic products / raising quality of domestic products (1) It could subsidise domestic producers (1) help infant industries to grow (1) replacing imports with domestic products (1). 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). It could keep its exchange rate low (1) e.g. by buying the currency (1) keeping import prices high (1). 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).	**6**	

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Question	Answer	Marks	Guidance
7(d)	**Discuss whether producing more food will increase living standards.** Up to 5 marks for why it might: 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). 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). Up to 5 marks for why it might not: May lead to over-consumption of food (1) obesity (1) healthcare problems caused (1). Intensive farming methods may create external costs (1) e.g. river pollution arising from fertilisers spread on the land (1). Agricultural jobs may be low skilled (1) low paid (1). 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). 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). 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). Crops may be destroyed / damaged (1) by climate conditions / disease (1).	**8**	

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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)	**Explain <u>two</u> causes of a fall in the birth rate.** 1 mark each for each of two causes identified: • 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. 1 mark each for each of two explanations: • 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**	

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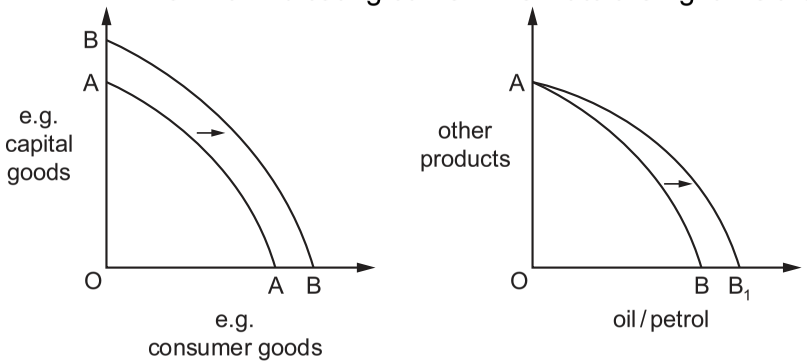
Question	Answer	Marks	Guidance
1(c)(i)	**Calculate, using information from the extract: the value in US$ of China's contribution to global GDP growth in 2015** $546 billion (2) Correct method, i.e. 20% of US$2.730 billion or $546/546 billion (1)	**2**	
1(c)(ii)	**Calculate, using information from the extract: the number of children born in Nauru in 2015.** 250 (2) Correct method, i.e. 25 × 10 (1) 2500 (1)	**2**	
1(d)	**Analyse, using a production possibility curve diagram, how the discovery of new oil reserves would affect an economy.** Up to 4 marks for the diagram: • 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.  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)	**5**	Accept any reasonable label of axis. If labelled with oil / petrol accept parallel PPCs. Do not reward output / production increases

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Question	Answer	Marks	Guidance
1(e)	**Discuss whether a firm would benefit from a fall in its country's exchange rate.** 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). 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).	**5**	To achieve full marks, benefits to a firm must be discussed.
1(f)	**Explain, using information from the extract and Fig. 1, what might have happened to the market for steel in China in 2015.** 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).	**4**	

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Question	Answer	Marks	Guidance
1(g)	**Discuss whether engaging in free trade increases living standards in a country.** 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). 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).	**6**	

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Question	Answer	Marks	Guidance
2(a)	**Define 'demand'.** The willingness/desire/want (1) and ability to buy a product (1) in a given period (1).	**2**	
2(b)	**Explain <u>two</u> reasons why a country might want to restrict exports.** 1 mark each for each of two reasons identified: • 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. 1 mark each for each of two explanations given: • 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)	**Analyse how information on price elasticity of demand for its product can influence a firm's pricing decisions.** 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). 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). 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). It is difficult to calculate PED (1) firms may use other factors to determine price (1).	**6**	

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether a merger of two firms in the same industry will be likely to reduce the price of the product.** 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).	**8**	

Question	Answer	Marks	Guidance
3(a)	**Identify <u>two</u> reasons why governments impose taxes.** 1 mark each for each of two reasons identified: • 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.

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Question	Answer	Marks	Guidance
3(b)	**Explain <u>two</u> advantages a business organisation may gain from becoming a public limited company.** 1 mark each for each of two advantages identified: • relatively easy to raise finance • likely to be relatively large • sustainability • take advantage of limited liability. 1 mark each for each of two explanations given: • 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)	**Analyse how a cut in taxes would increase tax revenue.** 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). 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). A cut in indirect taxes (1) may increase spending (1) raising expenditure that can be taxed (1).	**6**	

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Question	Answer	Marks	Guidance
3(d)	**Discuss whether an economy would benefit from an increase in the strength of its trade unions.** Up to 5 marks for why it might: 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). 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). 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). Up to 5 marks for why it might not: 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). 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). Stronger trade unions may restrict the ability of firms to change their output (1) reducing their responsiveness to changes in market conditions (1).	**8**	

Question	Answer	Marks	Guidance
4(a)	**Define 'devaluation'.** 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).	**2**	

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Question	Answer	Marks	Guidance
4(b)	**Explain <u>two disadvantages</u> of a decrease in a country's output.** 1 mark each for each of two benefits identified: • rise in unemployment / recession / less exports • reduction in living standards • reduction in tax revenue. 1 mark each for each of two explanations given: • 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)	**Analyse the effect on the market for food of an increase in population combined with a prolonged period of bad weather.** 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.	**6**	

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Question	Answer	Marks	Guidance
4(d)	**Discuss whether a central bank should lend to commercial banks which get into financial difficulties.** 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). 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).	8	

Question	Answer	Marks	Guidance
5(a)	**Identify <u>two</u> reasons why a government may place an embargo on the import of a product.** 1 mark each for each of two reasons identified: • 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	

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Question	Answer	Marks	Guidance
5(b)	**Explain <u>two</u> reasons why some young workers may earn more than some old workers.** 1 mark each for each of two reasons identified: • 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. 1 mark each for each of two explanations: • 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)	**Analyse the factors that may make the supply of a product more price-elastic.** The production period may decrease (1) e.g. due to advances in technology (1) making it easier to alter the quantity produced (1). The time period available (1) easier to adjust supply in longer time period (1). 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). More sources of a raw material may be found (1) giving greater flexibility of supply (1). Mobility of factors of production (1) able to substitute between products being produced (1). Ability to source additional resources /output (1) at similar cost retaining profit margins (1). Lack of barriers to entry (1) enables new firms to enter the market (1).	**6**	

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

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

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Question	Answer	Marks	Guidance
6(b)	**Explain <u>two</u> advantages of countries specialising.** 1 mark each for each reason identified: • 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. 1 mark each for each of two reasons explained: • influenced by factor endowment • productivity can be increased / more price competitive / increased speed of production • living standards can rise • 'practice makes perfect'.	**4**	Do not reward 'promotes peace and friendship'. Reward but do not expect reference to comparative or absolute advantage.
6(c)	**Analyse why developed countries usually have lower death rates than developing countries.** 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). 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). Better environment / less pollution / cleaner water (1) less illness (1).	**6**	

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether a rise in income tax will reduce a current account deficit.** 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). 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).	**8**	

Question	Answer	Marks	Guidance
7(a)	**Identify <u>two</u> causes of inflation.** 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).	**2**	

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Question	Answer	Marks	Guidance
7(b)	**Explain <u>two</u> reasons why government spending may be greater than tax revenue.** 1 mark each for each of two causes identified: • low level of economic activity • government desire to increase economic activity • actual government expenditure higher than planned expenditure • ageing population. 1 mark each for each of two explanations of the causes: • 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)	**Analyse how an increase in labour productivity can increase living standards.** 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).	**6**	

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Question	Answer	Marks	Guidance
7(d)	**Discuss whether monetary policy measures can increase economic growth.** Up to 5 marks for why they might: 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). 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). An increase in the money supply (1) may stimulate higher spending (1) increasing output (1). Up to 5 marks for why they might not: 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). 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). 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).	**8**	Accept an argument that contractionary monetary policy leading to higher interest rates and lower domestic demand would reduce economic growth. Do not reward the same argument on both sides (mirror image) without additional relevant analysis.

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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**.
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Any rough working should be done in this booklet.

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

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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

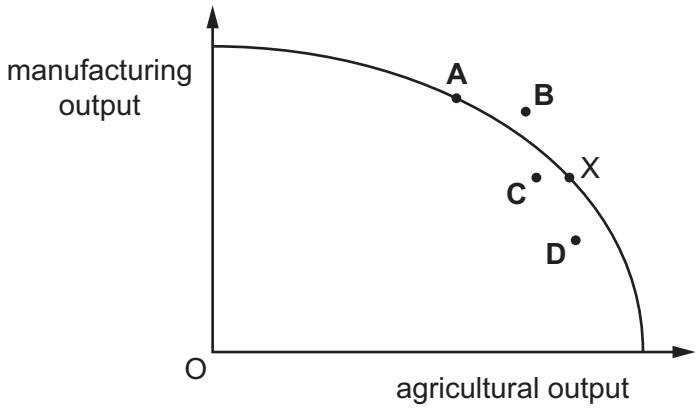
B enterprise and labour

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

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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

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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?

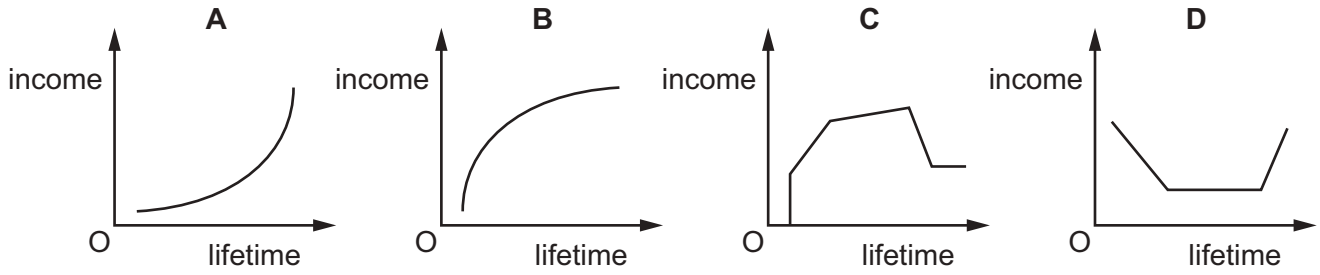
A when firms are trying to cut costs of production

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

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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?

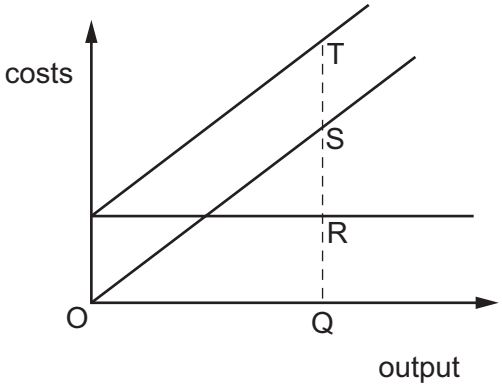
A increased advertising costs that greatly improved sales

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

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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

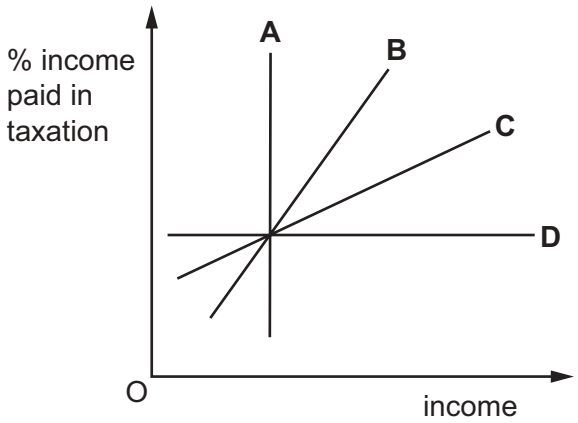
B an increase in interest rates

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.

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

What is most likely to cause this growth?

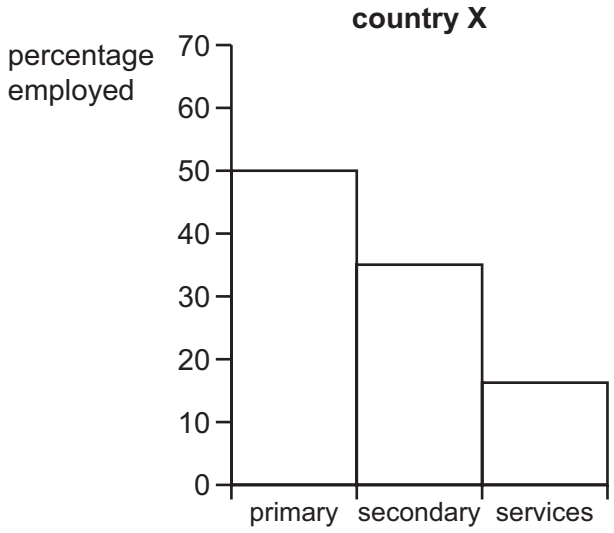
A an increase in expenditure

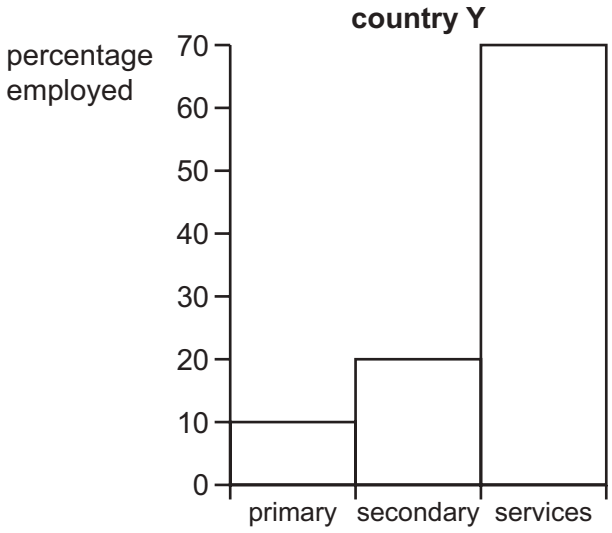
B an increase in interest rates

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

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

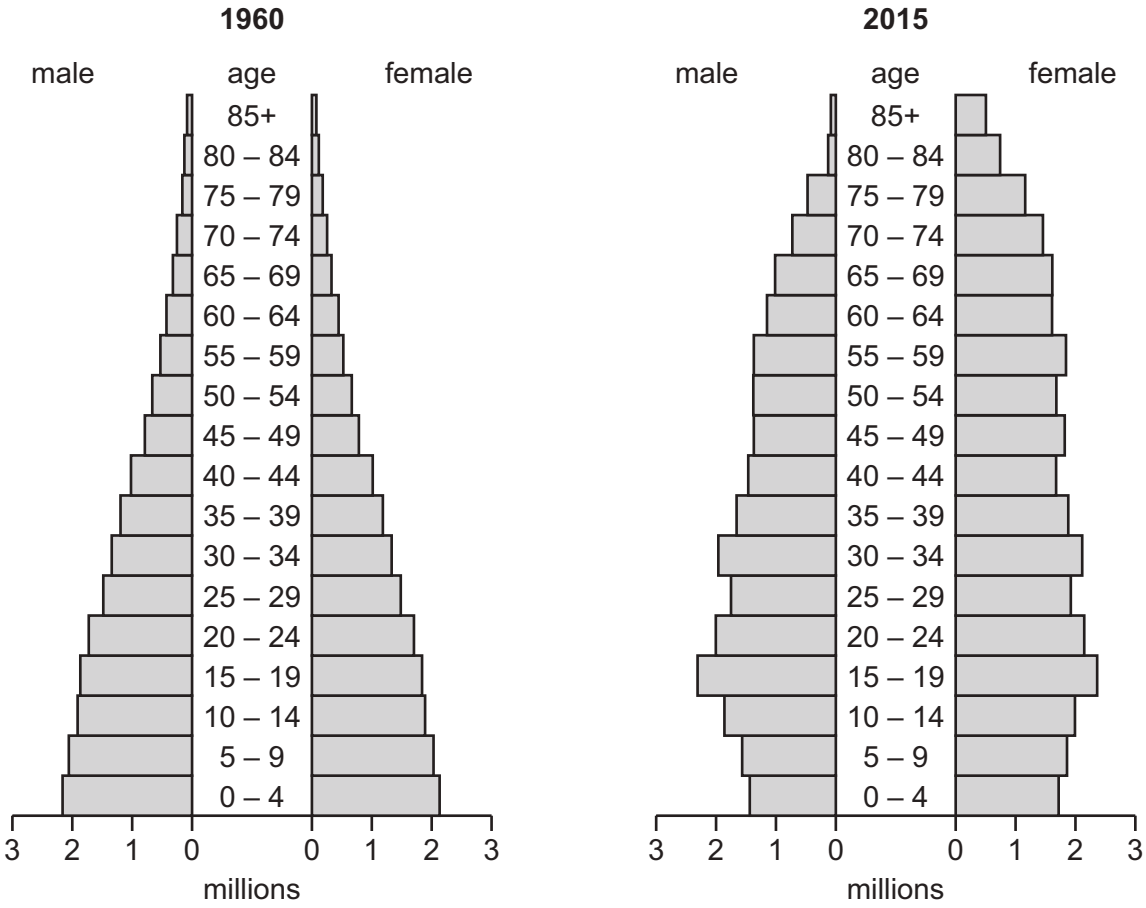
A the balance of payments

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

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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

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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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Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

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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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?

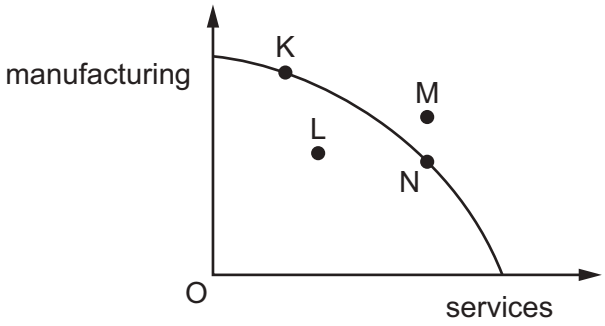
A budget surplus; public sector

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

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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.

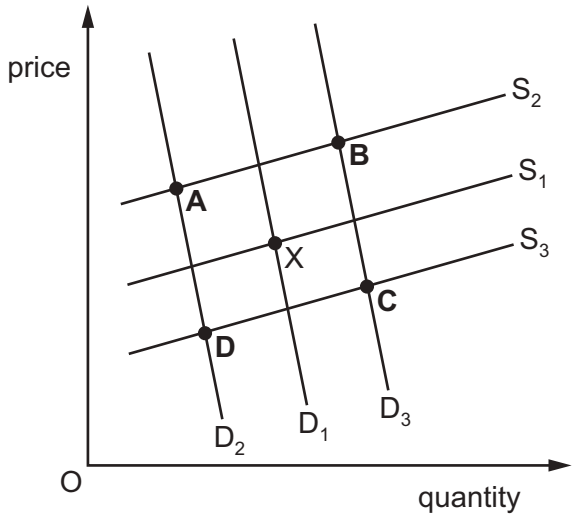
price per kg ($)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40
50	10	50

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?



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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.

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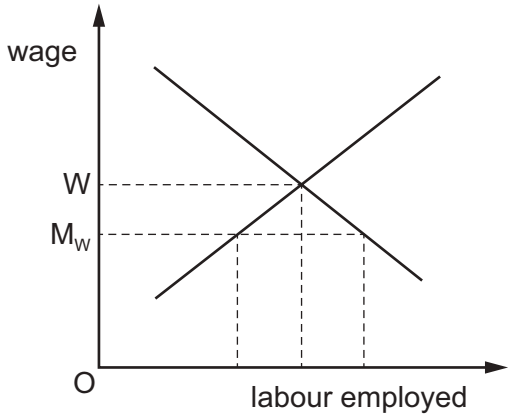
11 The diagram shows two curves. One is the demand for labour, the other is the supply of labour. A government fixes a minimum wage (M_W) that must be paid by employers.



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

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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

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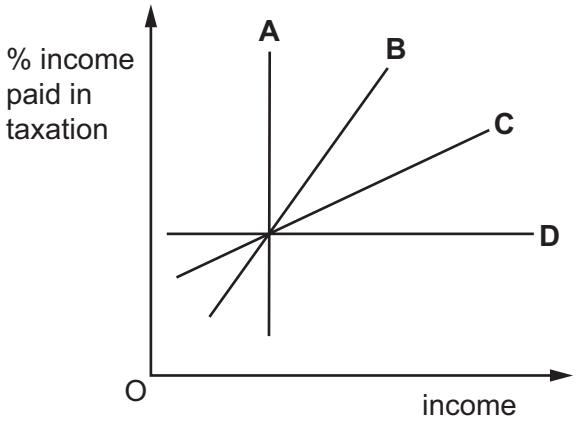
18 The graph shows the percentage of income paid in taxation.

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

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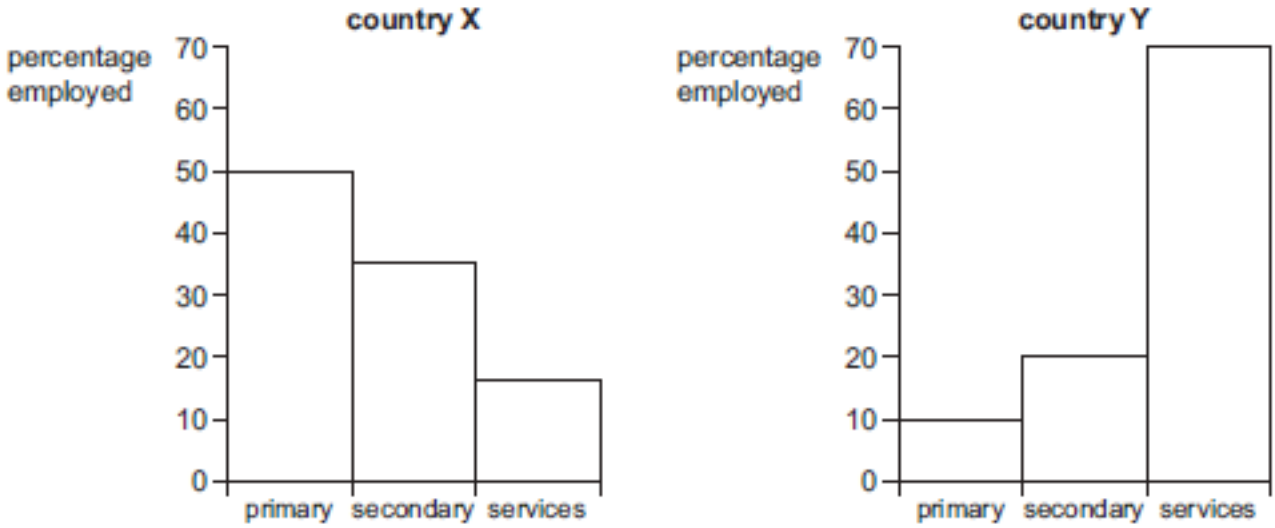
22 The diagrams show percentage employment in different sectors in two countries.



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

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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.

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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)

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.

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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?

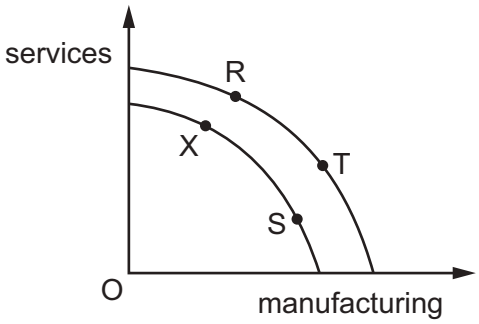
A budget surplus; external cost

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

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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

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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

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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

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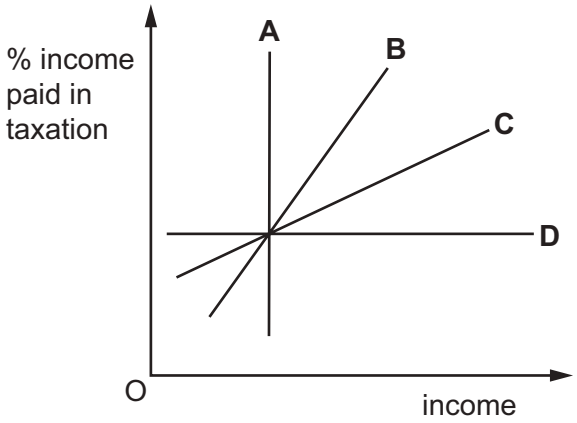
18 The graph shows the percentage of income paid in taxation.

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

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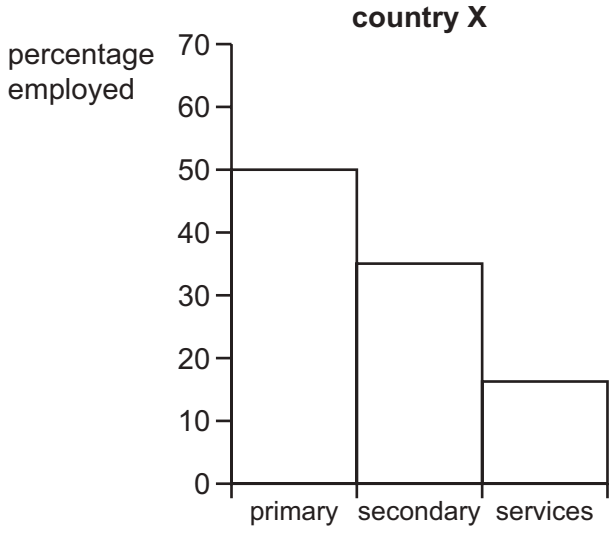
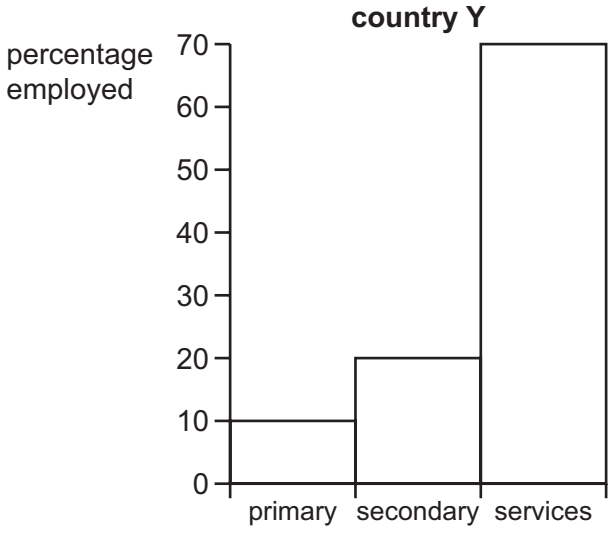
22 The diagrams show percentage employment in different sectors in two countries.





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

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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

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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

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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.

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International Examinations

[Turn over

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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.

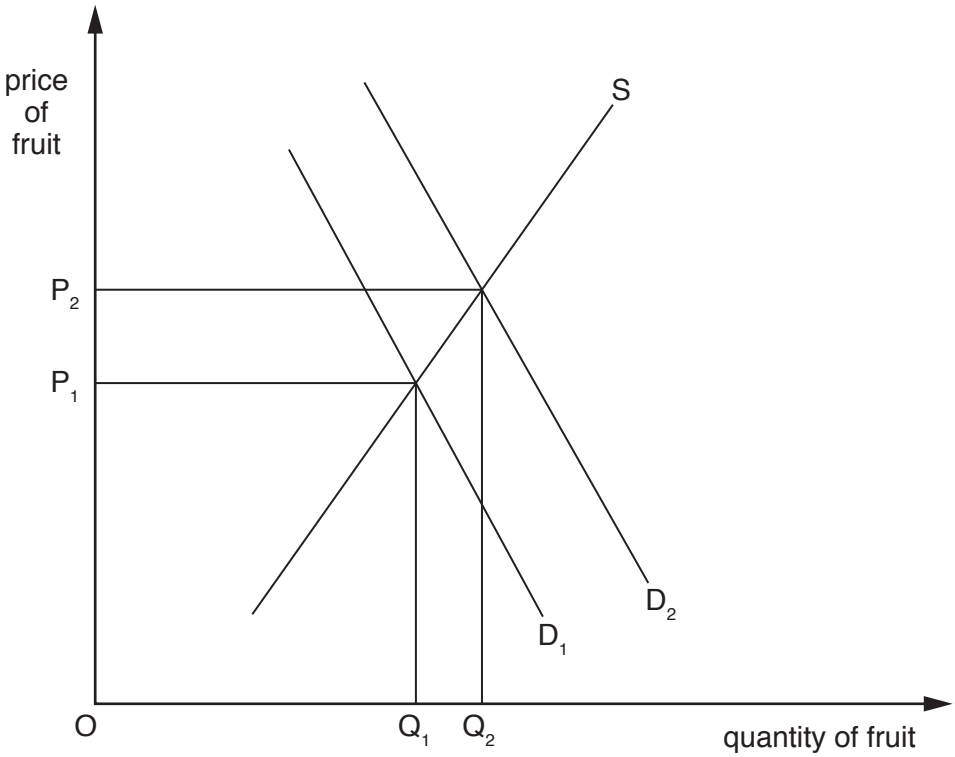

Fig. 1 The market for fruit in the UK in 2015

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(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]

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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]

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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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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.

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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.

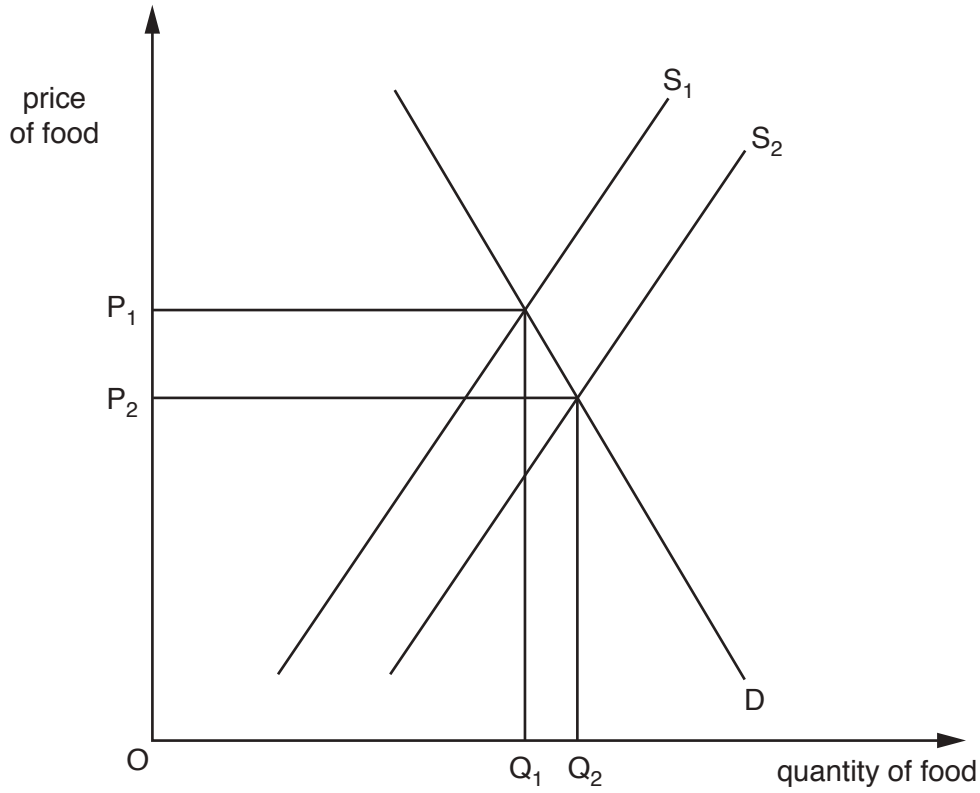

Fig. 1 The market for food in 2015

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.

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(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]

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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]

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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.

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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.

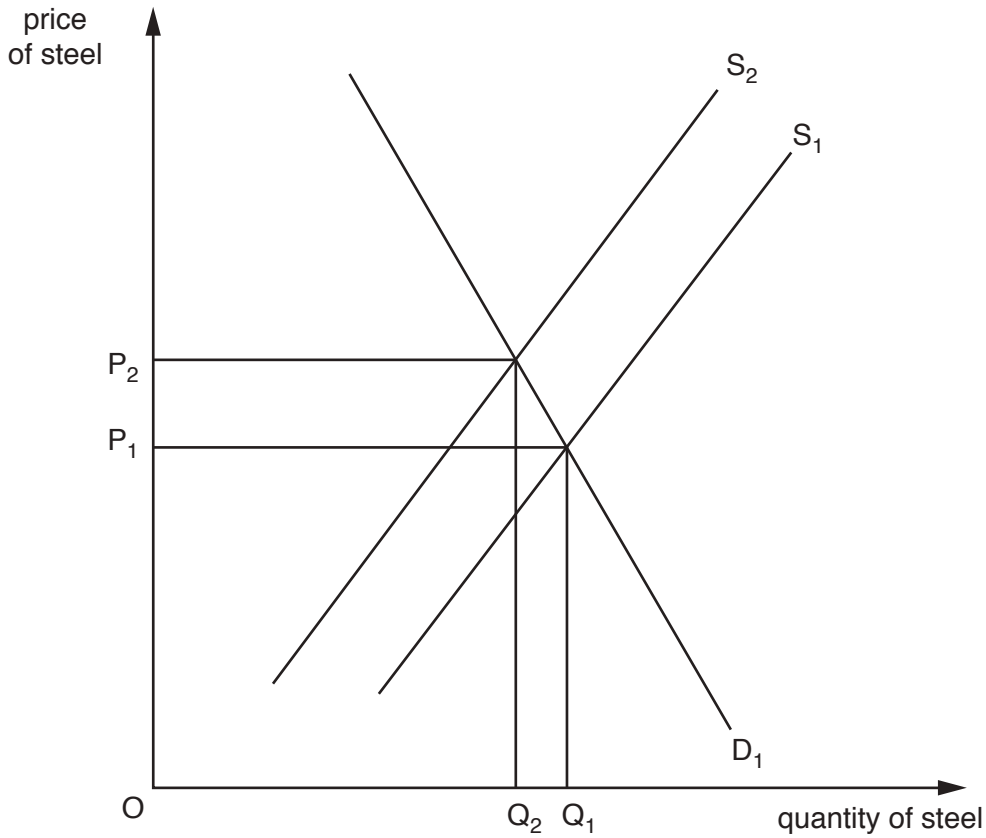

Fig. 1 The market for steel in China in 2015

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 2013.

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(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]

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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]

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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

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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.

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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

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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.

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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

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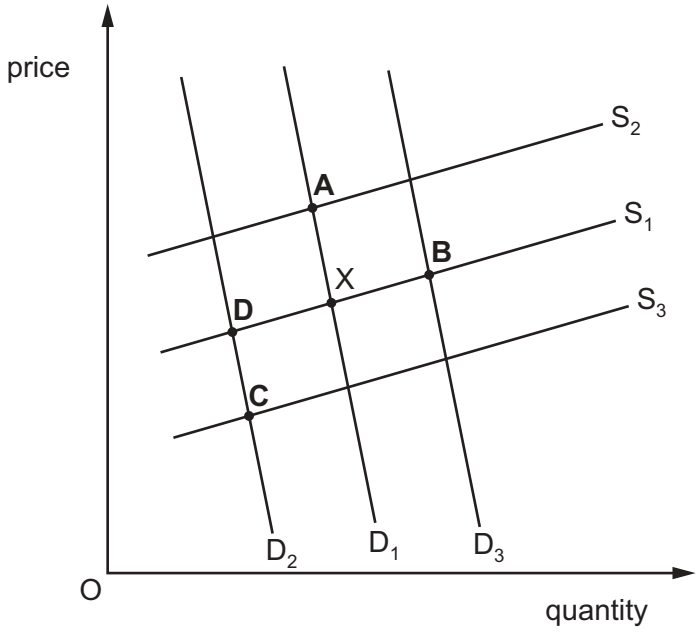
5 The diagram shows the market for oil. The initial equilibrium is X.

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

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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.

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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

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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.

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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

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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.

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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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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **March 2018**

MARK SCHEME

Maximum Mark: 90

Published

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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.

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Question	Answer	Marks	Guidance
1(a)	**Identify, using information from the extract, two industries that operate in the secondary sector of the Indian economy.** Two from: Construction, engineering and high-tech (electronics and software).	**2**	High-tech or electronics or software or electronics and software = 1 mark.
1(b)	**Explain, using information from the extract, why the price of restaurant meals in India is likely to increase in the future.** 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).	**4**	Explanation mark is dependent on correct identification.
1(c)	**Analyse how a government can encourage enterprise.** 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)..	**5**	Up to 3 marks for one way well explained. Maximum of 3 marks for identifying ways/measures.

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1(d)	**Using Fig.1, comment on whether the relationship shown between changes in India's investment and economic growth rate is the expected one.** 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).	**4**	
1(e)	**Discuss whether or not a city should specialise in one industry.** **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). **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).	**5**	

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1(f)	**Explain, using information from the extract, two reasons why some Indians spent less in 2012.** 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).	**4**	
1(g)	**Discuss whether or not an economy would benefit from one of its industries opening branches in other countries.** **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). **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).	**6**	

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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.

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2(d)	**Discuss whether or not a government should be worried about an increase in the proportion of its population aged over 65.** **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). **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).	**8**	

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Question	Answer	Marks	Guidance
3(a)	**Define a *fixed cost*.** A cost that does not change with output/has to be paid even if no output produced (1) in the short run/example (1).	**2**	
3(b)	**Explain why traffic congestion is an external cost.** 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).	**4**	
3(c)	**Analyse how a taxi firm could make use of information about the price elasticity of demand for its service.** 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).	**6**	

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Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not a reduction in unemployment always increases living standards.** **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). **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).	**8**	

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Question	Answer	Marks	Guidance
4(a)	**Define a *subsidy*.** A government payment/extra payment/grant/financial assistance (1) designed to encourage production/consumption/lower costs of production (1).	**2**	
4(b)	**Explain two disadvantages of inflation.** 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).	**4**	Lower employment/output only credited if linked to cost-push inflation.
4(c)	**Analyse how an increase in government spending may cause inflation.** 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).	**6**	

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Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not an increase in the top rate of income tax will benefit an economy.** **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). **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).	8	

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Question	Answer	Marks	Guidance
5(a)	**Define a *state-owned enterprise*.** A firm owned by the government/a nationalised industry (2). A firm in the public sector (1).	**2**	
5(b)	**Explain, giving examples, the difference between vertical integration and horizontal integration.** 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).	**4**	
5(c)	**Analyse how a monopoly could benefit consumers.** 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).	**6**	Maximum of 3 marks for a list-like approach.

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Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not a country should devote more of its resources to building and operating new railway lines and stations.** **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). **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).	**8**	

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Question	Answer	Marks	Guidance
6(a)	**Define a *depreciation of the currency*.** A fall in the value/price of a currency/exchange rate (1) against another currency/caused by market forces/demand and supply (1).	**2**	
6(b)	**Explain two reasons why demand for a country's exports may be price-inelastic.** 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).	**4**	
6(c)	**Analyse how the removal of import tariffs could increase a country's output.** 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).	**6**	

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether or not net emigration will reduce poverty in a country.** **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). **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)	**8**	

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Question	Answer	Marks	Guidance
7(a)	**Define a *mixed economy*.** 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).	**2**	
7(b)	**Explain two advantages of working in the tertiary sector rather than the primary sector,** 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).	**4**	
7(c)	**Analyse why a trade union may oppose a rise in working hours.** 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).	**6**	

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Question	Answer	Marks	Guidance
7(d)	**Discuss whether a government should pay high wages to workers in the public sector.** **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). **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).	8	

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ECONOMICS **0455/22**

Paper 2 Structured Questions **February/March 2018**

2 hours 15 minutes

No Additional Materials are required.

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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.

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Section A

Answer this question.

1 India's high-technology industry

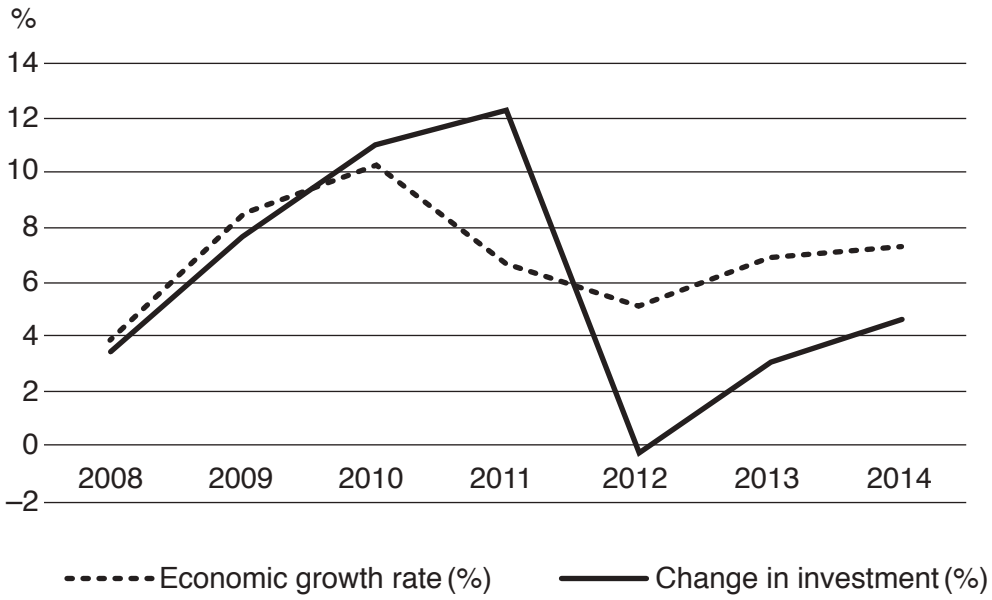
India has a number of expanding industries including construction, engineering, healthcare and retail. Its high-technology industry, which is often referred to as 'hi-tech', is its most rapidly growing industry, adding more than 200 000 jobs a year. It currently employs more than 10 million people and 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



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(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]

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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]

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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

Question Number	*Key*	*Question Number*	*Key*
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.

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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.

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ECONOMICS

Paper 0455/12
Multiple Choice

Question Number	*Key*	*Question Number*	*Key*
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.

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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.

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ECONOMICS

Paper 0455/13
Multiple Choice

Question Number	*Key*	*Question Number*	*Key*
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.

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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.

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ECONOMICS

Paper 0455/21
Structured Questions

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.

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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.

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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.

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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.

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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.

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ECONOMICS

Paper 0455/22
Structured Questions

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.

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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.

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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.

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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 on the use of resources, the size of the labour force, and the dependency ratio.

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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.

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ECONOMICS

Paper 0455/23
Structured Questions

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.

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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.

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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.

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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.

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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.

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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

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ECONOMICS **0455/11**

Paper 1 Multiple Choice **May/June 2018**

MARK SCHEME

Maximum Mark: 30

Published

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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**

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Question	Answer	Marks
29	B	**1**
30	C	**1**

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ECONOMICS **0455/12**

Paper 1 Multiple Choice **May/June 2018**

MARK SCHEME

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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**

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Question	Answer	Marks
29	A	**1**
30	C	**1**

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ECONOMICS **0455/13**

Paper 1 Multiple Choice **May/June 2018**

MARK SCHEME

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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**

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Question	Answer	Marks
29	A	**1**
30	C	**1**

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ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 2018**

MARK SCHEME

Maximum Mark: 90

Published

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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.

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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/not 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.

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Question	Answer	Marks	Guidance
1(d)(ii)	**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.** 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).	**2**	
1(e)	**Discuss whether or not older workers are always paid more than younger workers.** **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). **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).	**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)	**Explain, using information from the extract, ONE reason why a relatively poor country may have a low unemployment rate.** 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).	**4**	

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Question	Answer	Marks	Guidance
1(g)	**Discuss whether or not commercial banks in Morocco would benefit from further mergers.** **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). **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).	**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.

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Question	Answer	Marks	Guidance
2(a)	**Define *perfectly inelastic supply*.** A change in price causes no change in supply (2). Correct formula (1). A PES of 0 (1).	**2**	
2(b)	**Explain TWO reasons why a firm may NOT aim to earn maximum profit.** 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 satisficing (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).	**4**	
2(c)	**Analyse why Premier League footballers receive very high wages.** 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).	**6**	Up to 2 marks for a relevant diagram – 1 for high demand and 1 for low supply. Max 4 marks if no specific application to footballers.

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether or not a government should spend some of its tax revenue on building sports stadiums.** **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). **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).	8	Accept, but do not expect, references to public and merit goods.

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Question	Answer	Marks	Guidance
3(a)	**Define *devaluation*.** 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).	**2**	'Exchange rate' means one currency relative to another. 'Currency' means one currency on its own – mark as Too Vague
3(b)	**Explain TWO advantages of a floating exchange rate.** 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).	**4**	
3(c)	**Analyse how fiscal policy measures could reduce inflation.** 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).	**6**	

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Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not a reduction in a current account deficit on the balance of payments will benefit an economy.** **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). **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).	**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.

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Question	Answer	Marks	Guidance
4(a)	**Define *economies of scale*.** A fall in average costs (1) resulting from an increase in output/scale of production (1).	**2**	Reward an accurately labelled diagram.
4(b)	**Explain TWO benefits consumers may gain from free trade.** 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).	**4**	Maximum of 2 marks for each benefit identified and explained.
4(c)	**Analyse how reducing transport costs could increase a country's exports and imports.** 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).	**6**	It is possible to gain full marks with reference to either just exports or just imports.

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Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not raising living standards is the most important economic objective for developing countries.** **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) *raise productivity (1) raise output/generate economic growth (1)*. Improving education (1) may increase skills (1) *raise productivity (1) raise output/generate economic growth (1)*. Better quality housing (1) can reduce illness (1) *raise productivity (1) raise output/generate economic growth (1)*. **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).	**8**	The chain of response *raise productivity (1) raise output/generate economic growth (1)* can only be credited once. A maximum of 3 marks for a list-like approach.

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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.

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Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not increasing the strength of trade unions will benefit an economy.** **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). **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).	**8**	NB: Max 5 marks for a static answer (i.e. that discusses benefits and drawbacks of trade unions, not the impact of the *increasing strength* of TUs).

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Question	Answer	Marks	Guidance
6(a)	**Define *net immigration*.** 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).	**2**	
6(b)	**Explain how market forces would respond to a shortage of drinking water.** 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).	**4**	Up to 2 marks for a relevant diagram, showing demand being greater than supply (1) and price below equilibrium (1).
6(c)	**Analyse what determines the demand for labour.** 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).	**6**	

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether or not increased government spending will increase economic growth.** **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). **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).	**8**	

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Question	Answer	Marks	Guidance
7(a)	**Define *regressive tax*.** 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).	**2**	
7(b)	**Explain why the social benefit of healthcare is greater than the private benefit.** 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).	**4**	
7(c)	**Analyse why a government imposes taxes.** 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).	**6**	Accept but do not expect reference to public and merit goods.

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Question	Answer	Marks	Guidance
7(d)	**Discuss whether or not consumers are likely to benefit from state-owned enterprises becoming private sector firms.** **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). **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).	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.

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **May/June 2018**

MARK SCHEME

Maximum Mark: 90

Published

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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.

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Question	Answer	Marks	Guidance
1(a)	**Identify <u>two</u> fixed costs of production in Fig.1.** One mark each for any 2 from: insurance, security, rent, lighting and wages.	**2**	If more than two examples are given, consider only the first three.
1(b)	**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.** 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),	**4**	

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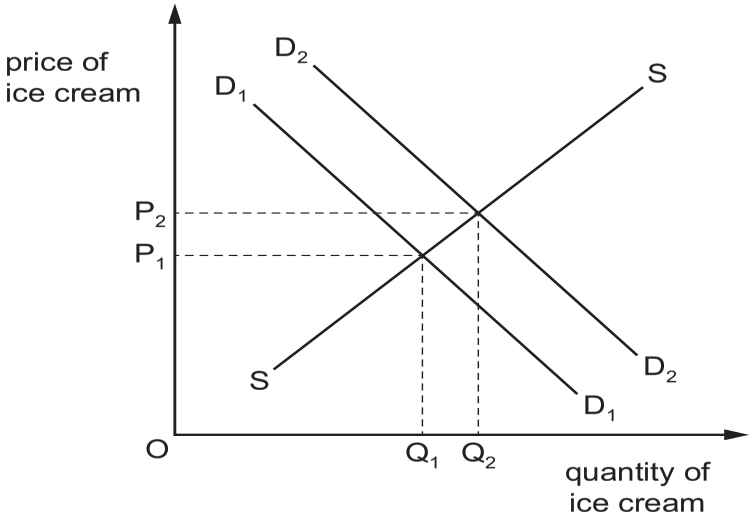
Question	Answer	Marks	Guidance
1(c)	**Analyse, using a demand and supply diagram, the effect of an increase in income on the market for ice cream.** **Up to 4 marks for a diagram:** • axes correctly labelled – price and quantity or P and Q (1) • demand and supply curves correctly labelled, S (1) • demand 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)  **1 mark for written analysis:** • 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**	

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Question	Answer	Marks	Guidance
1(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.** 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). Egypt higher in terms of GDP per head but lower in terms of HDI than Cuba (1). Cuba may have a high life expectancy (1) indicating good healthcare (1). Cuba may have a high number of mean and expected years of schooling (1) indicating a strong education system / more educated population (1).	**4**	Reward 1 mark for a supported conclusion that it is generally the expected relationship. Marks may be gained in relation to Cuba by mentioning Egypt may have less good healthcare and education.
1(e)	**Discuss whether or not a government should encourage people to save more.** **Up to 3 marks for why it should:** 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). More savings can reduce consumer spending (1) which will lower total (aggregate) demand (1) which can reduce inflation (1). More savings can reduce demand for imports (1) improve the current account position (1). 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 *named* area (1). **Up to 3 marks for why it should not:** More saving may reduce output / cause recession (1) increase unemployment (1) cause deflation (1). More saving will increase deposits at banks (1) this may encourage them to lend to un-creditworthy customers (1) causing banks to collapse (1).	**5**	Accept response from the perspective of why it should not, by discussing why it would be better for the government to encourage spending, Reward change in consumer spending and total demand in either why it should, or why it should not, but not in both.

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Question	Answer	Marks	Guidance
1(f)	**Explain, using information from the extract, how cash benefits given to the poor can reduce poverty.** 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).	**4**	Maximum of 1 mark for a way cash benefits may reduce poverty, if not linked to education. Reward but do not expect reference to an implied multiplier effect resulting from the higher spending creating more jobs.
1(g)	**Discuss whether or not a market system benefits consumers**. **Up to 4 marks for why it might:** In theory there will be consumer sovereignty (1) with firms being responsive to consumer demand (1). 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). **Up to 4 marks for why it might not:** Those with low incomes will lack purchasing power (1) the market will not produce what they want (1). Monopolies may develop (1) driving up price (1) reducing quality (1). 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). Some consumers may find too much choice confusing (1) advertising can distort consumer choice (1).	**6**	Reward but do not expect reference to public goods.

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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 <u>two</u> 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.

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether people would prefer to buy a product from a small firm or a large firm.** **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) *example* (1). **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) *example* (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).	**8**	Accept response from either perspective. 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.

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Question	Answer	Marks	Guidance
3(a)	**Identify <u>two</u> examples of capital goods that may be used by a farm.** One mark each for each of two examples e.g. tractor, farm buildings.	**2**	
3(b)	**Explain how a country could have a trade in goods surplus but a deficit on the current account on the balance of payments.** 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) *identification of two of the three other components* (1) there could be a larger deficit on the trade in services balance (1) *example of a service item decreasing* (1) there can be a larger deficit on income (primary) balance (1) *example of an income item increasing* (1) there could be a larger deficit on current transfers (secondary) balance (1) *example of a current transfer item decreasing* (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).	**4**	
3(c)	**Analyse the economies of scale from which a farm may benefit.** 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).	**6**	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. Also credit analysis of external economies of scale. Maximum of 3 marks for a list-like approach.

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Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not developing countries benefit from producing mainly primary products.** **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). **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).	**8**	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. Reward but do not expect reference to comparative advantage.

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Question	Answer	Marks	Guidance
4(a)	**Define a *substitute* and give an example.** A rival product / a product that can be used instead of another (1) e.g. bus travel and car travel / oranges and apples (1).	**2**	
4(b)	**Explain <u>two</u> advantages a firm may gain from being a monopoly.** 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).	**4**	
4(c)	**Analyse how price elasticity of demand for a product influences the revenue a firm receives.** *Formula or definition of PED* (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) *example of type of product with elastic demand* 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) *example of a product with inelastic demand 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).	**6**	Accept as reasons why demand may be price-elastic, availability of substitutes and why demand may be price-inelastic, lack of substitutes.

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Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not a government should subsidise bus transport.** **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). **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).	**8**	Reward but do not expect reference to bus transport being a merit good.

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Question	Answer	Marks	Guidance
5(a)	**Identify <u>two</u> causes of an ageing population.** 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).	**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)	**Explain why the price of housing may increase.** 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).	**4**	
5(c)	**Analyse why more women may enter the labour force**. 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).	**6**	

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5(d)	**Discuss whether or not a rise in the birth rate will benefit an economy.** **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). **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).	**8**	Reward but do not expect reference to the idea of an optimum population size.

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6(a)	**Define *commercial bank*.** Two marks from: A financial institution (1) that offers services to people/households/firms (1) *examples of services* (1) that is profit orientated (1) (usually) in the private sector (1).	**2**	
6(b)	**Explain how a stock exchange could encourage economic growth.** 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).	**4**	
6(c)	**Analyse what can cause deflation.** 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).	**6**	

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6(d)	**Discuss whether or not government policy measures to reduce unemployment will cause inflation.** **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). **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).	**8**	

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Question	Answer	Marks	Guidance
7(a)	**Define *import tariff*.** A tax (1) imposed on products purchased from other countries / imports (1).	**2**	
7(b)	**Explain <u>two</u> benefits of an increase in world output.** 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).	**4**	
7(c)	**Analyse how a recession may reduce a country's imports.** 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).	**6**	

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7(d)	**Discuss whether or not a developing country will benefit from the removal of trade restrictions.** **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). **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).	**8**	

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ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 2018**

MARK SCHEME

Maximum Mark: 90

Published

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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.

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Question	Answer	Mark	Guidance
1(a)	**Identify, using information from the extract, <u>two</u> causes of low life expectancy in developing countries.** • Poor healthcare facilities • lack of access to safe water • lack of basic sanitation • not enough food production • absolute poverty	**2**	
1(b)(i)	**Explain, using information from the extract, how the water shortage is an example of the economic problem.** 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).	**4**	
1(b)(ii)	**Explain, using information from the extract, why the problem of water shortages is likely to become even worse in the future.** 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).	**4**	

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Question	Answer	Mark	Guidance
1(c)	**Analyse, using Table 1, the extent to which a high risk of water shortage in a country / region causes low GDP per head.** 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)	**5**	
1(d)	**Calculate, using the information in the extract, the price elasticity of demand for water.** PED = (–) 0.07 (2) Correct working –0.7% / 10% or –0.07% or 0.7 (1)	**2**	

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Question	Answer	Mark	Guidance
1(e)	**Discuss whether or not private firms supplying water should increase their prices.** **Up to 3 marks for why they should:** 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). **Up to 3 marks for why they should not:** 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).	**5**	
1(f)	**Explain what is meant by *absolute poverty*.** 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.	**2**	

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Question	Answer	Mark	Guidance
1(g)	**Discuss whether or not a country's economic growth rate depends mostly on the availability of its natural resources.** **Up to 4 marks for why they might:** 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). **Up to 4 marks for why they might not:** 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).	**6**	

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Question	Answer	Mark	Guidance
2(a)	**Identify <u>two</u> influences on the strength of a trade union's collective bargaining power.** • 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)	**Explain the likely impact of trade unions on the welfare of their members.** Increase or maintain wages of members (1) increase or maintain material standard of living (1). Improve or maintain working conditions (1) e.g. improved safety / less stress (1). Protect workers' rights (1) e.g. working hours / sick pay / paternity leave (1). Protect jobs (1) reduce risk of unemployment (1). Provide training (1) helping employees find better jobs / better paid jobs (1).	**4**	
2(c)	**Analyse the impact of a reduction in government expenditure on healthcare on a country's unemployment rate.** 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). 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). 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).	**6**	

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Question	Answer	Mark	Guidance
2(d)	**Discuss whether or not a decrease in the number of doctors will reduce living standards.** **Up to 5 marks for why it might:** 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). **Up to 5 marks for why it might not:** Technological advancement (1) could mean the quality of healthcare is improving even though the number of doctors is falling (1) I 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)	**8**	

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Question	Answer	Mark	Guidance
3(a)	**Define *import quota*.** Limit (1) on quantity of good or service allowed in to a country / bought from abroad / imported (1).	**2**	
3(b)	**Explain <u>two</u> advantages to a country of specialisation.** 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)	**4**	
3(c)	**Analyse the impact on an economy of the removal of import quotas imposed by other countries.** 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).	**6**	

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Question	Answer	Mark	Guidance
3(d)	**Discuss whether or not an increase in the role of the private sector will benefit an economy.** **Up to 5 marks for the benefits:** 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). **Up to 5 marks for the drawbacks:** 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) Higher prices (1) private companies could exploit market power e.g. monopoly (1) 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. Market failure occurs (1) as externalities are not considered by the market mechanism (1) example (1)	**8**	Accept, but do not expect, reference to public goods

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Question	Answer	Mark	Guidance
4(a)	**Identify two functions of a central bank.** • 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)	**Explain how the Consumer Prices Index (CPI) is calculated.** 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).	**4**	Up to 2 marks for correct numerical examples.
4(c)	**Analyse the impact of a cut in interest rates on saving and investment.** 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).	**6**	

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Question	Answer	Mark	Guidance
4(d)	**Discuss the impact of supply-side policy measures on government expenditure and on government revenue.** **Up to 5 marks for why it might increase government expenditure and decrease tax revenue:** 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). Cut in income tax (1) may decrease income tax revenue in short run (1). Cut in corporation tax (1) may decrease corporation tax revenue in short run (1). Privatisation in the long run may reduce government revenue (1) if privatised firms have been profitable (1) **Up to 5 marks for why it might decrease government expenditure and increase tax revenue:** 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). Income tax receipts may increase in the long run if more people are working (1) and corporation tax receipts may increase is firms are making bigger profits (1). Spending on education and training (1) is likely to increase employment (1) reducing spending on welfare benefits (1) increasing income tax revenue (1). 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). Privatisation in the short run may increase government revenue (1) from the sale of shares (1).	8	

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Question	Answer	Mark	Guidance
5(a)	**Define *progressive tax*.** 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).	**2**	
5(b)	**Explain <u>two</u> reasons why a government may want to reduce poverty.** 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).	**4**	

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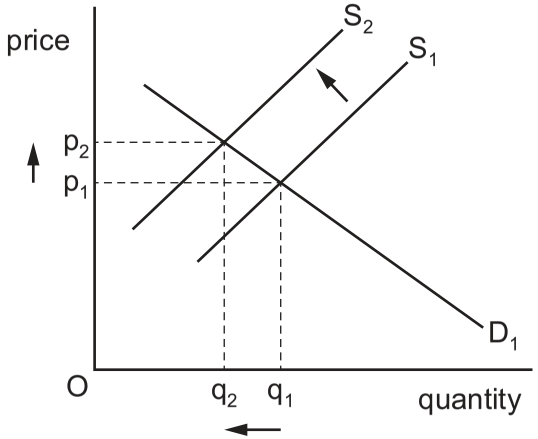
Question	Answer	Mark	Guidance
5(c)	**Analyse, using a supply and demand diagram, the effect of increasing a sales tax.** Award up to 4 marks for a correct diagram:  • Axes labels P and Q (1) • Supply and demand curves correctly labelled (1) • Supply curve shifting left (1) • Original and new equilibrium positions identified (1) **Award up to 2 marks for associated explanation:** Increasing tax raises a firm's costs of production (1). A higher price (1) may be passed on to consumers (1).	**6**	

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Question	Answer	Mark	Guidance
5(d)	**Discuss whether a government should increase indirect taxes and whether it should reduce direct taxes.** **Up to 5 marks for why the government should do this:** 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). 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). **Up to 5 marks for why the government shouldn't do this:** Indirect taxes tend to be regressive (1) whilst direct taxes are progressive (1) so this will worsen inequality / poverty in a country (1). 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). 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). Tax take could fall (1) as indirect taxes can be avoided whereas direct taxes cannot (1).	**8**	

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Question	Answer	Mark	Guidance
6(a)	**Identify <u>two</u> features of a capital-intensive production process.** 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).	**2**	
6(b)	**Explain how market failure might occur in the oil industry.** 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).	**4**	

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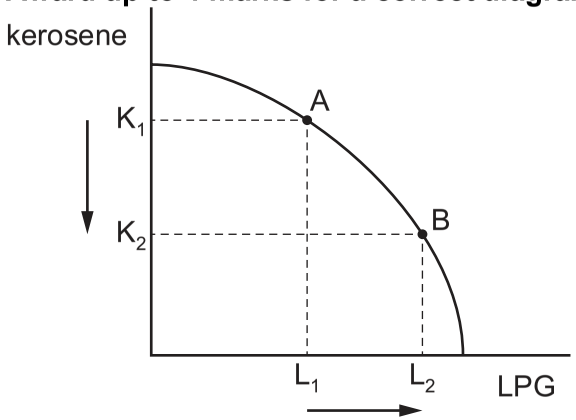
Question	Answer	Mark	Guidance
6(c)	**Analyse, using a production possibility curve (PPC) diagram, the effect of reallocating resources from kerosene to LPG.** **Award up to 4 marks for a correct diagram:**  • Axes labels LPG and kerosene (1) • Curve / downward sloping line drawn to axes (1) • Two production points illustrating increased production of LPG (1) • New production point indicated (1) **Award up to 2 marks for associated explanation:** Reallocating resources will involve a movement along the PPC (1) this will involve an opportunity cost (1).	**6**	Accept points on the curve with arrow from A to B.

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Question	Answer	Mark	Guidance
6(d)	**Discuss whether or not removing a firm's monopoly power will benefit consumers.** **Up to 5 marks for why it might:** 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). **Up to 5 marks for why it might not:** 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).	8	

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Question	Answer	Mark	Guidance
7(a)	**Define *recession*.** A fall in GDP / negative economic growth (1) for two successive quarters / 6 months or more (1)	**2**	
7(b)	**Explain why a recession is likely to reduce consumer spending.** 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).	**4**	
7(c)	**Analyse the consequences of rising unemployment on a government's spending and tax revenue.** 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).	**6**	

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Question	Answer	Mark	Guidance
7(d)	**Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession.** **Up to 5 marks for why it might:** 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). **Up to 5 marks for why it might not:** 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).	**8**	

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Cambridge International Examinations
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ECONOMICS **0455/11**

Paper 1 Multiple Choice **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

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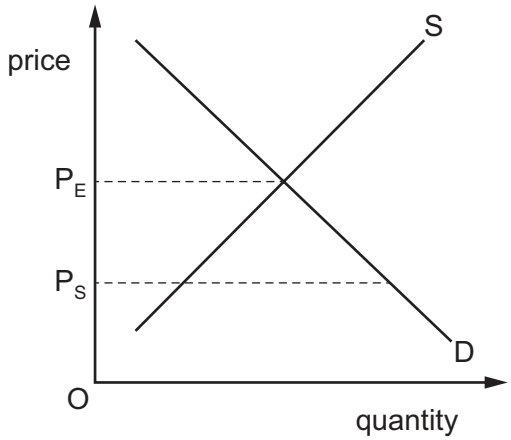
5 In the diagram, suppliers have set the price of a product at P_S. Economic theory predicts that the equilibrium price of the product will rise to P_E.



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

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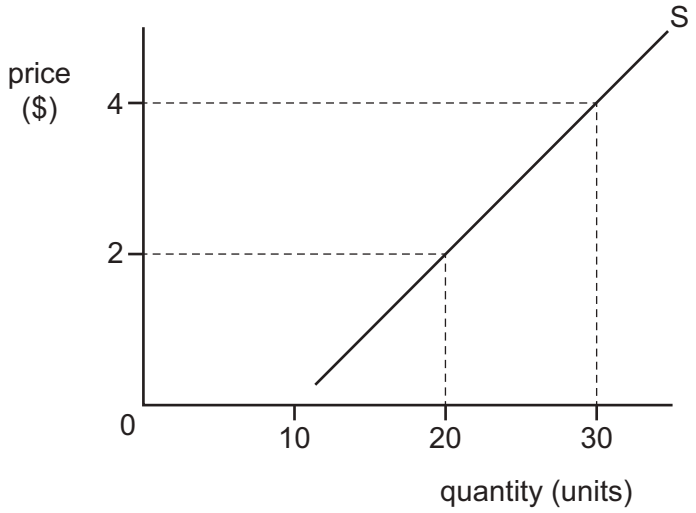
7 The diagram shows the supply curve for a good.



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

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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

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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

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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

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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.

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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

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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 **0455/12**

Paper 1 Multiple Choice **May/June 2018**

45 minutes

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

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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

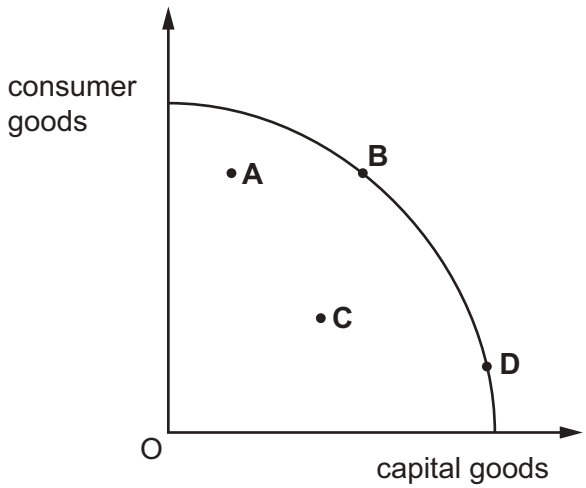
B the money the airline keeps in the bank

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.

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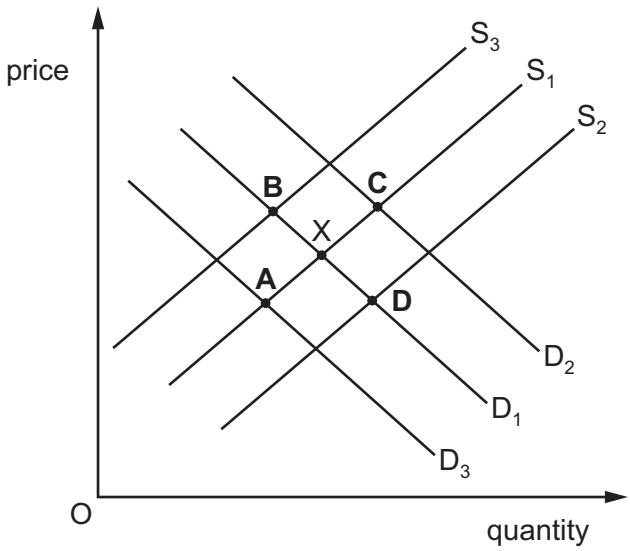
5 The diagram shows the market for beef in the US with the original equilibrium at X.

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

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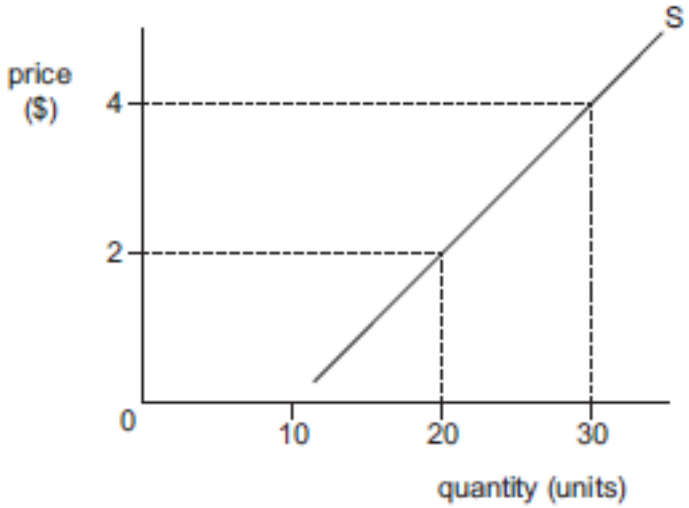
7 The diagram shows the supply curve for a good.



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

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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.

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.

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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 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

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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?

A an increase in economic growth

B an increase in exports

C an increase in incomes

D an increase in unemployment

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

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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

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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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30 The table shows the rice yield in four countries.

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ECONOMICS **0455/13**

Paper 1 Multiple Choice **May/June 2018**

45 minutes

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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?

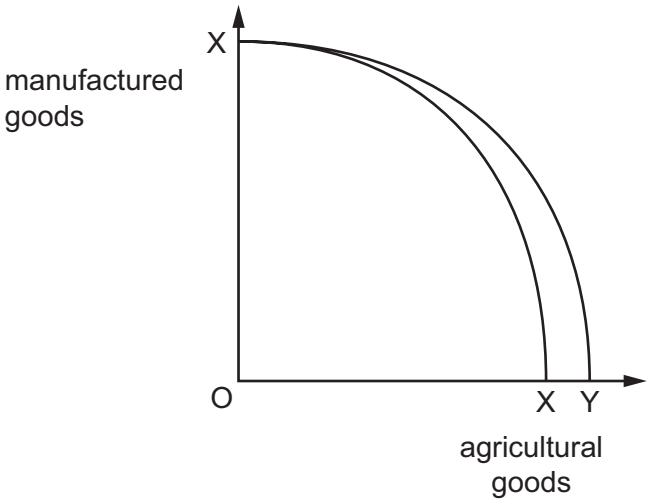
A It can cause inflation and unemployment.

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

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4 What is a benefit of the free market system?

A Innovation is encouraged to increase profits.

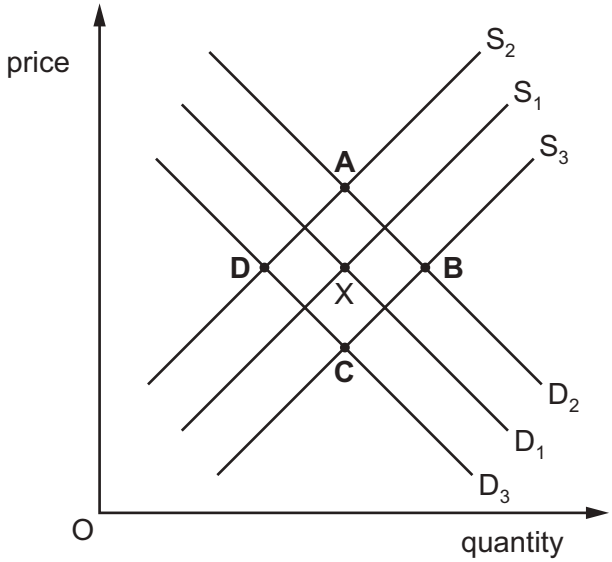
C Negative externalities can be controlled.

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

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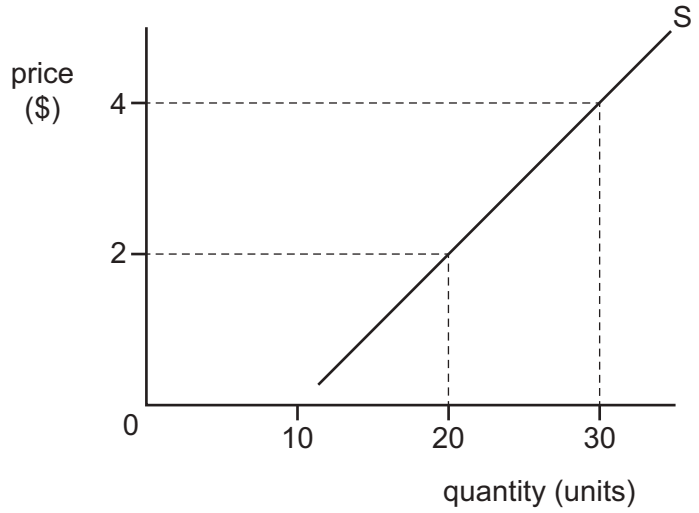
7 The diagram shows the supply curve for a good.



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.

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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.

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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

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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

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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.

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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

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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 **0455/21**

Paper 2 Structured Questions **May/June 2018**

2 hours 15 minutes

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Section A

Answer this question.

1 Banking and unemployment in Morocco

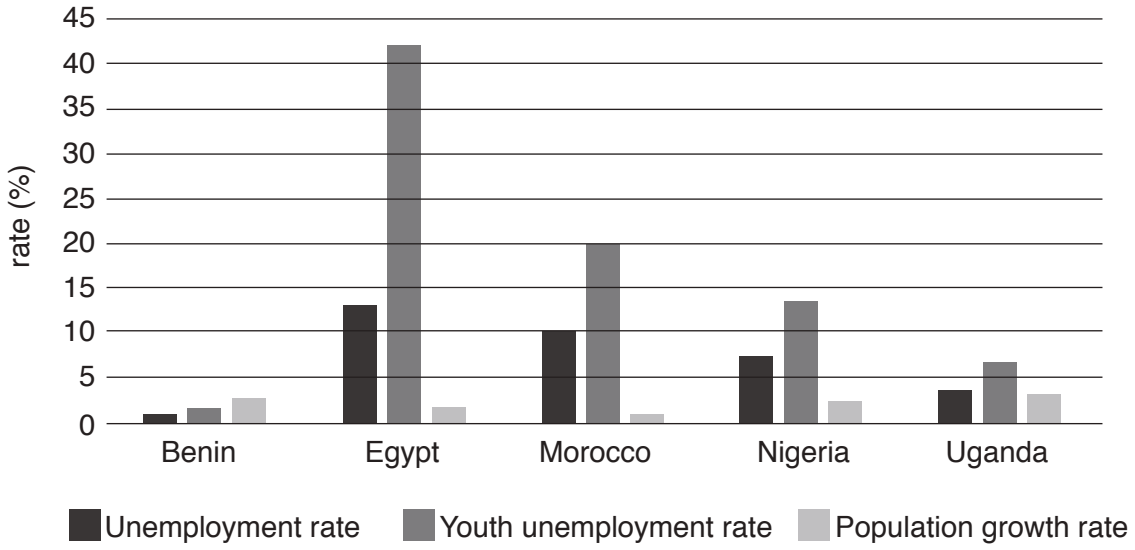
Morocco's banking industry has been described as one of the best in Africa. It has some of Africa's largest commercial banks, but three out of nineteen control more than two-thirds of the market. These three have grown mostly through mergers and it is expected more mergers will occur between Moroccan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

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(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]

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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]

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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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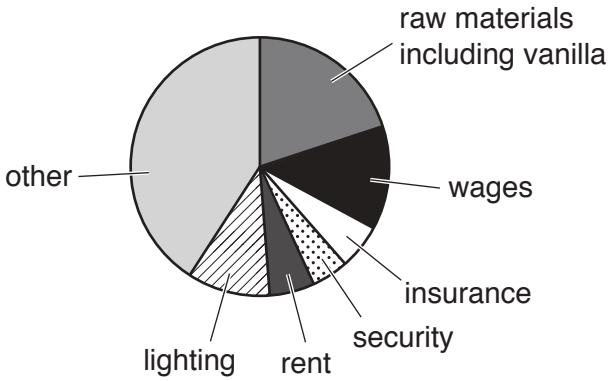
Section A

Answer 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.

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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]

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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]

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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**

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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	4318
Canada	1.2	43332
Germany	1.9	40997
Pakistan	4.3	1450
Saudi Arabia	5.0	20813
Western Sahara	5.0	2500

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.

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(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]

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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]

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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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Grade thresholds – March 2019

Cambridge IGCSE™ Economics (0455)

Grade thresholds taken for Syllabus 0455 (Economics) in the March 2019 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 12	30	23	20	18	16	12	10	8
Component 22	90	63	52	41	35	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 2019**

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

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Question	Answer	Marks
29	A	**1**
30	B	**1**

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ECONOMICS **0455/22**

Paper 2 Structured Questions **March 2019**

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.

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Question	Answer	Marks
1(a)	**Identify, using information from the extract, two reasons why India's inflation rate fell in 2016.** Fall in oil prices (1). Monetary policy (1).	**2**
1(b)	**Explain, using information from the extract, whether demand for Indian tractors was price-elastic or price-inelastic in 2015.** Inelastic (1) price and revenue moved in the same direction (1).	**2**
1(c)	**Explain <u>two</u> internal economies of scale referred to in the extract.** • managerial/labour economies (1) employing specialised workers (1) • financial economies (1) easier to borrow from banks / lower borrowing costs (1).	**4**
1(d)	**Calculate, using information from the extract, the percentage of India's labour force that was employed in the vehicle industry in 2016.** 5% (2). Correct working: (26m / 500m + 20m) × 100 / 520m (size of labour force) / 5.2% (percentage in 2014) (1).	**2**
1(e)	**Analyse, using Fig.1, the relationship between India's economic growth rate and population growth rate over the period shown.** Output rose over the period / economic growth rate was positive over the period (1). Economic growth rate fell over the whole period (1). Economic growth rate fell from 2010 to 2012 (1). Economic growth rate rose from 2012 to 2016 (1). Economic growth rate is highest in 2010 (1). Population rose over the period (1). Population growth rate fell over the period / was on a downward trend (1). Population growth rate was relatively stable (1). Population growth rate is highest in 2010 (1). Economic growth rate was higher than population growth rate (1) every year (1). Economic growth fluctuated more than population growth rate (1). The data suggests that GDP per head / living standards would have risen over the period (1).	**5**

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Question	Answer	Marks
1(f)	**Discuss whether or not a government should aim for a low rate of inflation.** **Up to 3 marks for why it should:** A low rate of inflation may result in increased international competitiveness (1) improving the current account position (1). It may create certainty/stability (1) encouraging firms to invest (1) increasing output (1) increasing employment / lowering unemployment (1). It will not cause a random redistribution of income (1) protecting savers (1). It may raise profit (1) if demand-pull (1) encourage firms to expand (1) increasing employment (1). It stops purchasing power being eroded by too much (1). **Up to 3 marks for why it should not:** It may involve policy measures such as e.g. higher income tax (1) which reduce total (aggregate) demand (1) and so cause unemployment (1). Inflation can reduce debts (1) keeping firms in business (1) stopping households getting into difficulty (1). Employment may be protected (1) wages can be raised by less than inflation (1) enabling firms in difficulty to continue in production (1). A government may have other policy objectives (1). There is a risk that this could lead to deflation (1) have adverse macroeconomic effects / lose benefits of low rate of demand-pull inflation (1).	**5**
1(g)	**Explain, using information from the extract, <u>two</u> reasons why consumer expenditure may increase in India in the future.** The economy is growing / there is a rise in GDP per head (1) more income increases people's ability to spend (1). There is growing optimism (1) which is likely to increase people's willingness to spend as they may expect incomes/employment to be high in the future (1). The population is increasing (1) more people to buy goods and services (1). The labour force is increasing (1) more people with incomes to spend (1). The population is due to be relatively young (1) the young may spend a relatively high proportion of their income (1). Low/stable inflation (1) may enable interest rates to be low (1).	**4**

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Question	Answer	Marks
1(h)	**Discuss whether or not having a young population is a benefit to an economy.** **Up to 4 marks for why it might:** They may increase the size of the labour force (1) increase productive capacity / potential output (1). They may be more geographically mobile (1) allowing firms to fill vacancies (1). They may have up to date skills (1) may be fitter / physically stronger (1) raise productivity (1). A ready supply of young workers may attract MNCs (1) increase output (1). **Up to 4 marks for why it might not:** If a high proportion are aged below school leaving age (1) there will be a high dependency ratio (1) placing a burden on workers (1). There may be a need for more schools (1) resources could have been used for other purposes (1) opportunity cost (1). Young workers may be less experienced (1) less productive/skilled (1) may need more training (1) may emigrate (1). There may be a fall in parents working for a while (1) reduce output (1).	**6**

Question	Answer	Marks
2(a)	**Identify <u>two</u> reasons why an MNC may decide to start producing in a foreign country.** • access to raw materials • cheap labour • skilled labour • large market • government support • low taxes • avoid trade restrictions	**2**
2(b)	**Explain <u>two</u> reasons why someone may want to work for an MNC.** • wages may be high (1) giving high living standards (1) • working conditions may be good (1) e.g. short working hours, good health and safety standards (1) • training may be good (1) raising worker's future job prospects (1) • fringe benefits may be good (1) e.g. free accommodation (1) • more chance of promotion (1) higher earnings in the long run (1) • Good reputation (1) prestige working for the firm / increased future employment opportunities (1).	**4**

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Question	Answer	Marks
2(c)	**Analyse how an increase in exports could improve a country's macroeconomic performance.** An increase in exports can increase export revenue (1) this may reduce a current account deficit (1). An increase in exports will increase total (aggregate) demand (1) firms will produce more products / higher output (1) more workers will be employed (1) unemployment will fall (1) economic growth will increase / incomes will rise / higher living standards (1).	6
2(d)	**Discuss whether or not an increase in government spending will reduce a surplus on the current account of the country's balance of payments.** **Up to 5 marks for why it might:** Higher government spending may go on imports (1) e.g. imported computers for government offices (1). Higher government spending on e.g. state benefits (1) will increase disposable income (1) some of this might be spent on imports (1). Higher government spending will increase total (aggregate) demand (1) this may cause inflation (1) reduce international competitiveness (1) reduce exports (1) increase imports (1). **Up to 5 marks for why it might not:** Government spending on education and training / healthcare (1) may raise labour productivity (1) reduce costs of production (1) improve quality (1) increased demand for domestically produced products (1) increase exports (1) reduce imports (1). Government spending on infrastructure (1) may reduce transport costs (1) increasing price competitiveness (1) increasing exports (1) reducing imports (1). The government may subsidise domestic products (1) lowering the price of domestic products (1) increasing exports (1) reducing imports (1).	8

Question	Answer	Marks
3(a)	**Identify <u>two</u> ways a government could encourage people to spend more.** ☐ lower taxes ☐ increase government spending / expansionary fiscal policy ☐ increase money supply ☐ reduce interest rates / expansionary monetary policy ☐ raise subsidies	2
3(b)	**Explain how the economic problem results in people having to make choices.** The economic problem is unlimited wants (1) but limited resources (1). As resources are limited, people cannot have everything they want / not everything can be produced / there is scarcity (1) there is an opportunity cost (1).	4

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Question	Answer	Marks
3(c)	**Analyse why deflation may cause a fall in output**. A fall in the price level (1) may discourage spending / reduce total (aggregate) demand (1) households waiting for prices to fall further (1) the fall in demand may reduce firms' output (1). Deflation may reduce firms' profits (1) this may discourage investment (1) reduce demand for capital goods (1) lower the output of capital goods (1).	**6**
3(d)	**Discuss whether or not a country will suffer if its output falls.** **Up to 5 marks for why it might:** Lower output may mean that people will have fewer goods and services (1) this could reduce living standards / reduce incomes (1). Lower output may mean fewer workers are needed (1) unemployment may rise (1). If consumers cannot buy domestically produced products (1) they may buy imports (1) exports may fall (1) resulting in a current account deficit (1). MNCs may leave the country (1) reducing employment (1). Tax revenue may fall (1) reducing government's ability to spend on e.g. education (1). **Up to 5 marks for why it might not:** Living standards may rise (1) if output falls by less than population (1). A lower output may reduce external costs (1) e.g. pollution (1) destruction of sights of natural beauty (1). Lower output may reduce demand for imports (1) improve the current account position (1).	**8**

Question	Answer	Marks
4(a)	**Identify <u>two</u> reasons why someone may want to migrate to the USA.** • higher wages • better education • better healthcare • better employment prospects	**2**
4(b)	**Explain <u>two</u> reasons why less-educated people tend to have a shorter life expectancy than people who have received more education.** • a lower income (1) worse nutrition/healthcare/housing (1) • less well-informed (1) less likely to eat healthily / more likely to have unhealthy habits e.g. smoking (1) • more likely to be in a more physically demanding / risky job (1) less choice of occupation due to less skills/qualifications (1).	**4**

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Question	Answer	Marks
4(c)	**Analyse how economic growth can reduce absolute poverty.** Economic growth is likely to increase employment (1) this may increase the chances of the poor gaining jobs (1) raise income (1) allow them to buy basic necessities / definition of absolute poverty (1). Economic growth can increase tax revenue (1) this may enable the government to spend more to help the poor (1) e.g. improved education for the poor (1) higher state benefits (1).	**6**
4(d)	**Discuss whether or not a cut in the tax on firms' profits will increase employment.** **Up to 5 marks for why it might:** Firms will be able to keep more of their profits (1) this may increase the incentive for them to expand their output (1) it will provide the funds to spend on expansion (1). To increase their output, firms may take on more workers (1) employment may rise in the private sector (1). Higher profits may attract more shareholders (1) this will also increase the funds for investment (1). **Up to 5 marks for why it might not:** Firms will not expand if they have spare capacity (1) or they are worried about the future (1). Firms may distribute extra profits to shareholders rather than invest (1). Firms may expand by adopting more capital-intensive methods (1) may actually reduce employment (1). May be lower tax revenue (1) example of what the government may spend less on (1) link to unemployment (1).	**8**

Question	Answer	Marks
5(a)	**Identify <u>two</u> fixed costs.** • rent • interest on past loans • insurance • salaries	**2**
5(b)	**Explain <u>two</u> ways monopoly differs from perfect competition.** • one supplier in monopoly (1) many suppliers in perfect competition (1) • a monopoly has 100% share of the market (1) one perfectly competitive firm will have a small share of the market (1) • barriers to entry and exit in monopoly (1) free entry and exit in perfect competition (1) • a monopoly is a price maker (1) while a perfectly competitive firm is a price taker (1) • a monopolist may advertise (1) no advertising in perfect competition (1) • there may be brand loyalty in monopoly (1) but no attachment between buyers and sellers in perfect competition (1) • there are no substitutes in a monopoly (1) there are perfect substitutes in perfect competition (1).	**4**

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Question	Answer	Marks
5(c)	**Analyse what determines a firm's demand for labour.** Demand for the product (1) demand for labour is a derived demand (1) the higher the demand for the product, the more workers employed (1). Productivity / high skills / qualifications (1) a rise in productivity will increase the return from employing labour / the higher skills the higher the demand (1). Wage rate (1) a fall in the wage rate would be likely to increase the demand for labour (1). The price (1) and productivity (1) of substitutes to labour (1) and complements to labour (1). Production method (1) demand will be higher if production is labour-intensive (1).	**6**
5(d)	**Discuss whether or not a merger will increase profits.** **Up to 5 marks for why it might:** A merger will reduce competition (1) the merged firm will have increased market share (1) this may make demand for its products more inelastic (1) may be able to raise price (1). The new combined firm may be able to take greater advantage of economies of scale (1) so lower average cost (1) examples (2). The new firm may be able to rationalise (1) cut out duplication (1) lower average cost (1). There may be more ideas / sharing of ideas (1) increasing innovation / raising quality (1). A vertical merger will provide greater control over the quality of raw materials / outlets (1). **Up to 5 marks for why it might not:** The reduction in competition may reduce competitive pressure on the new firm to keep costs low (1) and quality high (1) so demand may fall (1). It may be difficult for the two former firms to adopt common methods of production (1) there may be duplication of equipment and staff (1). The merged firm may experience diseconomies of scale (1) higher average cost (1) examples (2).	**8**

Question	Answer	Marks
6(a)	**Define *social benefit*.** The total benefit to society of an economic activity or external benefit + private benefit (2). A beneficial effect on society (1).	**2**

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Question	Answer	Marks
6(b)	**Explain <u>two</u> advantages of conserving natural resources.** • resources will last longer / decrease rate of depletion (1) future generations will be able to benefit from the resources (1) • economic growth / development may be more sustainable (1) income may be generated over time / value may rise in the future (1) • over use of natural resources (1) may cause external costs (1) • tourism may increase (1) increase export revenue / employment (1).	**4**
6(c)	**Analyse how taxation could reduce market failure.** Monopolies may be taxed (1) if they exploit their market power (1) by charging high prices (1). Production and consumption that generates external costs may be taxed (1) example (1) this will turn an external cost into a private cost (1) increase costs of production (1) reduce output (1). Tax revenue can be used to e.g. subsidise products with external benefits (1) example (1).	**6**
6(d)	**Discuss the advantages and disadvantages of a market economic system.** **Up to 5 marks for why it might:** In theory, there is consumer sovereignty (1) consumers determine what is produced (1) firms will respond to changes in demand (1). Prices may be low (1) quality may be high (1) high efficiency (1) due to competition (1) and the profit motive (1) A variety of products may be produced / there may be choice (1). **Up to 5 marks for why it might not:** Poor consumers will have little influence on what is produced (1) as they have little purchasing power (1). Monopolies may develop (1) which may charge high prices (1) and produce low quality (1). Products that provide external benefits will be under-produced (1) so under-consumed (1) example of such a product (1). Products that cause external costs will be overproduced (1) and so overconsumed (1) example of such a product (1).	**8**

Question	Answer	Marks
7(a)	**Define *a market*.** An arrangement that brings buyers and sellers into contact / products are bought and sold (2). Buyers (1) sellers (1). Example of the purchase and sale of products (1).	**2**

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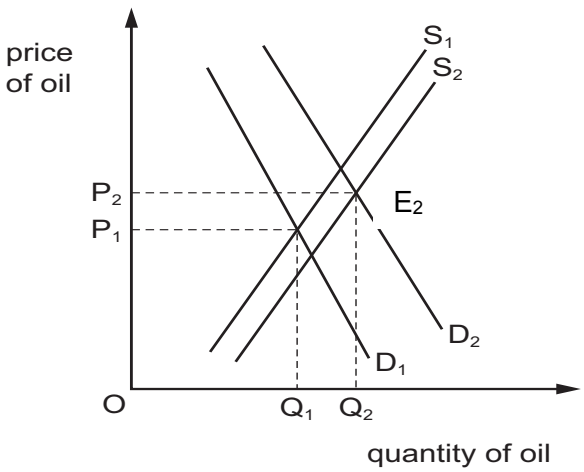
Question	Answer	Marks
7(b)	**Explain <u>two</u> reasons why the supply of a raw material such as oil may rise in the future.** • New supplies may be discovered (1) after investment searching for them (1) • Price may rise (1) giving suppliers a profit incentive to supply more (1) • Advances in technology / cuts in wages (1) may reduce costs of obtaining the raw material (1) • Government subsidies (1) providing finance to search for oil / greater incentive to increase output (1)	**4**
7(c)	**Analyse, using a demand and supply diagram, how the market for oil would be affected when the demand for oil increases by more than the supply of oil.** **Up to 4 marks for the diagram:** Axes correctly labelled – price and quantity or P and Q (1). Demand and supply curves correctly labelled D_1 and S_1 (1). Demand and supply curves shifted to the right D_2 and S_2 (1). Equilibrium – shown by lines e.g. P_2 Q_2 or at point e.g. E_2 (1).  **Up to 2 marks for written comments:** More of the product will be traded / quantity will rise (1). Price will be higher (1). *Note: Do not reward analysis marks for description of diagram e.g. price changes from P2 to P1 or quantity changes from Q1 to Q2.*	**6**

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Question	Answer	Marks
7(d)	**Discuss whether or not car travel will increase in the future.** **Up to 5 marks for why it might:** Price of cars may fall (1) encouraging more people to buy cars (1). Price of petrol may fall (1) making it cheaper to run a car/petrol is a complement to cars (1). Population may increase (1) more potential drivers (1). More roads may be built (1) reduce time of car journeys (1). People may live further from work (1) requiring longer journeys (1). Driverless cars (1) may enable more people e.g. those with poor eyesight to use cars (1). Income may rise (1) enabling people to buy and use more cars (1). **Up to 5 marks for why it might not:** Price of substitute travel may fall (1) e.g. due to government subsidising rail travel (1). Taxes on car travel may rise (1) raising the cost of car travel (1). Parking charges may increase (1) parking is a complement to car travel (1). Congestion may rise (1) increasing travel time (1). Greater concern about the environment (1) may encourage some people to switch to more environmentally friendly forms of transport (1).	**8**

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Cambridge Assessment International Education
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ECONOMICS **0455/12**

Paper 1 Multiple Choice **February/March 2019**

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.

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1 All countries need to produce food.

Which type of agriculture would make the best use of the resources of developing and developed economies?

	developing	developed
A	capital-intensive	capital-intensive
B	capital-intensive	labour-intensive
C	labour-intensive	capital-intensive
D	labour-intensive	labour-intensive

2 A farmer reduces the land used to grow wheat from 80 hectares to 60 hectares and increases the use of the land for growing potatoes from 80 to 100 hectares.

What is the opportunity cost of this change?

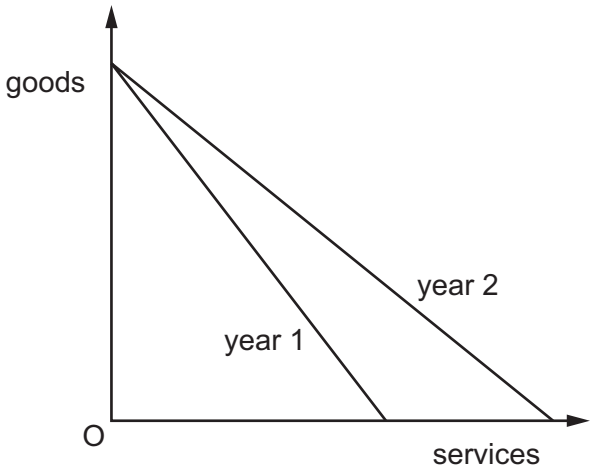
A The output from 20 hectares used for growing potatoes.

B The output from 20 hectares used for growing wheat.

C The output from 60 hectares used for growing wheat.

D The output from 80 hectares used for growing potatoes.

3 The diagram shows the change in an economy's production possibility curve (PPC) from year 1 to year 2.



What might explain the change from year 1 to year 2?

A Resources have moved from the production of services to the production of goods.

B The number of workers unemployed in manufacturing has fallen.

C The producers of services have introduced better technology.

D The workers in the production of goods have become less efficient.

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4 What can be found in a market economy?

A externalities and monopolies

B interest rates and public goods

C public corporations and market prices

D tax rates and commercial banks

5 A private sector firm is given a contract by the government to supply a country's water.

Which government directive will minimise the risk of market failure?

A allow the firm to ration water rather than meet demand

B ensure the firm's supply includes all areas which are expensive to service

C insist that the firm aims to maximise profits

D instruct the firm to provide water only to those who can pay for it

6 What is meant by the equilibrium price in the market for a good?

A the average price paid by consumers

B the price at which maximum profit is made

C the price at which the producer breaks even

D the price at which the supply and demand curves intersect

7 The table shows the effect of a change in the market price from $5 to $6 on the supply of mobile (cell) phones.

price ($)	supply (units)
5	10 000
6	15 000

Which statement about the price elasticity of supply of mobile phones is correct?

A Price elasticity of supply is 0.4.

B Price elasticity of supply is 2.5.

C Supply is perfectly elastic.

D There is unit elasticity.

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8 What could discourage women from seeking employment?

A More education and training are provided.

B More flexible and part-time jobs are available.

C There are fewer promotion opportunities for women.

D There is a shift in employment to the services sector.

9 What would be **least** likely to act as a store of value during a period of rapid inflation?

A cash

B gold

C property

D shares

10 The table shows how three people (X, Y and Z) spend their income.

	person X	person Y	person Z
food, clothing and housing	30%	25%	50%
entertainment and leisure	35%	35%	25%
luxury goods	35%	40%	25%

For these three people, what is the **most** likely order of income, from lowest income to highest income?

A $Y \rightarrow X \rightarrow Z$

B $Y \rightarrow Z \rightarrow X$

C $Z \rightarrow X \rightarrow Y$

D $Z \rightarrow Y \rightarrow X$

11 The table shows the weekly values of certain items for the average person in each group.

In which group does the average person save the most?

		income ($)	spending ($)	borrowing ($)
A	employed workers	500	400	50
B	retired people	150	140	0
C	school students	25	30	5
D	unemployed	200	300	100

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12 Which type of business is always in the public sector?

A monopoly

B multinational corporation

C public corporation

D public limited company

13 When will a firm maximise its profits?

A when it excludes a rival supplier from the market

B when it produces where average cost and average revenue are equal

C when it sells as many products in as many different markets as it can

D when the difference between total cost and total revenue is greatest

14 The table shows the costs of a firm.

units of output	variable costs ($)	total costs ($)
10	20	80
20	50	110
30	80	140
40	110	170

What is the value of the firm's fixed costs?

A $20 **B** $30 **C** $60 **D** $80

15 A firm's average revenue is $10. It sells 2000 units.

What is the firm's total revenue and the price of the product?

	total revenue ($)	price ($)
A	10	10
B	2 000	200
C	20 000	10
D	20 000	200

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16 Which measure would a government take to reduce a current account deficit?

A increase tariffs

B increase value added tax

C reduce income tax

D reduce domestic subsidies

17 What is an example of an expansionary fiscal policy?

A decreased budget deficit

B higher interest rates

C increased money supply

D reduced tax rates

18 A government lowers interest rates to encourage more borrowing and spending by households to increase economic growth.

Why could this lead to a conflict with other government aims?

A It could cause uncertainty and lead to lower demand.

B It could encourage more savings and lead to higher unemployment.

C It could lead to lower prices of consumer goods and result in deflation.

D It could stimulate consumer demand and lead to inflation.

19 Which policy would be **most** likely to reduce unemployment in the short run?

A a programme of privatisation

B a reduction in the standard rate of income tax

C grants to firms to research new technology

D removal of all restrictions on imports into the country

20 A country has the highest GDP per head in the world.

What is this information **most** likely to suggest about the country?

A It has the world's biggest economy.

B It has the world's fastest economic growth rate.

C It has the world's greatest size of population.

D It has the world's highest standard of living.

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21 What is included in the Human Development Index (HDI) of a country?

A level of net immigration

B life expectancy at birth

C population size

D rate of population growth

22 What is an example of someone who lost their job because of structural unemployment?

A Aneesha lost her job as an engineer when her firm had to make redundancies in a recession.

B Jamie lost his job as an ice cream seller during the winter months when little ice cream was sold.

C Sunjeev decided to stop working and claim benefits when the government increased unemployment benefits.

D Sunjit lost his job as a bank worker when the bank replaced his job with a new computer system.

23 An economy experienced deflation.

Which combination shows the likely outcome of this?

	consumer confidence	price level	investor confidence
A	decrease	decrease	decrease
B	decrease	increase	decrease
C	increase	decrease	increase
D	increase	increase	increase

24 A developing country starts to show increases in economic growth.

What is **most** likely to occur?

A a reduction in imports

B a reduction in the number of doctors per capita

C an increase in absolute poverty

D an increase in incomes

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25 A country's minister for agriculture said

> "the biggest challenge the country faces is to develop irrigation so that we are not at the mercy of the weather for crucial export earnings".

Which type of country is this most likely to be?

A developed, exporting manufactured goods

B developed, exporting services

C developing, exporting primary commodities

D developing, exporting services

26 The table shows the birth rate and death rate for four countries for a given year.

If there is no migration, which country has the greatest rate of increase in population?

	country	birth rate	death rate
A	Botswana	30	7
B	Brunei	27	3
C	Indonesia	24	8
D	Mauritius	21	7

27 What usually decreases when there is a depreciation of a country's foreign exchange rate?

A the level of national debt

B the level of trade protection

C the price of exports

D the price of imports

28 A country imposes tariffs and quotas on imported goods.

What will citizens of that country experience?

A higher prices

B higher unemployment

C higher welfare

D wider consumer choice

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29 The table shows a country's balance of payments that has no secondary income (current transfers).

item	$ million
exports of goods	280
imports of goods	350
exports of services	110
imports of services	60
net primary income	–40

What is the country's current account balance?

A a deficit of $60 million

B a deficit of $160 million

C a surplus of $20 million

D a surplus of $760 million

30 Skin creams preventing sunburn made in the European Union (EU) are more effective than those made in the United States (US). US tourists stock up on the creams when visiting Europe. Such creams are banned from production in the US because of the chemicals in them. In 2013, negotiations began to remove this ban in order to allow production in the US.

How is this freer trade likely to affect manufacturers of skin creams in the US and the EU?

	manufacturers in the US	manufacturers in the EU
A	gain	gain
B	gain	lose
C	lose	gain
D	lose	lose

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ECONOMICS **0455/22**

Paper 2 Structured Questions **February/March 2019**

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.

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Section A

Answer this question.

1 India: a growing success

In 2016, the Indian economy grew by 7.5%. This made it the world's fastest growing large economy. In contrast, the Chinese economy grew by 6.8%. India had some other macroeconomic successes. Its price level rose by less in 2016 than it had in any year since 2004. The price of oil fell in 2016 and India is a large importer of oil. The government's use of monetary policy helped to keep down rises in the general price level.

India's manufacturing sector grew rapidly in 2016. One industry that performed particularly well was the vehicle industry. India was the world's sixth largest producer of vehicles, employing 26 million workers. India was the world's largest producer of tractors. In 2015, the price of tractors was increased. This led to a short-term fall in demand but a rise in revenue.

The growth of the vehicle industry has enabled firms in the industry to employ more specialised workers and made it easier for these larger firms to borrow from banks. It is expected that the industry will be able to recruit extra workers in the future because India's labour force is growing. In 2014, India's labour force was 500m and this grew by 4% between 2014 and 2016.

The economic growth rate and the population growth rate in recent years are shown in Fig. 1.1. The rate of economic growth and its stability affect households' decisions on how much they spend and save.

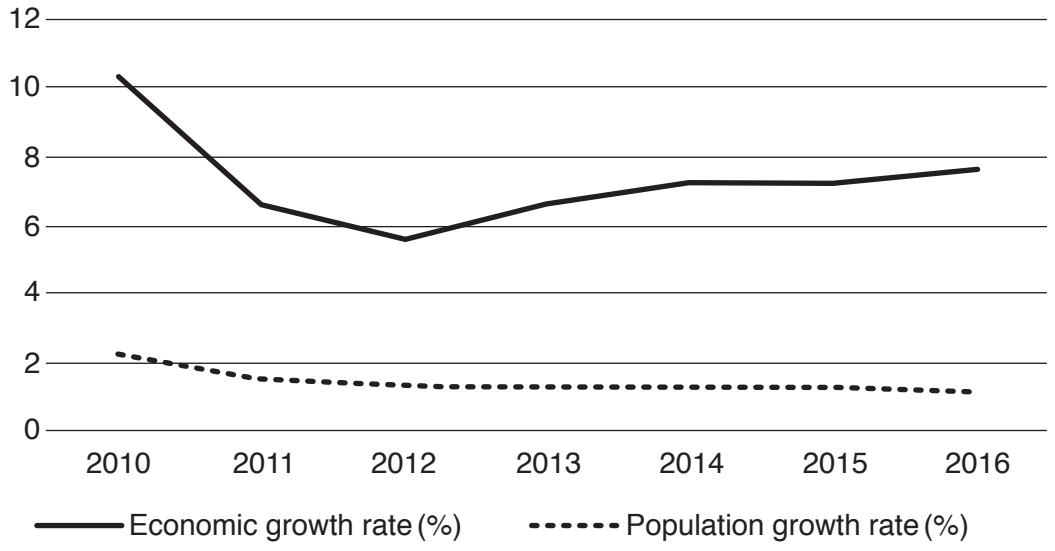

Fig. 1.1 India's economic growth rate and population growth rate 2010–2016

The rising optimism about the performance of India's economy has increased total demand in the economy. However, the Reserve Bank of India, the country's central bank, has been relatively successful at keeping the inflation rate close to the government's target which in 2016 was 4%. One influence on the country's future macroeconomic performance will be changes in its population. India is set to have one of the world's youngest populations by 2020, with an average age of only 29.

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(a) Identify, using information from the extract, **two** reasons why India's inflation rate fell in 2016. [2]

(b) Explain, using information from the extract, whether demand for Indian tractors was price-elastic or price-inelastic in 2015. [2]

(c) Explain **two** internal economies of scale referred to in the extract. [4]

(d) Calculate, using information from the extract, the percentage of India's labour force that was employed in the vehicle industry in 2016. [2]

(e) Analyse, using Fig. 1.1, what happened to India's output and population over the period shown. [5]

(f) Discuss whether or not a government should aim for a low rate of inflation. [5]

(g) Explain, using information from the extract, **two** reasons why consumer expenditure may increase in India in the future. [4]

(h) Discuss whether or not having a young population is a benefit to an economy. [6]

Section B

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

2 Ireland has attracted a significant number of foreign multinational companies (MNCs) to set up production in the country. These firms employ approximately 10% of the country's labour force and make a high proportion of Ireland's exports. The surplus on the current account of Ireland's balance of payments fell in 2016 while government spending rose.

(a) Identify **two** reasons why an MNC may decide to start producing in a foreign country. [2]

(b) Explain **two** reasons why someone may want to work for an MNC. [4]

(c) Analyse how an increase in exports could improve a country's economic performance. [6]

(d) Discuss whether or not an increase in government spending will reduce a surplus on the current account of that country's balance of payments. [8]

3 The economic problem results in people having to make choices. In Bulgaria, in recent years, people have changed how much they spend. The Bulgarian government is encouraging people to spend more. It is trying to ensure that deflation does not return and that the country will continue to experience an increase in output.

(a) Identify **two** ways a government could encourage people to spend more. [2]

(b) Explain how the economic problem results in people having to make choices. [4]

(c) Analyse why deflation may cause a fall in output. [6]

(d) Discuss whether or not a country will suffer if its output falls. [8]

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4 Average life expectancy is as short for the poorest Americans as it is for the people of Sudan, a low-income African country. Low-income individuals tend to live longest in countries with more educated populations. Economic growth can increase education and reduce poverty. In 2017, the US President announced a cut in the tax on firms' profits. He said the measure would increase employment.

(a) Identify **two** reasons why someone may want to migrate to the USA. [2]

(b) Explain **two** reasons why less-educated people tend to have a shorter life expectancy than people who have received more education. [4]

(c) Analyse how economic growth can reduce absolute poverty. [6]

(d) Discuss whether or not a cut in the tax on firms' profits will increase employment. [8]

5 The mobile (cell) phone industry is growing in Asia with more workers being employed. In March 2017, there was a merger between two mobile phone producers, both of which had relatively high fixed costs. This merger created one of the largest mobile phone firms and moved the Asian market further from perfect competition and closer to monopoly. It was expected that profits in the industry would increase as a result of the merger.

(a) Identify **two** fixed costs. [2]

(b) Explain **two** ways monopoly differs from perfect competition. [4]

(c) Analyse what determines a firm's demand for labour. [6]

(d) Discuss whether or not a merger will increase profits. [8]

6 Botswana has a number of conservation projects. These are thought to provide a social benefit to local communities. Botswana has a mixed economic system with tax revenue as a percentage of GDP at 27% in 2017. Some Botswanan economists suggest that the country should move towards a market economic system, taking care to avoid market failure.

(a) Define *social benefit*. [2]

(b) Explain **two** advantages of conserving natural resources. [4]

(c) Analyse how taxation could reduce market failure. [6]

(d) Discuss the advantages and disadvantages of a market economic system. [8]

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7 Indian Railways is a state-owned enterprise, owned and operated by the Ministry of Railways. There is currently only one privately-owned railway line in India. The market for rail travel is influenced by changes in the markets for other forms of transport. For instance, changes in the supply of oil and petrol influence the market for car travel.

(a) Define *a market*. [2]

(b) Explain **two** reasons why the supply of a raw material such as oil may rise in the future. [4]

(c) Analyse, using a demand and supply diagram, how the market for oil would be affected when the demand for oil increases by more than the supply of oil. [6]

(d) Discuss whether or not car travel will increase in the future. [8]

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FIRST LANGUAGE ENGLISH

Paper 0500/12
Reading Passages (Core)

Key messages

- In the sub-questions in **Question 1** where candidates are asked to answer in their own words, candidates should avoid lifting long phrases or whole sentences from the passage.
- Candidates should read all questions carefully to ensure that their answers focus on the questions.
- Proof reading is essential. Marks were lost through avoidable mistakes which could have been corrected by candidates checking over their work.
- In **Question 1(g)**, candidates should avoid repeating the meanings of the underlined words in the second part of the question but should focus their response on describing the effect of the whole phrase.
- In **Question 2** candidates must remember to deal with all 3 bullet points attempting to develop the ideas in the passage, both factual and inferential. The key message here is to develop the details offered in the text for the third bullet point, using the passage to develop a plausible response.
- Candidates need to ensure that they are writing in the correct style and register for **Question 2**.
- Candidates should avoid copying from the passage in **Question 2**.
- In **Question 3(a)** candidates should only make one point on each line and avoid repeating similar points.

General comments

Overall, the passages proved to be accessible to nearly all candidates and they responded positively to both passages and questions. Most of the vocabulary appeared to be within the range of candidates at this level. Most candidates completed the paper in some detail and examiners reported seeing a reasonable number of high-quality responses to **Question 2**. It is clear that the vast majority of candidates had been well prepared for these questions and were confident in their approach.

Responses to the sub-questions in **Question 1** revealed that the main points in the passage had been clearly understood and many responded well to the more straightforward questions. In general, the questions enabled all candidates to produce some correct answers while at the same time challenging those who were more perceptive to gain higher marks. The majority of candidates were familiar with the requirements of **Questions 3(a)** and **3(b)**. There was very little evidence of candidates not working within the paper time limit and few examples of No Response answers. Where a response had not been attempted it tended to be to **Question 1(g)** or **3(b)**.

Comments on specific questions

Question 1

(a) Give two reasons why the writer wanted the trip to Delphi to be cancelled (paragraph 1, 'I took a look …'). *[2 marks]*

Most candidates scored at least 1 mark on this question with many gaining 2 marks. The most popular responses focused on the 7-day non-stop touring and the exhaustion felt by the students owing to this. Relatively few candidates picked up on the students' need for a break, and even fewer identified the lengthy drive facing them on the trip to Delphi. Quite a number of candidates believed mistakenly that the writer thought that not going to Delphi would have no detrimental effect on the students' educational experience because they had visited so many historical sites prior to this. This might well have been the case, but it is not stated or implied in the passage.

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(b) **<u>Using your own words</u>, explain why the writer wanted to speak to the guide 'out of earshot' (line 8).** *[1 mark]*

A large number of candidates merely recycled the question by stating that the writer did not want to be heard. Those candidates who gained a mark on this question did so by attempting to explain 'why' the writer did not want to be heard when speaking to the guide about the trip to Delphi. These explanations varied in detail and often in quality, but implicit or explicit references to the cancellation of the trip or, indeed, the possible negative reactions of some of the students who did want to visit Delphi were successful in gaining the mark for this question.

(c) **<u>Using your own words</u>, explain the writer's reasons for finally deciding to go on the trip to Delphi (lines 8–12).** *[2 marks]*

Many candidates were able to score at least one mark on this question by identifying the writer's reason(s) for eventually deciding on going ahead with the trip to Delphi. The most popular reasons given were avoiding disappointing both the guide and those students eager to go. Relatively few candidates identified the guide's advice to the teacher to go ahead with the trip.

(d) **<u>Using your own words</u>, explain the writer's feelings when they first began to explore the site at Delphi (lines 13–21** *[2 marks]*

A number of candidates were able to identify at least one of the above points, but a minority merely copied out lines 13 and 14 from the passage ignoring the question requirement of own words. Those candidates who attempted to recast the words from the passage were rewarded, and answers which conveyed the idea of being 'captivated' in any sense were also rewarded.

(e) **Give <u>two</u> reasons why the writer found the stadium at Delphi so impressive (paragraph 9, 'At the top …')** *[2 marks]*

The majority of candidates were able to score two marks on this question through citing the ancient age of the stadium and its huge size. However, a number of responses identified the stone benches as an impressive feature of the stadium. Candidates who referred to just the 'size' of the stadium (without reference to how big it was) did not gain the mark because they did not demonstrate full understanding of why the size of the stadium was impressive.

(f) **<u>Using your own words</u>, explain the true source of Delphi's power (paragraph 11, 'And I realised …').** *[2 marks]*

As with **1(d)**, a number of candidates simply copied lines 32 and 33 of the passage and by doing so did not gain any marks. Any recasting of the words of the passage the lines did gain the marks. The key concepts for this question were Delphi's 'simplicity', 'its natural, basic elements, its 'mystery', and its 'sacred' nature. A few candidates were also able to identify that it gave visitors a link to the past and made them aware of their place in human existence.

(g) **Give the meaning of the <u>underlined</u> words in the following three phrases as the writer uses them in the passage. Then explain how the phrases help to suggest the narrator's thoughts and feelings about Delphi and her visit there.**

The new layout of **Question 1(g)** led to more carefully structured answers from the majority of candidates and there were fewer examples of candidates simply repeating meanings when asked for an explanation of the whole phrase. Where candidates did not define the meaning of the individual word in the first part of the question, they were credited with it in the next part where appropriate.

(i) **'awe'**

Many candidates found it challenging to explain the meaning of 'awe' with some trying to use the context of the passage to help them. A number of candidates were able describe the sense of 'wonder', 'admiration' or 'astonishment' evoked by the word but many simply thought it conveyed a sense of happiness, or a feeling of being impressed, without any added qualifier. A few candidates believed 'awe' indicated that the narrator did not like Delphi. A few candidates attempted to explain the word 'awe' in whole sentences as opposed to a simple synonym and explanations such as 'lost for words' or 'lost in the moment' were rewarded.

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(ii) 'feeling in awe of the timeless magnificence of the surroundings'

As noted with previous papers, it is important that candidates do not attempt to explain the given phrase in terms of the narrator's thoughts and feelings by simply repeating words from the quotation such as 'timeless' and 'magnificence'. It is also important that candidates do not merely repeat their answer to **1(g)(i)** because the question calls for a much broader explanation than focusing on a single word. Many candidates were able to identify the narrator's sense of the impressive or beautiful nature of Delphi and its huge impact on both the teacher and the students. Very few candidates made reference to the historical setting or length of time conveyed through the quotation.

(iii) 'significance'

The majority of candidates were able to explain the meaning of 'significance' with synonyms such as 'value', 'importance', or 'greatness'. Candidates gained more marks on this single word question than on the other two single word questions.

(iv) 'it was as if everyone recognised the significance of the place'

Many candidates were able to identify the sense of the shared experience or shared understanding of the school party about the importance of Delphi, as well as its huge impact on them. A few candidates also referred to the mystical or special qualities of the place. Most candidates were able to score 1 mark on this part of the question, but a number of responses just repeated the given phrase, replacing significance with the meaning offered in the first part of the question, for example, 'everyone recognised the importance of the place'.

(v) 'overwhelmed'

Those candidates who offered explanations or synonyms for 'overwhelmed' which conveyed the feeling of being 'overpowered', 'deeply moved or affected', 'astonished', 'amazed', or 'emotional' gained the mark. The words 'shocked' or 'surprised', without a suitable qualifier indicating the depth of feeling, did not gain the mark, although both words were accepted in **1(g)(vi)** within the explanation of the whole phrase.

(vi) 'We stood and stared, overwhelmed by its size'

The most common answers which gained marks for this explanation were those which focused on their shock or surprise at the huge size of the stadium. It was important for candidates to identify the massive size of the stadium as opposed to just referring to its size in order to gain a mark for this point. Very few candidates scored a mark for explaining that they were stunned into silence or immobility, or mesmerised.

Question 2

Imagine that you are one of the students who visited Delphi, in <u>Passage A</u>. It is the evening of your visit and you have now returned to Athens.

<u>Write a letter to your parents, telling them about your experiences so far.</u>

In your letter you should include the following points:

- **details of your trip and your feelings about it before you visited Delphi**
- **your thoughts and feelings about the visit to Delphi <u>and</u> about how your teacher reacted to it**
- **what you have learnt from your trip so far <u>and</u> why you would (or would not) recommend your parents to make a similar visit.**

Base your responses on what you have read in Passage A, but do not copy from it. Be careful to use your own words. Address each of the three bullet points.

Begin your letter: 'I had mixed feelings when I first set out on this tour …'

Write about 200 to 300 words.

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Up to 10 marks are available for the content of your answer, and up to 5 marks for the quality of your writing.

[Total: 15 marks]

For this task, the majority of candidates seemed to understand quite clearly the need to address each of the bullet points given in the question and to give a credible account of their personal thoughts and feelings about the trip to Delphi, both before and after the visit. The vast majority of candidates were comfortable writing a letter to their parents, offering an appropriate register and tone. The most successful responses explored their feelings before going on the trip, as well as their feelings after seeing the ancient site. Many cited their exhaustion and initial feelings of reluctance to go on the trip, followed by delight and surprise when reflecting on their experience. The explanation of the teacher's behaviour was often a differentiator in the higher band responses where a few candidates were able to adapt the perspective skilfully to consider what the teacher may have been thinking and feeling at that point based on the behaviour described in the passage. Some candidates wrote a more general narrative of the events of the passage without focusing on the three prompts given in the question rubric or addressing it clearly to his or her parents. This often resulted in less suitable material being included, such as the conversation between the teacher and the guide which the students would not have heard. A small minority of candidates merely copied extracts from the passage with very few own words, or produced letters which were too close to the original passage and often written from the perspective of the teacher.

Many candidates attempted to cover the three bullet points offering a balanced response to the whole task. However, although some candidates produced promising letters, they only focused on the first two prompts in the question, simply repeating the third bullet point by suggesting that their parents visit Delphi themselves. These responses often gave convincing descriptions of the trip to Delphi and the reaction of their teacher as well as themselves but didn't use the details in the passage to suggest what they had learned from the trip, or why it would be a good place for their parents to visit in the future. Some candidates chose to completely ignore the third bullet point. Quite a number of candidates did remember to address the third bullet point and wrote about the lessons that they had learnt about the ancient world, the magnificence of the buildings or the mystical nature of the site. These were often linked to their parents' love of history and visiting ancient sites and led naturally into a recommendation for them to visit Delphi themselves.

Some candidates' rather narrative approach to the task led them to cover the prompts partially by, for example, stating that some students didn't want to visit Delphi but not describing their own feelings about it, or describing the teacher's reaction to Delphi as though it was their own. The less successful responses tended to be those where candidates) simply repeated the details from the passage without attempting to change the perspective at all. This meant that although, generally, there wasn't extensive lifting of material there was often little sense of candidates putting themselves in the position of the character and giving life to his or her experiences. The weakest responses simply lifted large sections of the passage, describing the teacher's experience as a result.

To gain the higher marks of Bands 1 and 2 for Reading it is essential that candidates develop ideas based on the passage rather than add their own imagined content. A few responses invented material about the bus trip, picnics or meals, souvenir shops or wrote at length about trips taken earlier in the tour. All development of the ideas in the passage should be firmly tethered to the details given resulting in feasible extension.

The best responses – and there were a number – managed to develop imaginatively all three bullet points using and developing the finer details in the passage. These responses firmly tethered any development to the sights, sounds and experiences that the school party was exposed to that day.

Question 3

(a) ***Notes***

What do you learn about the history of Ostia Antica and what it offers to modern-day visitors, according to Passage B?

Write your answers using short notes. Write one point per line.
You do not need to use your own words.

Up to 10 marks are available for the content of your answer.

[10 marks]

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This question gave candidates the chance to boost their total score by appropriate selection. It was generally answered quite well with many candidates making one point per line as instructed and focusing on the topic and the question. However, there were a small number of candidates who (largely by selective lifting) included several points on the same line thereby self-penalising. Sometimes candidates included more than 10 relevant points, but by putting them more than one point on each line gained fewer than 10 marks overall.

There were also some points repeated several times, most notably focused on the individual sites in Ostia Antica, and also by offering both 'a major naval and trading base' and 'commercial significance' for point 3. Many candidates also offered a number of points about Ostia Antica's decline for point 6 with, for example, factors such as 'Tiber no longer navigable', 'roads overgrown' and 'muddy oblivion' being offered as separate points. Similarly, with what is offered to modern-day visitors, points 10 and 12 were often presented as partial repeats, with some candidates offering one example from each in a list of different points. So, for example, for point 12, some responses separated the bar, the public toilets, and the residential villas as three points. It was important for candidates to recognise the differentiation between the major sites of point 10 and the Impressive mosaics and columns of point 12. Two examples for each of these two points respectively were sufficient to gain a mark.

The average mark for this question about the history of Ostia Antica and what it offers to modern-day visitors was about 7. Very few candidates scored 10 marks and relatively few scored below 5 marks. Generally, there was reasonable focus on the question leading to fewer irrelevant points. A number of candidates erroneously included 'the harbour city of Ancient Rome' and/or 'under-visited archaeological site' in their list. These points are not part of the passage as they are direct lifts from the introduction so could not be rewarded.

Numerous candidates included the 'modern apartment blocks', 'high fences', and 'no sea-view' of modern Ostia, ignoring the fact that they are clearly not included as attractions in the passage and do not focus on the 'history' as required in the task. It is important that only relevant points are selected from the passage and that candidates focus carefully on the question.

(b) ***Summary***

Now use your notes to write a summary of what <u>Passage B</u> tells you about <u>the history of Ostia Antica and what it offers to modern-day visitors</u>.

You must use <u>continuous writing</u> (not note form) and <u>use your own words</u> as far as possible.

Your summary should not be more than 150 words.

<u>Up to 5 marks are available for the quality of your writing.</u>

[5 marks]

A small number of students were able to achieve Band 1 for clear, concise and fluent summaries, however, the majority of candidates' responses were Band 2 (points were 'mostly focused' and made 'clearly') or Band 3 ('some areas of conciseness'). The least successful responses, of which there were only a few, tended to include lengthy lists, unnecessary details, repetition or unselective 'lifting'. The most successful responses showed careful planning and organisation of material with some synthesis of points. Middle range responses tended to be rather wordy with lack of focus on the question. The weakest responses copied unselectively.

Most candidates tried to write with some concision and to use own words where possible. Better responses managed to reorganise points and to stay focused on the two aspects of the question, although a large number did lose focus at the end by referring to the modern apartment blocks of modern Ostia. There were some responses which started off quite well but then became list like by listing the examples of points 10 and 12. A good number of candidates lifted material selectively but comparatively few merely copied from the passage with no recasting. The most commonly lifted phrases were 'muddy oblivion', 'buildings preserved up to the second storey', and 'the Tiber was no longer navigable'. Obviously, those candidates who had included material from the introduction, in **3(a)**, often began their summary with this. The best responses were organised, concise, with some own words and sustained focus.

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FIRST LANGUAGE ENGLISH

Paper 0500/22
Reading Passages (Extended)

Key messages

Candidates did well when they:

- used their own words appropriately and precisely when explaining, using and interpreting ideas
- avoided copying and/or lifting from either passage
- considered carefully the evidence of skills and understanding they needed to show for each task
- paid attention to the key words, guidance and instructions for each task
- returned to the text when necessary to clarify an idea or reconsider an important detail
- gave equal attention to all sections of each question
- selected only the material that was most appropriate for the response to the question
- avoided repetition
- checked and edited their response to amend any careless slips, incomplete ideas or unclear points
- adapted their writing style to suit each task, taking account of voice, audience and purpose

General comments

Candidates' responses indicated a familiarity with the format of the paper and the general demands of the three tasks. There were very few instances where all or part of a task had not been attempted, though on occasion opportunities to target higher marks were missed where candidates offered a restricted range of ideas, misread details and/or dealt unevenly with each part of the task in hand. Better responses indicated an awareness of the need to use, rather than repeat, the material from the passages in order to answer the questions. The most successful answers were able to modify the material in the passages skilfully and use it to show understanding, remaining focused on the specific demands of each task. Less successful responses were often over reliant on the wording and/or sequence of the text(s) and paid limited attention to the details of the question, providing less convincing evidence of skills and understanding as a result. Centres are reminded that simple paraphrasing and/or copying of the text should be avoided.

Candidates appeared to find both passages equally accessible, and were for the most part able to finish the paper within the time allowed. Very occasionally, achievement was limited by a failure to follow the rubric and/or complete all aspects of a task – for example, by writing from the wrong perspective in **Question 1**, explaining fewer than 8 choices in **Question 2** or writing far more than the maximum of 250 words advised for **Question 3.**

More successful answers were able to interpret and use details to demonstrate accurate, purposeful reading in **Question 1**, offer detailed explanation of meaning and effect as they considered their selections from the text in **Question 2** and show understanding of carefully identified, relevant ideas which addressed the specific focus of the task in **Question 3.**

Most **Question 1** responses attempted all three bullets of the task and were aware of the need to reinterpret Nathanial's account of his experiences from the perspective of a journalist writing the article as described. Many candidates were able to respond appropriately to the passage, with the best taking on the role of a journalist convincingly and demonstrating a particularly strong sense of purpose and approach to create thorough and engaging articles. Responses across the cohort covered a wide range of levels of achievement, with mid-range responses often missing opportunities through more mechanical treatment of the text. Less successful responses sometimes repeated the narrative with minimal modification. Along with unselective copying, reliance on the language of the passage and/or any introduction to communicate ideas is an indicator of less secure understanding and to be avoided.

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For **Question 2** candidates need to consider appropriate choices of words and phrases from each of the two specified paragraphs and offer precise, focused comments in relation to these choices. To target higher bands, candidates should explore and explain in some detail the meanings and effects of the examples of interesting or powerful language use they identify, demonstrating sound understanding of the writer's purpose. Most were able to suggest potentially useful examples for analysis, though a number of candidates were not sufficiently clear or careful in the examination of their choices. A number repeated the language of the choices in their explanations, and/or offered generalised comments, diluting evidence of understanding as a result.

In **Question 3** most candidates were able to demonstrate at least a general understanding of some relevant ideas. Though all points on the mark scheme were covered over the range of answers seen, opportunities were missed to target higher marks, often as a result of repetition of aspects of the same idea from the early part of the text and/or inclusion of material not relevant to the focus of the question. Where responses were most successful, candidates had made a consistent attempt to use their own words, to keep explanations concise and to organise their ideas helpfully. Less well focused responses were over reliant on copying from the text, with minimal/no rewording or reorganisation of the original. Candidates are not expected to change all key words or terms in their prose response. They should not however lift whole phrases and/or sentences from the text, or rely on simply listing ideas in the order of the passage. Indiscriminate copying of the passage, repetition and adding comment or example should all be avoided as these do not allow candidates to successfully address the selective summary task.

Though Paper 2 is primarily a test of Reading, candidates need to keep in mind that 20 per cent of the available marks are for Writing, divided equally between **Questions 1** and **3**. It is important that candidates consider the quality of their writing – planning and reviewing their responses to avoid inconsistencies of style, errors that impede communication of ideas and awkward expression. Candidates should be aware that unclear style will limit their achievement, as will over-reliance on the language of the passages. Leaving sufficient time to edit and correct responses is advisable.

Comments on specific questions

Question 1

You are a journalist writing an article for a monthly music magazine. You were at the gig in the park, and at the party afterwards, and interviewed band members and some of their audience.

Write your magazine article.

In your magazine article, you should:
- **explain who the band are, their style, and the history of the band**
- **describe the concert, audience reaction and the aftershow party**
- **introduce Stanley and consider how he fits in with the band.**

Base your article on what you have read in Passage A, but be careful to use your own words.

Address each of the three bullet points.

Begin your article: 'This month's featured concert …'

Most candidates were able to demonstrate that they had understood the passage and task in at least general terms. Many offered extended responses, reworking and attempting to develop the material with their audience in mind and engaging with both task and text. Where content had been planned in advance, and the route through the answer considered beforehand, answers were often able to include a good range of relevant ideas – both explicit and implicit – in relation to all three bullets. Where responses relied too heavily on simply tracking through the text, replaying the passage, answers were less well focused and often repeated rather than developed ideas. The least successful responses copied sections of the text with minimal modification and/or included inaccuracies as a result of misreading key details and information.

The most convincing responses to **Question 1** showed evidence of candidates having returned to the passage to interpret and reorganise Nathanial's account of events for the imagined readers of their magazine article. Many made good use of the guidance in the bullets to help them identify and then organise the ideas they might include and used the prompt offered as a helpful starting point for their response.

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The first bullet of the question invited candidates to collate and interpret both the factual historical information Nathanial had discovered relating to the band and explicit details offered regarding their current line-up. Better answers had gathered and reworked relevant information from various parts of the passage, dealing effectively with the chronology and confidently differentiating between the different incarnations of the band. Almost all answers recognised that the band Nathanial had joined comprised of elderly musicians and included reference to their appearance – though simply tracking through the passage rather than reading purposefully meant that some answers went on incorrectly to suggest that they had all pasted on moustaches and/or bleached their eyebrows. Similarly, almost all answers included the listed names of the band members. However, where answers relied on simply paraphrasing the passage rather than reworking ideas to address the task many missed opportunities to show evidence of close reading by linking relevant details to each name. Stronger answers recognised implications and were able to develop ideas in relation to individual band members, for example noting and commenting on the fact that clarinet-player Clyde, as leader, had decided unilaterally to shift the style of the band to jazz and that tuba-player Wally had experience of war. Less successful answers showed signs of not having read closely or planned out their ideas by using details incorrectly – for example by referring to the most recent band line-up as 'The Littlest Big Band'.

Many candidates did make good use of the guidance within each bullet to help focus their response and in bullet two were able to include a range of potentially relevant ideas. Most had understood that the concert was outdoors and that the audience were mostly of a similar age to the older band members. Those who relied on mechanical lifting from the text sometimes diluted evidence of reading skills and understanding through incorrect copying, for example by reporting that 'This concert will be their last in a local park', that it was 'The last of their series of open-air summer concerts' or that 'Ruth performed a terrible rap act'. Some answers confused the party and the concert. Better answers offered some comment on the atmosphere or ambience of the concert and/or party afterwards, suggesting variously the sense of nostalgia and energy. A number of candidates offered the comment 'old is gold' and might have gone further. Many developed ideas related to the contrast between the journalist's expectations beforehand and the gig itself, often going on to describe enthusiastically the success of the concert with everyone enjoying the music. Occasionally, errors with spelling or grammar affected the sense of an idea and provided less secure evidence of close reading – for example by suggesting that a table at the after-show party was 'covered with snakes' or that party goers were 'dancing on records'.

When dealing with the third bullet of the task answers often included details of Stanley's name, appearance and skills. References were made to the efforts he had made to fit in, though sometimes this was limited to recycling of the phrases 'the kid goes the extra mile' and ' felt like a little kid with a whole army of grandparents'. Fewer went on to consider his future with the band. A few of the least successful responses confused Stanley and Clyde, did not notice the implication that Nathanial returned to the party and/or suggested that Stanley was an '8 year old kid'.

Answers tracking the structure of the text rather than identifying ideas in relation to each bullet and then planning a logical route through their article made it more difficult for themselves to write clearly and/or maintain an appropriate style. Stronger answers showed evidence that candidates had decided beforehand on a voice for their journalist and kept their readers in mind throughout. On occasion less effective writing contained some awkward expression, for example as a result of insecure vocabulary choices or inappropriate use of idiom. In the weakest answers lifting in relation to all three bullets was an issue, with copying of sections of text not uncommon and affecting evidence of both Reading and Writing skills. The best answers were able to both inform and engage, offering a clear and interesting article for the benefit of an imagined readership who may, or may not, have had knowledge of the band beforehand.

Advice to candidates on Question 1:

- consider how the response to reading task is asking you to adopt a different perspective to that of the text – for example by writing from the point of view of a character other than the narrator
- consider the audience and purpose for your response before you begin writing
- decide on the voice and style you want to create and maintain in your answer
- read the passage carefully, more than once, identifying the key ideas and details you can adapt for use in your answer
- give equal attention to ideas relevant to each aspect of each of the three bullet points
- plan a route through your answer beforehand – you can choose not to follow the order of the bullet points and/or link ideas from each
- express ideas from the text which are relevant to your answer using your own words

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- do not just simply repeat details from the text – extend and develop relevantly a number of the ideas you include
- leave sufficient time to edit and correct your response
- do not waste time by counting the exact number of words in your answer – the number of words suggested by the question is a guide to help you plan your time, not a limit.

Question 2

Re-read the descriptions of:

(a) the concert in paragraph 6, beginning 'Clyde puffs …'

(b) the partygoers in paragraph 29, beginning 'Looking back …'

Select four powerful words or phrases from each paragraph. Your choices should include imagery.

Explain how each word or phrase selected is used effectively in the context.

Responses in **Question 2** needed to identify precisely a range of relevant examples of language for discussion and provide sufficiently focused and clear analysis of these in order to evidence understanding of how the writer was using language in each case. Where the meaning of words was considered carefully in context, candidates were often able to go on to suggest something of the effect and better answers ensured that they had considered all key words within choices. Opportunities to target higher marks were missed where meaning was not explained and/or selections had not been carefully considered beforehand. Rather than selecting the first four choices in each half they came across or the most 'obvious' literary devices, successful answers often set out to explore those words and phrases they felt best able to explain. Some of the strongest answers showed evidence of candidates having identified many of the potential choices from each paragraph in a planning stage before beginning their response and then selecting from their original list those they wanted to tackle.

Candidates are reminded it is the quality of their analysis which attracts marks. Answers which simply list literary devices used and/or copy from each paragraph without careful consideration of the examples to be discussed are not likely to evidence the skills and understanding necessary to target higher marks in a language question.

A number of weaker answers relied on simply spotting literary devices and as a result struggled to interpret meaning or effect. For example whilst many candidates who selected it were able to offer credible interpretations of the ways in which the end of the concert was 'like landing a plane' and what that suggested, others struggled to comment as a consequence of having simply identified it as an example of a simile 'because it used the word like' with little understanding of how the image was working. Taking time to select from the full range of potential choices those about which they felt most able to comment, rather than simply feature spotting, would have helped a number of candidates who offered only thin or inappropriate comment.

Repeating the language of the original in their explanations was a feature of some partially effective explanations. Likewise potentially relevant comments were offered in general terms rather than linked to / evidenced by precise quotation from the text. The best answers were able to explore connotations and suggestions of words within the choices they had selected as well as go on to consider how exactly those created a particular image / effect for the reader.

Many candidates were able to provide satisfactory evidence of skills and understanding in either one part of the task or the other and might have targeted higher marks by extending their explanations to consider 'how' or 'why' the words chosen were creating the general or basic effect they claimed. The majority of candidates were able to show that they recognised at least some potentially interesting examples of language use and could begin to offer some relevant comment. For marks in the top bands, candidates need to be careful to select and interpret choices accurately, considering examples in context and demonstrating that they understand some of the subtleties of how the language is working. Answers offering less careful or considered choices sometimes prejudiced the evidence of understanding they were able to demonstrate in relation to meaning and effect, for example by attempting to discuss selections such as 'laughing in the waves', 'landing like a plan', or 'waves warbling'.

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Better answers focused on exploring and explaining each of their choices in detail, offering some high quality analysis in each half of the question. They avoided repetition of very similar comments in relation to more than one choice and did more than simply identify features, with the best recognising and explaining imagery with some imagination. There were various alternative explanations offered for example when dealing with 'framed in a rosy window' (some commented on the romanticised/ idealised picture it created, others focused on the idea of a still image that could be remembered and cherished as a memory forever). Many referred to 'a movie flashed on the wall' as being something too perfect or unreal to exist and there were also some clear explanations of 'hanging in space' with references to the ages and feelings of disconnection to the modern world. Others missed opportunities to profit from their general understanding and go on to explore and explain each choice specifically and instead offered only partial or very weak effects, for example in repeated comments such as 'this shows their energy/enjoyment'. A few candidates appeared to have learned by heart some introductory words / generalised comments, for example relating to synaesthesia and kinaesthetic imagery, which they used regardless of whether they made sense or added anything to the analysis. These were often at the expense of comments focused on the actual words in the phrase.

There were plenty of potentially useful choices relating to both the description of the concert in paragraph 6, and the partygoers in paragraph 29. Where candidates had not paid close attention to the detail of the task less relevant choices were sometimes considered. In relatively rare cases, candidates selected from the wrong paragraph and/or offered only two choices from each paragraph rather than the four from each suggested and consequently offered more limited evidence of Reading skills. At times, potentially useful choices were not fully explored or explained and opportunities missed as a result. For example, 'gang' was quite neatly explored as suggesting teamwork or a youthful image by many candidates, though fewer went on to recognise the humour or incongruity. Similarly 'coaxing' was rarely explained, though 'sad wah-wahs' was commonly related to babies and/or the melancholy sound of the trombone.

Selections in **Question 2** need to be clear and deliberate – helping to focus the analysis which follows. Long quotations with only the first and last words identified are less likely to be useful and often result in very thin general comments at best. On occasion, candidates selected phrases containing a few words and then went on to unpick the separate elements of these with some success. Others narrowed the focus down to single words and then reassembled the image. Both were potentially useful approaches where careful explanation was offered and replaying of the language of the original as part of the commentary was avoided. Repetition of the words of the choice within the explanation offered was a feature of a number of lower range answers – often an indication that the meaning of the vocabulary selected had not been fully understood. Suggested meanings for selections such as carousel (casserole) and silhouettes (stilettos) were inaccurate in a small number of answers.

Opportunities were missed in some answers, such as where a chosen phrase contained more than one word of interest and the answer moved on too quickly – offering a more general explanation of the phrase as a whole and/or only considering one of the words it contained. For example, a number of answers discussed the use of 'noodles' and/or 'lassos' but missed the chance to consider the effect of 'golden'. Similarly, some candidates having identified 'stir up a flock of audience jazz-hands' limited their discussion to either 'stir up' or 'flock' rather than consider each in turn and suggest how they might work together.

Planning of relevant ideas ahead of writing would have helped some candidates to avoid empty phrases such as 'the writer's use of language helps the reader to image the scene'. Unless the answer goes on to suggest exactly how and in what ways the writer is doing this, such comment can offer a false sense of security and take up valuable examination time unprofitably. Stronger responses, offering considered and careful analysis focused on language use in both parts of the question, were often able to build to a useful overview of how the language was working and evidence clear understanding.

Advice to candidates on Question 2:

- once you have identified the potentially relevant choices to answer part a and part b, select your strongest four from each paragraph to explore and explain
- make sure your choices are precise and accurate – do not copy out lines of text, miss out key words or include only part of the choice you wish to discuss
- avoid empty comments such as comments that 'the writer has used lots of great adjectives'
- show your understanding in full – consider each of the key words within your identified choice
- if you are unsure of effect, start by explaining the precise meaning in context of the word(s) you have identified
- try to explore and explain the connotations and associations of the words within choices to help you to suggest the precise effect the writer might have wanted to create

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- allow time to edit your answer – for example to add in further detail and/or correct errors to help show you have read carefully and understood

Question 3

What facts are interesting and important about the musical instruments used in this concert, according to Passage B?

You must use continuous writing (not note form) and use your own words as far as possible.

Your summary should not be more than 250 words.

Candidates who addressed the task successfully, often showed evidence of having planned beforehand both the content and route through their answer. They had identified those points that were potentially relevant to the focus of the question (the musical instruments used in the Paris concerts) and reflected on their potential answers to refine their ideas and avoid excess. For example, they were able to group examples usefully together under one umbrella point, identify implied points and/or avoid repetition of ideas or inclusion of unnecessary detail. Successful answers did not rely on the structure or language of the text to communicate ideas and considered carefully the evidence of skills and understanding they needed to demonstrate for the selective summary task. Less effective responses had often relied on trying to offer a précis of the whole text and/or tried to paraphrase the original or shadow it, substituting (sometimes inappropriate) vocabulary for individual words. The weakest answers adopted a cut and paste approach, copying sections from the original and/or were almost entirely reliant on the language of the text.

On occasion, incorrect and/or incomplete lifting from the text also served to dilute evidence of understanding in potentially stronger answers which would have benefitted from careful editing. Reading back through their answer afterwards to make sure that it would both make sense as a piece of informative writing for a reader who had not read the original passage and summarised the key information that reader would need to know in relation to these instruments would have helped a number of candidates target higher marks. Often answers began well and showed some understanding of relevant ideas but lost focus, for example by repeating information and/or including information not relevant to the instruments themselves. A few less successful answers showed evidence of having misread details of the task – for example by offering comment from outside the text in relation to musical instruments in general rather than information from the text related to lithophones specifically. Misreading of details in the text diluted evidence of understanding in some answers – for example it was not correct to suggest that the lithophones would be played alongside xylophones in the concerts.

Where candidates had paid careful attention to the task as set, they aimed for concise and well organised answers using their own vocabulary where practicable and appropriate to help clarify meaning for their reader. They demonstrated their understanding of relevant ideas within the context of the whole text, for example avoiding unsupported assertions that the instruments ‘were the first MP3s’ in favour of more nuanced explanations related to their portability. Strong answers did not repeat the separate details related to the age of the stones at different points in their answer, but rather organised their response to connect and summarise that information under one point. Competent answers showed they had focused on the specifics of the task as set and did not include detailed accounts of Gonthier’s actions, the composer of the concert piece or timings of the concerts, but instead kept their sights clearly on the instruments themselves. Candidates producing the most effective answers were able to demonstrate that they had understood a wide range of relevant ideas, explaining them in their own words and skilfully selecting and organising points to offer an overview. On occasion, potentially effective answers lost sight of the need for concision in a selective summary task and significant excess arose as a result of continuing to write way beyond the maximum of 250 words advised in the task guidance.

Where answers copied wholesale from the text with minimal or no modification, or offered a response which communicated only a few relevant ideas, candidates missed opportunities to target higher marks. The best responses showed that candidates understood the need to be accurate, clear and concise in the use of their own words when summarising relevant material from the passage. Stronger answers were careful to recast information, organise it helpfully, and use their own vocabulary where feasible without changing or blurring the original idea. For example , better answers reorganised the material rather than relying on the order of the text – avoiding repetition by doing so and establishing useful links such as that between the ‘accidental ‘ discovery of the stones in the dessert and the chance discovery of their musical potential. Stronger answers were able to offer their own vocabulary consistently, though in the mid-range some lifting of phrases was

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common with fewer candidates offering confident alternatives for ‘brought back by troops’, ‘short and slim enough to be carried in one hand’, or ’signal danger/call people to dinner’.

In low to mid-range answers, incomplete awareness or understanding of why they might want to avoid lifting meant that some candidates tended to concentrate on substituting words without careful selection of the central idea – diluting evidence of understanding of both task and text – for example by changing ‘gently tapping’ to ‘peacefully tapping’ or substituting ‘artefact display centres’ for museum. Candidates need to be aware that simply moving word order around within a sentence or replacing just one word is not a short cut to providing secure evidence of their reading skills and understanding. Where candidates relied on this approach it often resulted in changes to the sense of the idea which undermined evidence of understanding further – for example, through assertions that the instruments were ‘played like xylophones by tapping stones on the mallets’ or ‘carefully crafted with stone rods’. Candidates need to work to show understanding of ideas rather than simply track the passage making minimal changes and/or slotting in substituted words.

Errors in grammar and spelling were evident on occasion and prejudiced achievement in some answers – for example some responses suggested that the stones were ‘brought to Algeria and Sudan’, or ‘were bought by French troops’. When copying less familiar vocabulary accuracy is equally important – it was incorrect for example to suggest that the instruments were ‘hit with a mullet’. The best answers were clear, concise, largely accurate and well organised.

Advice to candidates on Question 3:

- re-read the passage after reading the question, in order to identify the potentially relevant content points
- you can use spare pages in your answer booklet to plan your ideas ahead of writing your response – draw a neat line through your planning afterwards
- identify and discard any ideas or extra details which are not relevant to the focus of the question
- reflect on the ideas you have highlighted to check they are distinct and complete – for example whether there are repeated ideas which could be combined or ideas which need further explanation
- check you understand each idea you use and aim to explain it in your own words
- organise and sequence your ideas helpfully for your reader – do not rely on repeating ideas in the order of the passage
- write informatively and accurately, avoiding errors which affect meaning
- do not add details, examples or comment to the content of the passage
- avoid repetition of points
- when checking and editing your answer, consider whether each point you are making could be easily and precisely understood by someone who has not read the passage
- though you do not need to count every word, you should keep in mind the guidance to write ‘no more than 250 words’ as a reminder in the selective summary of the need for concision.

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FIRST LANGUAGE ENGLISH

Paper 0500/32
Directed Writing and Composition

Key messages

This paper was mainly assessed for writing, although there were ten marks available for reading in **Question 1**.

In order to achieve high marks, candidates were required to:

- use an appropriate form, style and register in both questions
- structure ideas and organise their writing effectively to persuade and interest the reader
- produce detailed and evocative descriptions and engaging, credible narratives
- construct varied sentences accurately and to create specific effects on the reader
- select appropriate, precise and wide-ranging vocabulary

General comments

Examiners found that in most cases a secure understanding was shown of what was expected in both questions, Directed Writing and Composition. A large majority of responses, regardless of achievement, were sustained and there were few very brief scripts. All candidates understood the instructions for the examination and attempted **Question 1** and either a descriptive or narrative writing task. In **Question 1**, very few responses were mostly or wholly copied from the passages in the Reading Booklet Insert, though there was some more extensive lifting of phrases in some.

Nearly all responses showed a clear understanding of and engagement with the topic of university application and some of the factors in deciding whether it would be suitable in **Question 1**. Most responses were written in an appropriate style and format for the letter to a relative. The majority of candidates approached the topic using their own words rather than lifting or copying the words in the passages. Better answers here also tended to structure responses independently, selecting and commenting on the details in the passages to arrive at a considered decision about whether to apply for a place in university. In the middle of the mark range, responses tended to reproduce the points made in the passages, sometimes with a little opinion about which view was appropriate for the writer or with some development of the ideas. A substantial number of responses at this range made limited or no reference to the second passage, although some reflected in general terms that university is not suitable for all students.

Weaker candidates tended to repeat the ideas in the passages, often in the same sequence rather than selecting points and commenting on them. In some weaker responses, this resulted in a lack of cohesion and some contradiction of competing ideas.

Most made good use of the bullet points in the question to help structure the response and the ideas in the passages were scrutinised thoughtfully. Sometimes, insufficient use was made of the reading material, especially the second passage, and there was less understanding of the evaluative nature of the task. The measured but informal style and register for a letter to a relative was well understood by the majority of candidates. In weaker responses, there was often some general commentary on the importance of a university education for future job prospects, with one or two points from the passage addressed but the requirement to weigh up and consider the validity of these ideas was missed. Some addressed the relative as if he or she had written the article in the Reading Booklet Insert, missing the opportunity to comment more critically on its contents.

Better responses paid specific attention to the audience and style required for a letter to a respected but close relative who had made an effort to help the writer. These were polite but evaluative in style, using ideas from the passages to create and structure arguments and often employing rhetorical devices and showing a

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strong sense of audience. Some in the middle range of marks wrote in a more discursive style and there was less focus on arriving at a clear judgement based on the passages. Weaker responses relied more on the sequence of the points made in the article with less selection and regrouping, and often with limited reference to the second passage, and this made for a disjointed and less coherent style and structure.

In the compositions, the descriptive and narrative genres were attempted in fairly equal numbers. Better responses to the composition questions were characterised by a clear understanding of the genre selected and the particular ways in which the reader's interest could be engaged.

Descriptive writing at the highest level was evocative and subtle and most responses gave a range of descriptive detail without resorting to narrative. Many responses to the first descriptive question were very effective and sustained. The range of sense impressions and the hectic pace of a restaurant kitchen gave imaginative writers plenty of scope to create images and effects. There were some imaginative evocations of a future school in the second descriptive writing questions which Examiners found engaging and effective. As is usually the case, these were better when there was specific detail and where the description created an atmosphere which evoked the scene imaginatively. Weaker responses to both descriptive writing questions tended to contain straightforward physical descriptions or some reliance on narrative with less descriptive focus.

The best narrative writing engaged the reader with well-drawn and interesting characters and scenarios which were credible. Responses to **Question 3(a)**, based on a character fulfilling a dream or ambition, were very varied and often, at the highest level, moving and effective. The second narrative question also elicited a wide range of approaches and interpretations and Examiners awarded marks across the range here.

Weaker narratives were less credible and there was often less overall cohesion and narrative purpose. Some were more simple accounts and were under-developed in style and less cohesive in structure.

Composition responses would have benefited from a clearer grasp of the features of good writing in specific genres. The best descriptive writing was specific, used some original and thought-provoking imagery and effectively evoked the atmosphere of the time and place described. The conscious shaping of narratives to interest and intrigue the reader and the creation of characters to stimulate the reader's sympathy were features understood by the most effective writers who selected narrative writing options.

Comments on specific questions

Section 1 – Directed Writing

Question 1

Imagine that you are trying to decide whether or not to apply for a university place. A relative has sent you the information in the two passages.

Write a letter to your relative in response to what you have read.

In your letter you should:
- evaluate the opinions and ideas about going to university in the two passages
- explain whether or not you think going to university might be useful for you.

Base your letter on what you have read in the article and extract, but be careful to use your own words. Address each of the bullet points.

Begin your letter, 'Dear …'

Write about 250 to 350 words.

Up to 10 marks are available for the content of your answer, and up to 15 marks for the quality of your writing.

High marks were awarded where there was some challenge and discussion of the points made in the passages, rather than a straightforward listing and reproduction of the points in it. Where the letter was also both accurate and ambitious in vocabulary and style, often with a consistent sense of audience, Examiners

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awarded the highest marks. Better responses here focused carefully on the arguments in the passages, with the highest marks awarded for those which handled the conflicting views represented in the two passages with confidence and perceptive evaluation. The extent to which the inferences contained in the passages were probed and made explicit tended to determine the level of candidates' achievement.

Responses given marks in the middle range tended to be more straightforward, with some listing of the explicitly stated advantages of attending university, some discussion of how student debt could be mitigated and sometimes a brief summary of what the students in the second passage said.

These details were an accurate reflection of the main ideas in the passage although opportunities to scrutinise their validity were not taken. Some opinion or decision was often given at the end of the response but this did not amount to an evaluation of the ideas. Responses at this level could have been improved by more thoughtful consideration of the opposing ideas rather than simple reproduction of them.

Weaker responses showed some understanding of the ideas in the passages but less use was made of the range of ideas or there was sometimes some misunderstanding of the details. Often, there was little evidence that the second passage had been read. Weaknesses in organising ideas coherently were characteristic at this level, particularly where contradictory points conflicted with each other. Where the second passage was represented in the response little attempt was made to integrate the opinions in it into a coherent whole.

Marks for reading

The best responses, as always in this task, adopted a consistently evaluative stance and read effectively between the lines of the passage, drawing inferences and making judgements about whether a university education was the best option for a student nowadays. Most responses included the evidence in the first passage suggesting that a degree improved young people's chances of getting a good job in the future and most showed some understanding of the need for hard work and commitment to ensure that these rewards could be reaped. More thoughtful responses went to the heart of the issue in considering whether the potential hardships in terms of debt and social life made 'education for its own sake' an investment for the future or a waste of three years' worth of more varied opportunities.

In higher Band responses the question's requirement that the issues should be discussed from the point of view of a student actively considering applying to university gave candidates a clear purpose for their reading of the passages. Perceptive responses often saw through to the crux of the debate in the passages: whether a university education is worth the effort and sacrifice involved and whether it was appropriate for them. Many at this level argued convincingly, using sensible inferences from both passages but also challenging some of the assumptions made in both. The statistic given in the article that 96 per cent of graduates were employed or in further studies was often properly challenged in Band 6 responses: 'employed' did not mean that the jobs graduates were doing were genuinely jobs for which degrees were needed and 'further study' as an end in itself was not necessarily a desirable outcome. Some also mentioned that three years was a long time to wait to feel the benefits of a university education.

The cost of a university education was almost universally referred to but at the highest level there was more scrutiny of the claim made in the article that students could easily repay the debt. The idea that taking part-time work to mitigate the cost of a degree may jeopardise a student's ability to commit to academic studies was used in high Band responses, as was the opposing argument that it could be considered an investment rather than a debt. Some doubted the implication of the claims made in the article that the quality of teaching and resources made the cost reasonable and pointed to the fact that employers wanted more than degrees. While the article suggested that these additional skills could be acquired as part of one's overall university experience, joining entrepreneurs' societies and volunteering as well as studying seemed, for some candidates, unlikely or an excessive burden. In some high level responses the second passage was used to counter the assumptions in the article, or vice versa: for example, the idea from the second passage that if students were unsure which career to pursue there was no point going to university was often addressed by reference to the career advice offered at university. One sensible idea derived from Hazel's comment in the second passage was that three years spent trying out different things to 'work out what I really want to do' was indulgent and would simply waste three years which could be spent getting a degree which was at least proof of ability and commitment. Some thought Ajay's real reason for not going to university was the cost and detected some envy of student life in his comment, while others developed the idea that 'sitting at a desk' was not everyone's preferred method of learning to argue that university learning as described in the article involved much more than that.

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Band 5 marks could be given where Examiners found some evaluative commentary but the response as a whole did not have the consistently critical approach needed for Band 6. Fairly straightforward judgements were made at this level, such as the idea that not all students were capable of the intellectual standard required for a degree (as implied by Edon's comment) or that relying on parents to fund a university education meant that there had to be some certainty of gaining a good job in the future. Examiners could also credit as evaluation the view that student debt could be a motivating force at university to make a student work hard to be able to repay it, as much as a daunting prospect.

Examiners awarded marks in Band 3 for Reading where there was adequate breadth of coverage of the passage but without the more implicit meanings mentioned above or with less scrutiny of the points made in the passages. There was often less argument and focus on using the passages to make a decision, rather than a simple opinion based on personal preference. While the points made were given mostly in candidates' own words, simple opinions on them were offered rather than evaluation of them. For example, many wrote that because they knew that they wanted to be a doctor or a business entrepreneur, this was reason enough to go to university or that because their families could afford the cost of a degree they would not be saddled with student debt. In some responses given 6 marks for Reading the arguments in both passages were regrouped a little but some contradictions or more subtle ideas were not addressed. For example, the benefits of learning from experts were reproduced from the article without comment alongside Ajay's comment that professional qualifications were more valuable. To score higher marks for Reading, Examiners looked for some scrutiny of these apparent contradictions rather than reproduction of them.

Weaker responses showed some misunderstanding, drifted away from the passages or addressed the material thinly. Some tracked through the passages simply but showed limited reorganisation of the ideas or gave a straightforward paraphrase. As mentioned above, this approach sometimes shed light on conflicting ideas which were not well understood below Band 3. Generalisations about university education being beneficial or expensive were made and most commonly at this level, phrases and sentences were lifted and copied from the passage and were poorly sequenced so that Examiners were not convinced that the main ideas were understood. Misunderstanding of some words and phrases such as 'invaluable' was common and copying of 'solid communication skills, experience of administration, initiative and commitment' was very common. Where a mark of 4 was awarded, some firmer links with the passages were needed, whereas 3 was generally given for very thin or mainly lifted responses in which there was some insecure grasp of the ideas in the passage.

Marks for writing

15 marks were available for style and a sense of audience, the structure of the answer and the technical accuracy of spelling, punctuation and grammar.

Style and audience

An informal, polite tone was required for a letter from one relative to another and most responses were written in an appropriate register, even where the writing was technically weak. Some markers of a more familiar relationship such as enquiries about health were very often given appropriately at the beginning of the letter, as well as some appreciation for the concern shown by the recipient about the writer's future implied in the act of sending the passages to help with decision-making. Some high scoring responses used a more rhetorical, stylistically persuasive style and presented their arguments with some subtlety of tone, always maintaining a respectful friendliness but making their case effectively and with some impact. The use of a young person's voice addressing a family member in their writing gave many candidates a clear focus and style which was sustained throughout.

In the middle range, the style was usually appropriately informal although there were lapses in awareness of that audience. The content and tone of the letter, once the opening sentences were given, became more reportage of the passages than an explanation of a decision to someone familiar who needed to be convinced. Most often at this level there was limited argument to give the response shape and purpose, even where the passages were adequately reflected.

Weaker responses sometimes had limited overall cohesion because the conflicting opinions in the passages were simply reproduced as they appeared in the original. Some wrote as if the recipient of the letter was the author of the original article, showing an insecure or unsustained understanding of audience and purpose.

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Structure

Responses awarded high marks for Writing handled the material confidently and presented their arguments cogently. The issues addressed were combined so that the decision which emerged was clearly derived from the ideas in the passages but was not dependent on their structure and sequence. At the highest level, the point of view of the writer gave shape and structure to the response as a whole and the ideas in the passages were assimilated and assumed rather than specifically referenced. The opening and concluding paragraphs addressed the purpose of the letter clearly and objectively, with the intervening sections arguing a coherent case.

Responses given Band 6 marks for Writing tended to reflect the sequence of points made in the passage but were reordered in a response which was sensibly structured and paragraphed so that conflicting ideas were addressed separately. Some use was made of the ideas in both passages. Weaker responses sometimes struggled to provide a coherent argument and were more tied to the sequencing of the passage whereas Band 5 responses usually organised and re-sequenced ideas more selectively. Straightforward Band 5 responses were paragraphed and balanced and followed the conventional structure of letters, though opening and concluding paragraphs were often brief, single sentences.

Some weaker responses given marks below Band 5 were limited in structure and more dependent on the sequence of ideas in the passages, often with some lifting and copying. This approach led to some weakness in cohesion and some contradiction.

Accuracy

Accomplished writing which was accurate and controlled was given a writing mark in Band 7. These responses were not only authoritative in style and convincing in their arguments but fluent and virtually free of error. There was a range of precisely selected and complex vocabulary and sentence structures varied and were consciously used to create specific effects. Rhetorical flourishes, such as the use of contentious, challenging questions, were often used at this level. One response, for example, asked Some exclamation such as ‘Is it really worth it when a degree is only one thing employers are looking for?’ and some measured use of the familial relationship in the task was evident at this level: ‘I’m sure you have my best interests at heart, dear aunt, but we each have to follow our own path in life, don’t you think?’

Some complex sentences structures were chosen which helped to balance and weigh up contending views and complex clauses were controlled by careful punctuation.

Band 6 responses were usually purposeful and clear, though not as ambitious and wide ranging in vocabulary and style as those given higher marks. Although the style was usually plain, the language used was apt. A range of quite basic errors was made at this level which limited the effectiveness of the style without damaging the meaning conveyed. Commonly used words were also wrongly spelled in responses at this level, particularly key words for the task such as ‘experienced’, ‘commitment’ and most commonly ‘tuition’. There were occasional lapses in the use of definite and indefinite articles (usually omission) and ‘an university’ was fairly often used.

Faulty sentence structures, insecure tense use or weakly demarcated sentences often kept writing marks for **Question 1** in Band 4, even where other technical skills such as spelling were more accurate. These responses often showed reasonable clarity in conveying meaning but there was a wide range of quite basic punctuation and grammar errors which meant that Examiners could not award marks in Band 3 where mostly correctly structured sentences are required. Structures such as ‘Thank you for the passages which you had sent to me’ were common. The omission of definite or indefinite articles was more frequent and more damaging to fluency at this level, as was mis-agreement between pronouns and verb forms. In rare cases, material from the passage was copied and responses where this occurred more substantially could not be given marks in Band 4 for Writing or for Reading because neither the content or the style of the response was the candidate’s own.

Ways in which this type of answer could be improved:

- Be prepared to challenge and disagree with ideas in the passage and always justify and explain the reasons why you agree or disagree.
- Make sure the ideas you use are derived from the passage.
- Look for, and use in your response, inferences made indirectly by the writer.
- Aim for breadth of coverage of the ideas in the passage as well some depth in evaluating them.

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- Be aware of the audience for your writing and adapt your style accordingly. Think carefully about the kind of style the recipient of your letter would expect as well as how letters should begin and end.
- Check your writing for basic punctuation errors, such as missing definite or indefinite articles, weaknesses in grammar or misspellings of key words which are in the passage.

Section 2 – Composition

Write about 350 to 450 words on one of the following questions. Answer on this Question Paper. Up to 13 marks are available for the content and structure of your answer, and up to 12 marks for the style and accuracy of your writing.

Descriptive Writing

2(a) Describe the kitchen of a busy restaurant at lunch time.

OR

2(b) Imagine your school or college 25 years from now.

Both descriptive writing questions were popular choices for candidates and Examiners saw a range of different approaches to the tasks. In the first, most popular task, there were some very detailed and strongly evocative descriptions of hectic restaurant kitchens, often employing extended images of battlegrounds or warzones.

In the second question, some different approaches were evident, from the idea of returning to a school attended by the writer many years before as a pupil to an imagined, futuristic vision of school for the next generation. The highest level of response to both questions showed that there was a clear understanding of how detailed and evocative descriptions are created.

Some successful responses to the first question focused on a range of details and images which were held together cohesively by the use of a short span of time such as a lunchtime service or by consciously developed extended images of the kitchen as a military battle zone with the head chef as a commander figure barking orders at scurrying kitchen staff. A few different kinds of interpretations were evident and often effective, such as a kitchen in a palace in historic times or a particularly horrific kitchen incongruously serving an elegant, fine dining restaurant. Effective details often included sensory features such as the clang and clatter of saucepans and cutlery, the din of machinery and the shouts of staff as well as the bright colours of sauces bubbling in huge containers, the pristine whites of the kitchen staff's clothing and the various aromas, both enticing and repellant, associated with busy, commercial kitchens.

Band 5 responses were characterised by rather more obvious images and ideas and the sensory impressions given were more mechanically listed and organised in different paragraphs. Some began with rather more general impressions of a hectic kitchen, such as 'the chefs were all running up and down from the sink to the pans, trying to keep up with the orders' and sometimes sights, sounds and smells were more stereotypical of a kitchen than specific and well-observed details. Few responses at this level lapsed into narrative with little real description or lost the main features of descriptive writing. At the lower end of Band 3 for Content and Structure, some responses began with a rather long introduction before the kitchen itself was addressed in the task. The reason for the meal, the wait for a table or some focus on the restaurant rather than the kitchen sometimes unbalanced a description which took a while to get underway. In some, the description sometimes became a more straightforward list of what was seen. The descriptive content tended to be a little more stereotypical or general than responses given marks in Band 6.

Weaker responses were characterised by a tendency to list details briefly rather than effectively develop them or a narrative introduction continued into a series of events more than description. Most responses to this question were organised and paragraphed but at this level the descriptive detail was more haphazard and less cohesive.

The second question was less often selected popular but there were some effective descriptions of school grounds, classrooms and teachers which Examiners rewarded highly for the creation of atmosphere and range of detail. In some, the school was visited many years after the writer had been a pupil there and there was often a sense of nostalgic memory, both pleasant and unpleasant in the description of now derelict or abandoned classrooms which had once been familiar and significant in the writer's life. Other responses at the highest level were highly imaginative evocations of a school in the future which more resembled clinical

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science laboratories than classrooms and where there were fewer teachers than robots or computers. While gadgetry and technology featured strongly in these responses, the best gave a glimpse of what pupils actually experienced in the school as well as the methods by which they learned.

While there were effective responses which adopted both of these interpretations of the question, some at the bottom of Band 5 tended to focus on explaining more than describing at times, or gave a list of improvements which their current school would have made within 25 years, such as more sports facilities, brighter, more appealing classrooms or a better computer resources.

Examiners gave marks below Band 5 where the writing was more typically narrative than descriptive in focus, and where there was limited organisation of the details described or where strings of details were listed with limited overall cohesion. At this level, responses became simple, unengaging accounts or lists rather than a description of an imagined location.

Marks for Style and Accuracy were, in the best responses, reflective of the precise and varied vocabulary used as well as the technical accuracy of the writing. In the middle range, vocabulary was less rich and varied but there was still a fair degree of accuracy in spelling and sentence construction. In weaker responses, as is often the case in descriptive writing, tenses switched between past and present, sometimes within sentences. Incomplete or verbless sentences giving snapshots or impressions were fairly common but errors in the use of tenses were also frequent. In the second question, where a kind of list of desirable improvements was given, the conditional tense was sometimes used in places and the use of 'it/they had' instead of 'has/have' was noted. The omission of definite and indefinite articles, while not always a serious impediment, became more damaging to the style with frequency. This often meant that Examiners could not award marks in Band 5 where the style was otherwise quite accurate and secure.

Ways in which the writing of descriptions can be improved

- Try to avoid clichéd scenarios and consider a more individual and original selection of content. Choose a scenario which gives you a range of details on which to focus.
- Remember the key features of descriptive writing and keep your focus on details.
- Write sentences with proper verbs and do not switch tenses.
- Choose your vocabulary and sentence structures carefully to create specific effects.

Narrative Writing

Write about 350 to 450 words on one of the following questions. Answer on this Question Paper. Up to 13 marks are available for the content and structure of your answer, and up to 12 marks for the style and accuracy of your writing.

3(a) Write a story about fulfilling a dream or an ambition.

OR

3(b) Write a story using the title, 'The Cancellation'.

Both narrative writing questions were popular choices for candidates across the mark range and there was a very wide range of plots, characters and scenarios in these responses.

Better responses, as is often the case in narrative writing, were well organised and thoughtful interpretations of the title which used interesting but credible ideas and developed balanced and engaging stories. The fulfilment of a dream or ambition which was required in the first task varied very widely from sporting and academic ambitions to other kinds of goals in life such as landing a dream job or having children. Most were chronologically told narratives with some understanding shown of what engages the reader: some setback or jeopardy was often used in better responses to keep the reader's interest. One effectively told adventure story of an expedition through jungle, for example, built tension effectively by including the narrator's own internal monologue of fears and anxieties throughout.

Middle range narratives were usually more straightforward in structure and approach and in some cases these responses sometimes relied on rather unlike or far-fetched scenarios such as top jobs in New York law firms or scoring a goal in a World Cup final. Examiners could award marks in Band 5 for Content and Structure, even where the sequence of events was not very credible, provided the narrative was organised and there was some attempt at characterisation. Responses in this range, whilst often more predictable,

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were cohesive and balanced and contained a suitable ending depicting some resolution or conclusion to the story overall. Some stories where the action and plot were a little strained were redeemed by the effective creation of a character or narrative voice.

Weaker responses were often more dependent on a simple series of events with less developed characters and a focus more on action than other features which engage and interest the reader. A simplicity of content rather than weaknesses in organisation were typical at this level. Often the same kinds of scenarios as in better responses were evident but there was less awareness of the needs of the reader and less skill in engaging the interest of the reader in terms of narrative shaping and the creation of credible characters.

For the second narrative question, there were many varied interpretations of the title, both literal and more figurative. Some effective responses were based on the cancellation of holidays, examinations or journeys which then led to unexpected consequences such as meeting an important or significant person in an airport lounge or finding an alternative holiday destination which turned out to be important in various ways. Others used a metaphorical interpretation to create a story about a different kind of 'cancellation' such as the ending of a relationship or a life in narratives which were dramatic and effective. Both approaches resulted in some highly effective and engaging stories although better responses prepared the reader and shaped the narrative in an engaging way.

Band 5 responses were generally more straightforward accounts in which the content was ordinary but there was still some organisation and shaping of the narrative and a cohesive story was produced. These tended to be a little less imaginative in their interpretation of the task but with some understanding of how stories create interest for the reader. Some involved similar scenarios to those awarded higher marks but the characters were less fully realised or the ending lacked impact and interest. Straightforward accounts of turning up at school for an important examination only to find the place deserted and empty, or narratives involving the cancellation of holidays after much excitement and preparation were fairly common.

Responses given marks in Band 4 were usually simple accounts of events and showed limited awareness of the reader or the features of narrative writing which elevate an account into a developed story. Scenarios which quickly became cliched and unengaging were used, such as murders, kidnappings or chases, many of which lacked credible explanation. Other less successful approaches to the question involved simple plotlines where some event was cancelled and the narrator's disappointment was recorded but without a real understanding of how to create a narrative voice. These responses lacked narrative shaping and interest. Some produced organised and paragraphed pieces which were simple accounts but there was little real narrative drive or story-telling.

High marks for Style and Accuracy were given for responses where the writing was lively and varied in vocabulary and where different sentence structures were controlled and used to create particular effects. Punctuation within sentences, in dialogue and for effect was characteristic of responses in the higher Bands and where coupled with a sophisticated palette of vocabulary, the highest marks were given. Responses awarded marks in Band 6 tended to be less ambitious and complex but still accurate and largely fluent while Band 5 responses were plain in style and lacked some range in vocabulary but had few errors which damaged the clarity of meaning such as weak sentence control and sentence separation or repetitive grammar errors. Some at this level, though not as many as in previous examinations, were limited by the use of vocabulary which was more complex but not used accurately

Errors in sentence control and separation, as well as lapses in tenses, if persistent, limited even competently told stories to Band 4, as did frequent errors in basic punctuation or grammar. The omission of definite and indefinite articles, the incorrect use of participles or errors in grammatical agreement contributed to a lack of fluency and accuracy which kept a number of responses out of Band 5. Similarly, though less frequently, basic punctuation errors and the mis-spelling of simple words sometimes appeared in otherwise competent writing and were sometimes frequent enough to affect the mark for Style and Accuracy. The misuse of capital letters, where a capital for the personal pronoun was often missing and proper names were not capitalised, was fairly common from Band 5 downwards. Capital letters used where they were not required was also sometimes noted. The most frequent reason for keeping an otherwise clearly written story out of Band 5 was imprecise use of tenses and a lack of clarity of style.

A controlled, competent style secured a mark in Band 5 and even when written in a fairly pedestrian style Examiners could award a mark of 7 or 8. Where there were errors, even quite frequent errors, but the style had more ambition and variety, a mark of 9 was awarded. Weaknesses in constructing sentences or frequent grammatical and punctuation errors resulted in marks below Band 5. A few responses were very faulty in style, making it difficult to follow the meaning. These were given marks lower than Band 4.

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Ways in which the writing of narratives can be improved

- Plan how to resolve your story in an interesting way before you start writing.
- Try to consider alternative interpretations of the titles given.
- Characters' thoughts and feelings help to engage your reader. Don't rely on events.
- Check your writing for errors which will badly affect your mark, such as basic spelling and punctuation mistakes.

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FIRST LANGUAGE ENGLISH

Paper 0500/04
Coursework Portfolio

Key messages

Candidates did well when they:

- wrote original and interesting assignments and used their own words to reflect their personal ideas, feelings and interpretations of the world about them in a mature and sensible way;
- structured the content of their writing in order to clearly guide the reader from one section of writing to the next;
- sequenced sentences within paragraphs in a way which maintained clarity of arguments or events;
- wrote with confidence using a wide range of vocabulary with precision and for specific effect;
- adapted their writing style to demonstrate an understanding of the needs of different audiences and contexts for each of the three assignments;
- revised, edited, proof-read and corrected the first drafts of each assignment;
- wrote accurately and made few errors with spelling, punctuation and grammar.

General comments

The moderators were impressed with the interest, concern and thoughtfulness displayed by the candidates about global and local issues. This was most evident in the responses to Assignment 1 tasks, but could also be seen in the responses to the texts in Assignment 3. The majority of centres ensured that candidates wrote in three different genres and that an element of individual choice was offered by the tasks set.

With many centres the assessment of writing was generally satisfactory; many candidates wrote accurately and used language appropriately. Less successful writing tended to contain frequent errors with grammar and punctuation. Common errors were missing articles, the inaccurate use of commas and the use of vocabulary which did not fully match the context for which it had been used. The moderators noted that a significant majority of centres did not indicate errors in the final pieces of their candidates' work, or seem to take the errors into account when awarding final marks. Teachers are expected to indicate all errors in the final versions of each completed assignment so that they can more accurately balance the strengths and weaknesses of the portfolios as a whole.

The marking of reading was slightly lenient across the majority of coursework portfolios seen. Candidates who had responded more to the topic than the text quite frequently received marks from Band 5. To gain marks from the top band candidates need to provide an extended overview of the text or write an overall, structured response that assimilates most of the ideas and opinions presented within the text.

Good practice was where:

- centres set a range appropriately challenging tasks which allowed candidates to respond individually and originally to topics and subjects they were interested in, or of which they had personal knowledge or experience;
- a wide range of appropriate texts were used for Assignment 3, which were relevant to the candidates' interests and which contained ideas and opinions to which they could respond;
- centres set tasks which allowed candidates to respond in three different genres of writing;
- candidates revised, edited and carefully proof read their first drafts in order to improve their writing;
- teachers provided informative summative comments relating to the mark scheme at the end of each completed assignment;
- teachers indicated all errors in the final versions of each completed assignment;
- coursework portfolios were securely attached and presented as indicated in the Course syllabus;

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- there was clear evidence that a thorough process of internal moderation had taken place and changes to marks had been correctly transferred to the CASF.

Administration

The majority of centres accurately completed all relevant paperwork. A significant number of the centres tended to include extra cover sheets, submit work in plastic wallets and did not securely attach the individual pieces of work to the candidate's Individual Candidate Record Cards (ICRC). The Course syllabus requests that centres only submit work using the forms provided by Cambridge (e.g. the ICRC) and that plastic wallets are not used for the presentation of coursework. The Course syllabus also requests that staples or treasury tags are used to securely attach the individual pages of the coursework portfolios to each other. Plastic wallets and paperclips are not secure because the individual pages of work can become detached or mislaid during the moderation process.

Moderators noted that that with the majority of the centres there was little evidence to indicate that a process of internal moderation had taken place. Whilst it is likely that centres had carried out this process, it is important that centres show evidence of this on the candidates' work and in the final columns on the Candidate Assessment Summary Form (CASF). Information about how to carry out internal moderation can be found on page 17 of the 2019 Course syllabus.

Some centres supplied excellent and detailed summative comments at the end of each individual assignment. This was most helpful in allowing the moderators to understand how and why marks had been awarded. The most useful comments were those which indicated the strengths and weaknesses of each piece and related directly to the mark scheme. Guidance about teacher comments on portfolios can be found in on page 16 of the Course syllabus under 'Marking instructions' (point 2).

Assignment 1

The majority of candidates wrote about topics which were of importance or interest to them. Candidates explored a wide range of interesting and appropriate issues such as deforestation, nepotism, equality of the sexes in India and the Indian education system. It was clear to the moderators that the candidates were concerned about local and global issues.

Moderators noticed that with a significant number of Assignment 1 responses there was a tendency for the responses to be quite factual and contained limited evidence of candidates' personal opinions. This type of response seemed to be closely derived from the research candidates had carried out. There was evidence to suggest that candidates relied heavily on the words and phrases found in their research. If candidates rely too heavily on the words and phrases seen in their research documents they could run the risk of inadvertently plagiarising a document. Plagiarism is a contravention of the Syllabus rules and should be avoided at all times.

Advice to learners

- when planning and preparing to write Assignment 1 be careful to make sure that you use the information you find to present your own, original ideas, thoughts and opinions about a subject;
- when writing your response make sure that you use your own words and phrases and avoid relying too much on the words and phrases you have seen in research documents;
- try to use your own words instead of quoting long chunks of text from your sources;
- acknowledge your use of quotes;
- carefully proof read your writing and check for errors with commas, articles, prepositions and grammar;
- carefully proof read your work to make sure that you identify and correct typing errors and check that your vocabulary choices match the context of your writing.

Assignment 2

There were some well written and engaging responses to assignment 2 tasks, especially those accounts which stemmed from personal experiences or memories. Better candidates tended to select interesting and sometimes unusual details, whether writing about a real or fictitious moment. Candidates who included uninteresting details which did not develop character/s or plot scored less well than those who added detail to develop specific aspects of character/s and plot.

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Generally speaking, the accuracy and fluency of the writing in the responses to Assignment 2 tasks were of a lower standard than that seen in Assignments 1 and 3. There was a general tendency for candidates to overuse simple sentences or make quite frequent grammatical or punctuation errors. These issues affected the overall fluency and enjoyment of the final pieces of writing and sometimes did not allow candidates to meet the higher band marking criteria.

Advice to learners

- when writing to describe try to avoid clichéd scenarios and consider a more individual and original selection of ideas and images;
- when writing a narrative try to include details that adds to the development of the plot or which adds to the characterisation of your character/s;
- write about something you are familiar with or something you know well;
- make sure that the images you create and vocabulary you use match the context and content of your writing;
- take note of the comments about accuracy in the last two bullet points under the heading 'Advice to learners' for Assignment 1.

Assignment 3

Most of the texts used for Assignment 3 were appropriate and of sufficient challenge for the learners at all levels. A wide range of appropriate topics were covered including, Indian students studying abroad, helicopter parents and university funding in India.

When candidates provided an extended overview of the text, or wrote an overall, structured response that assimilated most of the ideas and opinions presented within the text they did well and were able to meet the highest level assessment criteria for reading. A significant number of candidates were unable to do this because they had used the text as a stimulus for a general discussion about a topic instead of analysing, evaluating and developing the specific ideas or opinions contained within a text. This led to a general trend of a slight over-awarding of marks for reading across a significant number of centres.

Some texts were not suitable because they contained limited ideas and opinions with which candidates could engage. Mainly factual news reports and extracts from Nineteenth Century novels are examples of this type of text and should not be used for Assignment 3 because they do not offer candidates the opportunity to meet the higher band assessment criteria.

Advice to learners

- choose a text that presents a strong, possibly controversial, argument about a subject or topic;
- choose a text of approximately two sides of an A4 piece of paper;
- give an overview of the main points or arguments contained within the text;
- aim to cover most of the ideas and opinions presented in the text;
- make sure that your ideas and responses are tightly linked to the ideas and opinions you have identified in the text;
- take note of the comments about accuracy in the last two bullet points under the heading 'Advice to learners' for Assignment 1.

Conclusion

Appropriate task setting and completion of relevant forms is a strength of many centres; centres are thanked for their attention to detail with this matter. There is room for further improvement in the way in which centres annotate the final versions of completed assignments and for their application of the assessment criteria for the reading element of Assignment 3. It is clear when reading the completed coursework portfolios that centres are working hard to help their learners to develop the skills needed to meet the assessment criteria. As stated at the beginning of this report, the concern and thoughtfulness demonstrated by the young people producing the work was impressive and moderation continues to be a fascinating and rewarding experience for all in the Moderation team.

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FIRST LANGUAGE ENGLISH

Paper 0500/05
Speaking and Listening

Key messages

Generally, the standard of assessment was at or near the expected level. Candidates were given full but fair credit for their efforts by centres using the mark scheme effectively.

Candidates were clearly given the opportunity to choose their own topics and in most cases these choices proved judicious.

The application of appropriate administrative procedures remains an issue for some centres. It is important that centres follow the instructions in the current syllabus regarding the correct way to introduce each candidate's recording, the number of recordings to include in the sample sent to Cambridge and how to successfully complete the Oral Examination Summary Form. Further guidelines are also included in the current Coursework Handbook for 0500 First Language English.

General comments

Administration

Where centres had followed the relevant instructions in the syllabus the administration was of a high standard, thus allowing moderation to be a smooth and straightforward process. Where there were issues the following points may be helpful:

- All the recordings for the whole cohort should be sent to Cambridge as part of the sample, together with the appropriate paperwork. The centre does not have to make decisions on whose tests to include for moderation as the moderator will assess the whole cohort and then decide which candidates to sample more closely.
- The Oral Examination Summary Form should be completed by the examiner for the candidates included on the form. Therefore, where there are multiple examiners involved in the testing in the series, Cambridge requires a separate Oral Examination Summary Form from each examiner who took part. This allows the moderator to sample from across the examiners at the centre to ensure a consistent approach to assessment has been established by the centre, probably through the use of effective internal moderation.
- A separate introduction is required for each candidate's test. It is not acceptable for one generic introduction covering the whole of the centre's cohort to be included with the sample recordings. Centres should treat the introduction in the same manner as the front page of a candidate's answer book for a written paper. Each candidate is required to complete a separate answer book to uniquely identify that candidate and the same should be the case for each candidate's oral test.
- The examiner should introduce the recordings using the rubric in the syllabus. This must include the date on which the recording is made to confirm the test has been carried out within the specified window.

Conduct of the test

When considering candidates' marks, the importance of **timings** must be appreciated.

- Part 1 should be a minimum of 3 minutes. Please note this does not include the examiner's introduction. Where a Part 1 response is short, please consider whether the assessment criteria can be adequately met and assess accordingly. It is difficult to see how a response can meet higher level criteria such as 'sound' or 'full and well organised use of content' and 'employs a wide range of language devices' in a performance lasting significantly less than three minutes. Equally, a response which is significantly overlong cannot be regarded as fulfilling the criteria for Band 1.

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- Given that both speaking and listening are assessed in Part 2, it is important that the discussions last long enough for candidates to clearly demonstrate their strengths in both mediums. In Part 2 a minimum of 6 minutes of discussion is expected. It is the examiner's responsibility to ensure this minimum expectation is met.
- It is unnecessary, and may even be counter-productive, for Part 2 discussions to last beyond the 7 minutes maximum stated in the syllabus.

There is no need for the examiner to engage in a lengthy, and frankly unhelpful, conversation with the candidate prior to beginning the test. Most candidates simply want to settle then immediately begin their Part 1 so an examiner who introduces the candidate by stating the relevant information and then allowing the candidate to begin the test is aiding that candidate's performance.

Candidates can take into the test one cue card containing prompt notes. These notes should not be written in full sentences or be read verbatim. A reliance on written material in Part 1 is counter-productive and only leads to a lack of natural fluency which affects performance.

The use of pre-prepared responses to known questions in Part 2 is not permitted. When they plan and prepare their responses, candidates are encouraged to consider what questions they may be asked during the discussion but there should be no collusion between the examiner and candidate. Candidates who prepare long and unnatural monologues in response to anticipated questions penalise themselves. The discussions should evolve and to do this an element of spontaneity must be apparent.

The test should only be attempted once in any examination series. Once the test has begun it should not be re-started or interrupted.

Comments on specific parts

Part 1 – The Individual Talk

Three factors underpin successful Part 1 responses:
- Candidates take ownership of a topic by choosing one that interests them
- Candidates have a good knowledge of the subject
- Talks are well-planned and prepared but not over-rehearsed to the point of artificiality. Neither do they rely heavily on notes. Natural fluency is essential.

Weaker candidates require greater input from centres in terms of preparation and technique.

Candidates should be reminded that simply regurgitating a talk that has been learned by rote will not merit marks in the higher bands. Task 1 is a performance so language devices and tone are important.

It is relevant to consider that this component allows differentiation by task setting so the ability of the individual candidate needs to be taken into consideration when choices are made. To achieve the higher bands, the presentations should move beyond the descriptive to include elements of reflection and analysis.

Some examples of productive Part 1 topics include:
- My Role Model
- The Importance of Protecting the Environment
- The Importance of Basketball in My Life
- The Space Race
- Electric Cars v Petrol Cars
- Body Shaming
- Music and Life
- The Life of Snakes – My Passion
- Superstition
- Gender Equality

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Some less productive Part 1 topics include:

- Football
- Video Gaming
- Computers
- My Best Friend
- Time Management

Part 2 – The Discussion

The overall responsibility for the management of the discussion is the examiners. This includes the management of time. Examiners should ensure a full 6–7 minutes are allowed for the candidates to have the opportunity to display their abilities.

Generally, examiners conducted the discussions effectively and were supportive in their questioning to encourage and to settle nervousness. This helped students to achieve their best.

Examiners showed genuine interest in and enthusiasm for the candidates' topics and provided appropriate encouragement. This helped to put candidates at ease and created a more natural discussion.

It is important for examiners to ask more taxing questions. If a question proves too difficult it is always possible to reword or indeed ignore it and move in a different direction without the candidate being penalised.

Examiners should be aware that interrupting a candidate who has not completed a point is unhelpful, especially when it is more advantageous to allow the candidate to continue.

A Part 2 that consists of a candidate answering a series of questions asked by the examiner but otherwise remaining passive is not a successful format for a good discussion. There should be some ebb and flow in a natural discussion.

Advice to centres

- Prepare for this examination as any other – i.e. practise techniques/encourage research/think carefully about appropriate topics that fulfil the assessment criteria. Practise methods of presentation and discussion in other situations before preparing for this exam.
- Give the candidates the fullest opportunity to demonstrate their skills through effective discussion and appropriate timings for both parts of the test.
- When conducting the discussions in Part 2, examiners should ask questions strategically to encourage candidates to think for themselves and show what they can do.
- In Part 2, examiners should avoid saying too much or interrupting too early as this can affect the candidates developing their own ideas.
- Follow the instructions on how to present the recordings and documentation efficiently and concisely. Please check everything before sending it to Cambridge.

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FIRST LANGUAGE ENGLISH

Paper 0500/06
Speaking and Listening (Coursework)

Key messages

The administration of the component was generally very good with all relevant documentation included with the recordings sent to Cambridge. The accuracy of the documentation was also very good. Where there was an issue, it is important that the candidates' numbers included on the Coursework Assessment Summary Forms match the centres' actual entry numbers. This consistency allows for an accurate identification of the candidates when sampling.

The assessment was of a high standard and very much in line with Cambridge. Candidates were given full but fair credit for their efforts in each of the three tasks.

All centres who entered candidates for this series were compliant in each of the tasks that constitute this component.

The tasks created by the centres were appropriate to the requirements of the syllabus and accessible to the candidates. This allowed candidates full access to the marks range and gave them every opportunity to succeed.

General comments

Four separate items should be sent to Cambridge as part of the sample for Component 6. These are:

- Recordings of all the Task 1 and Task 2 activities undertaken by the cohort entered sent on a CD, DVD or USB drive
- The **Summary Forms** for the whole cohort entered
- A **copy of the marks** that have already been sent to Cambridge
- The **Individual Candidate Record Cards** for all the candidates entered.

Each one of these items is very important in the process of assessing a centre's performance. Centres are urged to ensure all four of these items are included in the package sent to Cambridge as the omission of any of them may cause a delay in the moderation process, or in the worst scenario, an inability on the part of the Moderator to complete the process until the relevant items are received.

Centres should use both the current syllabus and 'Speaking and Listening 'Handbook' to ensure the requirements for the administration of the component are met in full.

When completing the **Individual Candidate Record Cards**, specific information about the choices made for each task are more helpful than generic statements. A comment reading 'a talk about a hobby of your choice' is not helpful but 'my interest in (explain specific hobby)' is useful.

Centres should use digital recording equipment to generate audio files which can then be transferred to a CD, DVD or USB drive in a **commonly recognised audio file format** such as mp3, wav and wma (but not AUP) that can be played by standard computer software.

For Component 6, centres are encouraged to be creative in the choice of tasks but the assessment criteria should always be used as a guide to the skills being assessed. The integration of literature into the activities is encouraged.

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Comments on specific questions

Task 1 – The Individual Task

Carefully planned and prepared responses to tasks are generally more successful but these responses do not benefit from being over-scripted.

The response to the task generally took the form of an individual presentation. Centres are encouraged to allow candidates to choose their own topics, as opposed to dictating a generic theme. All centres this series followed these guidelines appropriately.

This component allows differentiation by task setting so the ability of the individual candidate needs to be taken into consideration when these choices are made. Able candidates should be encouraged to choose more exacting and mature topics that include an element of introspection and reflection within a compelling argument lasting 3–4 minutes. Again, it was apparent that centres had appreciated the importance of this concept and applied it accordingly.

*Some examples of productive **Task 1** activities include:*

- Meditation – its discipline and benefits
- Skateboarding
- Phobias
- Feminism
- The Power of Music
- Gender Equality in the 21st Century
- The Art of Communication
- My passion for …
- Why I Love … (a particular book/movie/work of art/etc.)
- The Purpose of Education

*Some examples of less successful **Task 1** activities include:*

- Football (too generalised and lacking focus)
- Shopping
- My Pet
- Sports (too generalised)
- My best friend

Task 2 – The Paired Activity

The Pair-Based Activity works best between two candidates of similar ability discussing a topic they have prepared and that they feel strongly about. Alternatively, engaging in a lively role play can also be very effective. A clearly defined focus is better than a general exchange of views. Where candidates have clear viewpoints that lead to persuasive argument the resulting task will be more successful than when candidates are unsure of their opinions.

Entirely scripted responses, be they discussions or role plays, generally do not allow candidates to access the higher attainment bands.

It is difficult to see how both candidates in the Paired-Task activity can meet higher level criteria such as ‘responds fully’, ‘develops prompts’ or ‘employs a wide range of language devices’ in a performance lasting **less than four minutes**. Given that both speaking and listening are assessed for both candidates, it is important that the activities last long enough for candidates to clearly demonstrate their strengths in both mediums if marks in the higher bands are to be awarded.

*Some examples of productive **Task 2** activities include:*

- Books or Movies: Which Is Best?
- Pets and Their Effects on Their Owners
- Democracy v Communism
- Music as a Source of Inspiration

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- Merits v Demerits of Social Media
- Arguing for and against a current affairs topic such as gender equality or equal pay
- Comparing the merits of two famous people where each candidate acts as a champion for one of the celebrities
- Acting as employers discussing who should be given a job from a list of prospective candidates (and variations on the theme)

Task 3 – The Group Task

Task 3 may take the form of a group discussion debating an issue which is topical or a role-play where each candidate plays the part of a character. Both can be successful if the assessment criteria are met. It is most important that each candidate in the group is allowed sufficient scope within the activity to demonstrate their strengths without being dominated by others. A group should consist of no less than three members. A group consisting of three or four candidates is recommended as accurately assessing a group including more candidates can prove problematic. It is not a requirement that Task 3 is recorded or sent as part of the sample.

*Some examples of productive **Task 3** activities include:*

- A trial scene, possibly based on a literary text – e.g. George Milton, Arthur Birling
- A discussion of a topical issue with each candidate having their own viewpoint
- Balloon debate – who to include/discard from a list of famous people where each candidate champions the cause of their chosen celebrity
- Planning a celebration or community event

General conclusions

The general standard of assessment by centres is at the correct level.

Where there are potential issues with the accuracy of the assessment, it is normally the length of the responses that is problematic.

Centres have become very efficient in the administration of the component and this is greatly appreciated.

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Grade thresholds – June 2019

Cambridge IGCSE™ Economics (0455)

Grade thresholds taken for Syllabus 0455 (Economics) in the June 2019 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 11	30	22	19	17	14	12	10	8
Component 12	30	22	19	17	14	12	10	8
Component 13	30	22	19	17	14	12	10	8
Component 21	90	51	42	33	28	22	17	12
Component 22	90	59	47	34	29	23	17	11
Component 23	90	57	48	37	33	27	22	17

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	108	93	78	64	54	44	35	26
Y	12, 22	121	102	83	65	55	45	35	25
Z	13, 23	116	100	84	69	59	50	41	32

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/11**

Paper 1 Multiple Choice **May/June 2019**

MARK SCHEME

Maximum Mark: 30

Published

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

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Question	Answer	Marks
29	A	**1**
30	D	**1**

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ECONOMICS **0455/12**

Paper 1 Multiple Choice **May/June 2019**

MARK SCHEME

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

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Question	Answer	Marks
29	D	**1**
30	D	**1**

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ECONOMICS **0455/13**

Paper 3 Multiple Choice **May/June 2019**

MARK SCHEME

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

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Question	Answer	Marks
29	D	**1**
30	D	**1**

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Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/21**

Paper 2 Structured Questions **May/June 2019**

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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Question	Answer	Marks	Guidance
1(a)	**Identify, using information from the extract, two reasons why a person may have a low income.** • old • sick • unemployed • being on state benefits • being in need of, but not receiving state benefits in their country	**2**	Difference between fourth and fifth bullet point is where a country is not able to fund state benefits, so people remain on low income.
1(b)	**Explain, using information from the extract, whether Russia has a progressive, proportional or regressive income tax system.** Proportional (1) AND the same rate / people with different incomes paying the same % / all paying 13% (1).	**2**	
1(c)	**Calculate, using Table 1, what percentage of annual average income in Costa Rica, a person would have if he receives UBI of $337.5 a month.** 25% (2). Correct working: $337.5 × 12 / $16 200 (1).	**2**	
1(d)	**Analyse, using Table 1, the relationship between annual GDP per head and life expectancy.** Generally, the higher the annual GDP per head, the longer the life expectancy (1) e.g. rich people are likely to have better nutrition / healthcare (1). The two countries, Monaco and Finland, with the highest annual GDP per head have the longest life expectancy (1). The country with the lowest annual GDP per head, Mali, has the lowest life expectancy (1). Russia **or** Costa Rica is an exception (1) e.g. Costa Rica has a lower annual GDP per head but a higher life expectancy than Russia (1).	**5**	Countries must be named.

Question	Answer	Marks	Guidance
1(e)	**Explain an example of opportunity cost in the extract.** • Opportunity cost is the best alternative (1) foregone (1) plus • The opportunity cost of UBI (1) is the existing system of state benefits (1) or • The opportunity cost of spending on unemployment benefits (1) is spending on education / healthcare (1)	**4**	
1(f)	**Discuss whether or not a monopoly will charge high prices.** **Up to 3 marks for why it might**: A monopoly is a single seller (1) has high market power (1) is a price maker (1) demand for its product may be inelastic (1) due to lack of substitutes (1) can raise revenue by raising price (1) may be seeking to maximise profit (1). A monopoly may be inefficient (1) due to lack of competition (1) resulting in higher costs and prices (1). **Up to 3 marks for why it might not:** A monopoly may have low average cost of production (1) due to economies of scale (1) example (1). A monopoly may not be a profit maximiser (1) example of another objective (1). A monopoly may have a product with elastic demand (1) e.g. may be producing a luxury (1). A monopoly may be concerned that charging high prices will encourage new firms to enter the market (1) reducing its market power (1). A monopoly may fear government intervention (1) and keep prices low (1). A monopoly may be government controlled (1) and charge low prices (1).	**5**	Reward but do not expect reference to price discrimination resulting in low prices for some consumers.

Question	Answer	Marks	Guidance
1(g)	**Explain, using information from the extract, <u>two</u> reasons why someone from India with the same income as someone from Finland may enjoy a higher living standard.** Lower prices in India (1) an Indian household may have greater purchasing power / be able to buy more goods and services (1) Colder weather in Finland (1) which is likely to increase people's willingness to spend / greater need to spend to keep warm (1) Lower tax rates in India (1) greater purchasing power / higher disposable incomes (1)	**4**	Opposite arguments are also correct e.g. higher tax rates in Finland, etc.

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Question	Answer	Marks	Guidance
1(h)	**Discuss whether or not a government paying higher state benefits to the unemployed will reduce unemployment**. **Up to 4 marks for why it might:** The unemployed will have a higher income (1) they may spend more (1) total (aggregate) demand may increase (1) firms may expand (1) take on more workers (1). Enables the unemployed to spend on education and training (1) and improve their chances of getting a job (1). **Up to 4 marks for why it might not:** Unemployment benefit may become higher than the wages the low paid may receive (1) this may encourage some people to stop working (1) increase voluntary unemployment (1). Higher state benefits may be financed by increased taxation (1) total (aggregate) demand may not rise (1). Government spending money on education and training (1) may have greater impact on reducing unemployment (1).	**6**	**Apply this example to all questions with the command word <u>DISCUSS</u>** (**1(f)**, **1(h)**, **2(d)**, **3(d)**, **4(d)**, **5(d)**, **6(d)** and **7(d)**) Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is to be rewarded. **Generic Example** — **Marks** Tax revenue may decrease… (one mark) — **1** ...because of reason e.g. incomes may be lower (one mark) — **1** Tax revenue may increase because incomes may be higher i.e. reverse of 1st argument (no marks) — **0** …because of a different reason that is <u>not</u> the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education — **1**

Question	Answer	Marks	Guidance
2(a)	**Define *a floating foreign exchange rate.*** The price of a currency (1) determined by market forces (1).	**2**	
2(b)	**Explain <u>two</u> benefits a government may gain from the growth of the private sector.** Higher tax revenue (1) private sector may be more efficient / private sector may earn higher profits / higher tax revenue may be spent on e.g. education (1). Lower government spending on supporting state-owned enterprises (1) spending could rise on other areas e.g. healthcare (1). Increases employment / reduces unemployment (1) which is a government objective / reduces government payments on unemployment benefits (1).	**4**	
2(c)	**Analyse why a country with low costs of production may experience a decrease in its exports**. The foreign exchange rate may increase (1) leading to higher export prices (1). The quality of the products produced may fall (1) reducing demand (1). Incomes abroad may have fallen (1) reducing foreigners' ability to buy exports (1). There may be a rise in competition (1) with foreign firms having even lower costs (1). Producers may charge higher prices (1) leading to a fall in demand (1). Foreign countries may implement protection measures (1) e.g. tariffs (1).	**6**	The analysis must be dynamic / about change.

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether or not a government should prevent a fall in its country's foreign exchange rate.** **Up to 5 marks for why it should:** A fall in the exchange rate would increase the price of imports (1) this will increase the price of imported raw materials (1) this will increase costs of production (1) inflation may occur (1). A rise in the price of finished products (1) will reduce the goods and services people can buy (1) reduce living standards (1). A fall in the exchange rate may reduce confidence in the country (1) this may reduce investment (1). A lower exchange rate may increase debt repayments (1) making it more difficult for firms and the government to pay back loans (1). Higher government spending on e.g. state benefits (1) will increase disposable income (1) some of this might be spent on imports (1). **Up to 5 marks for why it should not:** A lower exchange rate will reduce the price of exports (1) more exports may be sold (1) this combined with lower imports may improve the current account balance (1). Demand for domestic products may rise (1) this may increase output (1) so cause economic growth (1) reduce unemployment (1).	**8**	

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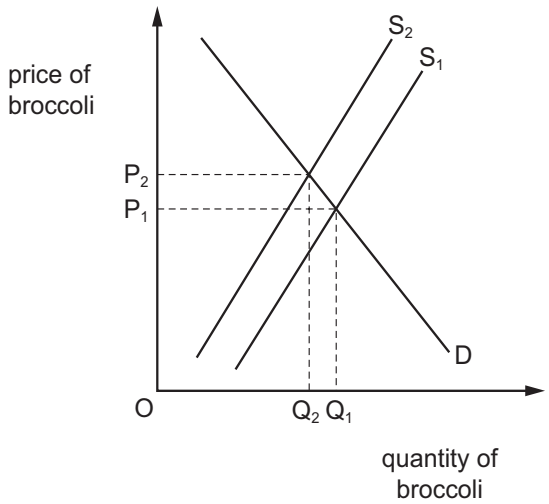
Question	Answer	Marks	Guidance
3(a)	**When is a market in equilibrium?** When demand equals supply / when there is no pressure for price to change (2). When it is in balance (1).	**2**	2 marks could be awarded for an accurately drawn demand and supply diagram showing equilibrium.
3(b)	**Explain how a rise in the price of food would affect a country's consumer prices index (CPI).** **CPI is a measure of inflation (**1) Demand for food is inelastic / **necessity** (1). A rise in price of food would cause an increase in inflation / CPI (1). Food is an item in the CPI (1) it has a relatively high weighting (1) people spend a relatively high proportion on food (1) proportion declines as income rises (1).	**4**	
3(c)	**Analyse, using a demand and supply diagram, how bad weather is likely to affect the market for broccoli.** **Up to 4 marks for the diagram:** Axes correctly labelled – price and quantity or P and Q (1). Demand and supply curves correctly labelled (1). Supply curve shifted to the left (1). Equilibriums – shown by lines or e.g. E1 and E2 (1). **Up to 2 marks for written comments:** Bad weather will destroy crops / reduce supply of broccoli / quantity traded falls (1). Weather is an important influence on the supply of agricultural products / cost of producing broccoli will rise / price will rise (1).	**6**	

Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not a higher inflation rate will benefit producers.** **Up to 5 marks for why it might:** Producers may receive higher prices / **revenue** for their products (1) if costs rise by less (1) profits will rise (1) **may encourage investment (1) expand the business (1).** Producers may be able to borrow more cheaply (1) the burden of past debts will fall (1) if the rate of inflation is above the rate of interest (1). An inflation rate may rise from a low or negative rate (1) and this would provide a greater incentive for producers (1). Higher inflation rate in other countries (1) will make this country's products more competitive (1). If demand is inelastic (1) a rise in price will increase revenue (1). Higher inflation will reduce the cost of borrowing (1). **Up to 5 marks it might not:** **If cost of production rises** (1) output may fall (1) firms' profits may fall (1). Producers may have to spend time adjusting prices (1) menu costs (1). A lower and stable rate of inflation (1) may increase the confidence of producers (1). Producers may find it more difficult to export abroad / exports may fall (1) lower revenue (1). Producers may find it harder to assess relative prices (1) and so may make inefficient decisions (1).	**8**	

Question	Answer	Marks	Guidance
4(a)	**Define *a loss.*** Costs exceed revenue (2). Insufficient revenue / costs too high (1).	**2**	
4(b)	**Explain, giving examples, the difference between an internal economy of scale and an external economy of scale.** Internal economy is the benefit a firm gains from itself (1) e.g. buying economies (1). External economy is the benefit a firm gains from the industry (1) e.g. ancillary industries (1).	**4**	
4(c)	**Analyse how a government could increase the supply of enterprise.** The government could spend more on education and training (1) this will increase people's skills (1) may increase their ability to start up or run a business (1). The government could cut the rate of the tax on profits (1) provide grants / loans / subsidies (1) this would increase the incentive to be an entrepreneur (1). The government could sell off assets to the private sector / privatise (1) increasing the opportunity to be an entrepreneur (1). Relax immigration laws (1) immigrants may set up new businesses (1).	**6**	

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Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not consumers would benefit from a firm changing from being a public limited company to a public corporation (state-owned enterprise).** **Up to 5 marks for why they might:** A public corporation's main goal may be social costs and benefits (1) may be subsidised by the government (1) it may charge a low price (1) making it more affordable (1). A public corporation may be less likely to go out of business (1) ensuring continuity of supplies (1). A public corporation may take a longer-term view (1) investing in new technology (1). A public corporation may follow health and safety rules / regulations (1) increasing the safety of products (1). **Up to 5 marks for why they might not:** A lack of profit motive (1) may increase inefficiency (1). A public corporation is likely to be a monopoly (1) the lack of competition (1) may result in higher prices (1) lower quality (1). A public corporation may lack funds to invest (1) during periods of recession (1).	**8**	

Question	Answer	Marks	Guidance
5(a)	**Identify two functions of money.** • Medium of exchange • Store of value • Unit of account (measure of value) • Standard of deferred payments	**2**	
5(b)	**Explain <u>two</u> reasons why a central bank may want to reduce borrowing.** It may want to reduce the inflation rate (1) caused by too much demand arising from borrowing (1). To reduce disposable income (1) and reduce (demand-pull) inflation (1). it may want to reduce a current account deficit (1) people may be spending too much on imports (1). Over lending by commercial banks (1) puts banking system at risk (1).	**4**	Allow explanation of why a high level of borrowing is bad for the economy, e.g. implication that the central bank intervenes to correct this.
5(c)	**Analyse why skilled workers are usually paid more than unskilled workers.** The demand for skilled workers is likely to be higher (1) due to their higher productivity / education (1) expectation of a higher rate of return / sales (1) better quality goods and services (1) resulting in greater profits (1). The supply of skilled workers is likely to be lower / more inelastic (1) due to the shortage of people with skills / qualifications (1). Skilled workers may have more bargaining power (1) harder to replace / may cause more disruption by taking industrial action (1).	**6**	2 marks could be awarded for an accurately drawn demand and supply diagram showing higher demand and lower supply.

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Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not a rise in the rate of interest will reduce economic growth.** **Up to 5 marks for why it might:** It may discourage spending (1) as it would be more expensive to borrow (1) more rewarding to save (1) this will lower total (aggregate) demand (1) which could reduce firms' output (1). It may discourage investment (1) as more expensive to borrow (1) firms decide to save the money (1). Higher interest rate may cause exchange rate to rise (1) discouraging exports / encouraging imports (1). **Up to 5 marks for why it might not:** People / firms may still be prepared to borrow if they are optimistic about the future (1) thinking they will be able to repay (1) because they expect e.g. higher income in the future (1). The rate of interest may still be low (1) and may be below the inflation rate (1). A higher rate of interest may reduce inflation (1) this could make domestic products more price-competitive (1) and so increase exports (1). Government spending (1) increased exports (1) may offset reductions in consumption and investment resulting in higher economic growth (1).	**8**	

Question	Answer	Marks	Guidance
6(a)	**Define a *multinational company*.** A firm that produces / operates (1) in more than one country (1). A firm that has its headquarters in one country (1) but also produces / operates in other countries (1).	**2**	
6(b)	**Explain <u>two</u> disadvantages a worker could experience from specialising.** Monotony / boredom / **lower efficiency** (1) doing the same task over and over again (1). Workers may not develop a range of skills (1) this may limit their earning potential (1). Workers may become dependent on other workers (1) this may reduce their earning potential (1). There may be a greater risk of unemployment (1) which could lead to lower income / living standards / due to lack of wider skills (1).	**4**	
6(c)	**Analyse how a change in the PED for its products may benefit a firm.** A more elastic demand (1) would mean that the firm could raise revenue (1) by lowering price (1) profit would rise (1) if revenue rises by more than costs (1). A more inelastic demand (1) would mean the firm could raise revenue (1) by raising price (1) profit would rise (1) if a lower output increases the gap between revenue and cost (1).	**6**	No marks for a definition of PED. Allow one mark for explanation of elastic demand and one mark for explanation of inelastic demand. Analysis of change in elasticity of demand is required.

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether or not the government should subsidise the production of books**. **Up to 5 marks for why it should:** A subsidy would increase the supply of books / reduce costs of production (1) lower their price (1) and cause demand to rise (1). More books being purchased may raise education standards / literacy (1) increase productivity (1) raise output / result in economic growth (1). A subsidy may reduce the price of school textbooks (1) reducing the cost of education (1). Some publishers may be making a loss (1) and may be in danger of going out of business (1) this would cause unemployment (1). **Up to 5 marks for why it should not:** Some book publishers may be making high profits (1) and so do not need a subsidy (1). The subsidy may encourage the book publishers to become inefficient (1) not cutting their costs (1) and improving the quality of the books they produce (1). There will be an opportunity cost involved (1) e.g. spending on education (1). Waste of resources (1) e.g. growth of internet / e-books (1) There may be an external cost (1) e.g. trees (1). Certain books should not be subsidised (1) example (1).	**8**	Reward but do not expect reference to books being a merit good / a positive externality**.**

Question	Answer	Marks	Guidance
7(a)	**Identify <u>two</u> fiscal policy measures.** • Government spending • Taxation	**2**	Allow two different types of taxes or two different areas of government spending, or a combination.
7(b)	**Explain <u>two</u> reasons why the unemployment rate may be higher in one country than another.** Total demand may be lower (1) higher **cyclical unemployment / recession (1).** Lower labour mobility (1) causing structural unemployment (1). Greater pace of technological advancement (1) replacing labour / causing structural unemployment (1). Greater voluntary unemployment (1) due to higher benefits (1). Labour force growing faster than economy (1) creating shortage of jobs (1). Lower education standards (1) means workers are less employable (1). Labour market restrictions (1) may make employing workers more expensive (1).	**4**	

Question	Answer	Marks	Guidance
7(c)	**Analyse how supply-side policy measures may reduce unemployment.** Supply-side policy measures increase productive capacity within the economy (1). Education and training (1) could raise the skills of workers (1) labour productivity could rise (1) firms may be encouraged to take on more workers (1). A cut in income tax (1) may increase total (aggregate) demand (1) causing firms to produce more (1) and so take on more workers (1) it may also have an incentive effect (1). A cut in unemployment benefit (1) may encourage more of the unemployed to take jobs (1) if wages are now higher than benefits (1). Privatisation (1) could result in an expansion of firms (1) if they are more competitive (1) and so they may take on more workers (1). Subsidies (1) will lower costs of production (1) encouraging firms to expand (1) employ more workers (1). Trade Union reforms (1) may encourage firms to employ more workers (1) e.g. cheaper / more flexible labour force (1).	**6**	These must be measures introduced by a government.

Question	Answer	Marks	Guidance
7(d)	**Discuss whether or not a government should protect its country's industries from foreign competition.** **Up to 5 marks for why it should:** The industries might be infant industries (1) not able to take full advantage of scale (1) and so not able to compete on price (1). The industries may be declining industries (1) if they go out of business quickly, unemployment may increase (1). The industries may be facing dumping (1) which will make it difficult for firms to compete against foreign producers selling at below cost price (1). The government may want to reduce a current account deficit (1) caused by imports exceeding exports (1) encourage economic growth (1) create more jobs (1). **Up to 5 marks for why it should not:** It may push up the price of imported products if tariffs are used (1) costs of production may rise (1) causing inflation (1) consumers' purchasing power would fall (1). It may reduce competition for domestic firms (1) this may reduce efficiency (1) raise prices (1) reduce quality (1). Other countries may retaliate (1) reduce exports (1). Opportunity cost (1) e.g. resources could be used to support education / healthcare / infrastructure (1). Free trade may result in lower prices (1) greater variety for consumers (1).	**8**	Do not accept descriptions of the types of protection measures.

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Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **May/June 2019**

MARK SCHEME

Maximum Mark: 90

Published

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Question	Answer	Marks	Guidance
1(a)	**Identify, using information from the extract, <u>two</u> factors that influence an individual's choice of occupation.** • working hours / leisure time • holidays • job security / job insecurity • wages	**2**	
1(b)	**Explain, using information from the extract, an opportunity cost of working.** Leisure time / holidays / time devoted to raising children / looking after the elderly (1) opportunity cost is the (next) best alternative forgone (1).	**2**	
1(c)	**Calculate, using information from the extract, the number of Japanese workers who left work early on Premium Friday in February 2017.** 2.56m / 2 560 000 (2). Correct working: 4% of 64m (66m – 2m) or 2,560 or version of 2.56 (1).	**2**	
1(d)	**Explain, using information from the extract, why the size of Japan's population has fallen in recent years.** The birth rate has fallen (1) more than the fall in the death rate (1). A fall in the birth rate means fewer children are being born (1) a reason e.g. more women working / people working longer hours / job insecurity / looking after elderly relatives (1). A fall in the death rate means people are living longer (1). If the birth rate falls by more than the death rate there may be a natural decrease in population (1) actual decrease if natural decrease is more than net immigration (1) extra number of older people is more than offset by fewer babies (1).	**4**	

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Question	Answer	Marks	Guidance
1(e)	**Analyse, using Fig.1, the relationship between the average hours worked and productivity.** Generally, the shorter the hours worked the higher the productivity (1) inverse relationship / negative relationship (1). The expected relationship (1) workers will not be tired and so will be able to produce more per hour / more leisure time may increase efficiency / may be more motivated (1). Two countries, France and Germany, have the shortest working hours and the highest productivity (1). Country with the longest working hours, Mexico, has the lowest productivity (1). South Korea is an exception (1), long working hours but higher productivity than Mexico / Russia which have shorter working hours (1),	**5**	Expected relationship may be explained in reverse e.g. long hours may make workers tired.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>1(f)</td><td>Discuss whether or not a cut in income tax would stop deflation.

Up to 3 marks for why it might:
A cut in income tax will increase disposable income / purchasing power (1) this may increase spending (1) higher spending may encourage more investment (1) higher total (aggregate) demand (1) may encourage firms to raise prices/demand-pull inflation (1).
Higher demand may encourage firms to expand (1) they may take on extra workers (1) reduce unemployment (1) they may pay higher wages (1) increasing costs of production (1) causing cost-push inflation (1).

Up to 3 marks for why it might not:
Consumers may lack confidence (1) and so not spend any more / may save (1) may still delay purchases (1) they may spend on imports rather than domestic products (1).
Firms may lack confidence (1) and so not invest (1).
Any extra investment which takes place may reduce costs of production (1) and so prices may fall further (1).
Firms may have spare capacity (1) and so may be able to increase output without increasing average costs of production (1) and so prices may not rise (1).
Government tax revenue may fall (1) reducing government spending which may mean that total demand does not rise (1).</td><td></td><td>Apply this example to all questions with the command word <u>DISCUSS</u>
(1(f), 1(h), 2(d), 3(d), 4(d), 5(d), 6(d) and 7(d))

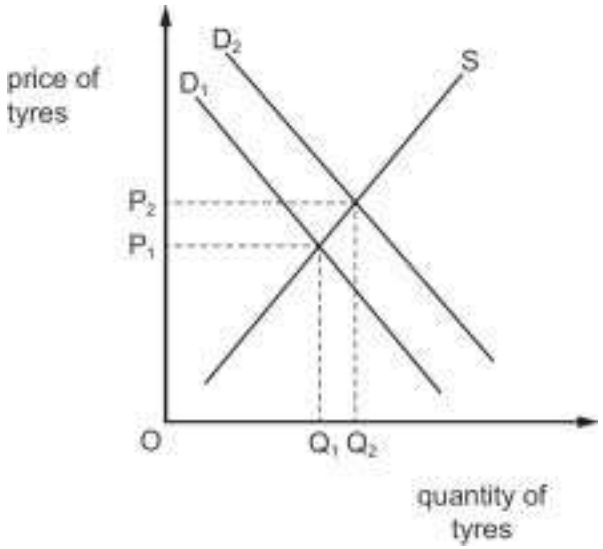
Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is to be rewarded.

<table>
<tr><th>Generic example</th><th>mark</th></tr>
<tr><td>Tax revenue may decrease…</td><td>1</td></tr>
<tr><td>...because of reason e.g. incomes may be lower.</td><td>1</td></tr>
<tr><td>Tax revenue may increase because incomes may be higher i.e. reverse of 1st argument</td><td>0</td></tr>
<tr><td>Tax revenue may increase… because of a different reason that is <u>not</u> the reverse of a previous argument e.g. …government spending on subsidies may stimulate the economy more than spending on education.</td><td>1</td></tr>
</table>

Demand-pull inflation and/or cost-push inflation may be shown on a diagram.</td></tr>
</table>

Question	Answer	Marks	Guidance
1(g)	**Explain, using information from the extract, why wage rises have been low in Japan.** Trade unions have been concentrating on trying to achieve shorter working hours (1) this may suggest they have not been pressing for wage rises (1). Higher demand for labour has been matched by higher supply (1) the higher supply has come from immigration (1) and a higher proportion of women in the labour force / people working past retirement age (1) making it easier for firms to recruit workers without raising wages (1). Long experience of deflation / low economic growth (1) may have resulted in lower consumer spending / low profits / real wages may have increased (1). Job insecurity (1) less willing to press for wage rises (1).	**4**	

Question	Answer	Marks	Guidance
1(h)	**Discuss whether or not Japan will benefit from employing more migrant workers.** **Up to 4 marks for why it might:** They may increase the size of the labour force (1) increase productive capacity / potential output / economic growth (1). They may increase total (aggregate) demand (1) and so generate more jobs (1). Japan's population is falling (1) without a rise in the supply of labour, there may be a shortage of workers (1) this may cause cost-push inflation (1). Migrant workers may have higher skills (1) new ideas / up to date with technology (1) this could raise productivity (1) may work for lower wages (1) lower costs of production (1) make the country's products more internationally competitive / lower prices (1). Tax revenue may increase (1) enabling the government to spend more on e.g. education (1). **Up to 4 marks for why it might not:** Migrant workers may keep wage rises low (1) and so restrict increases in living standards (1). In some cases, migrant workers may replace domestic workers causing some to be unemployed (1). Migrant workers may need training (1) increase firms costs (1). Migrant workers may bring their families with them (1) this may increase pressure on e.g. housing, school and healthcare (1) may lead to overpopulation (1). Migrant workers may send money home (1) harming the current account position (1).	**6**	

Question	Answer	Marks	Guidance
2(a)	**Identify <u>two</u> types of business organisation that operate in the private sector.** • sole trader • public limited companies • cooperatives • multinationals	**2**	Accept but do not expect partnership and private limited companies.
2(b)	**Explain what effect more firms producing tyres would have on the PED of individual firms' tyres.** Will increase competition (1) more substitutes will be available (1) a rise in the price of one firm's tyres would cause people to switch to other firms' tyres (1) demand would become more elastic (1).	**4**	Accept a diagram as an alternative to the last mark
2(c)	**Analyse, using a demand and supply diagram, the effect of an increase in demand for cars on the market for tyres.** **Up to 4 marks for the diagram:** Axes correctly labelled – price and quantity or P and Q (1). Demand and supply curves correctly labelled (1). Shift in the demand curve to the right (1). Equilibriums correctly identified either by lines or by e.g. E1 and E2 (1). **Up to 2 marks for written analysis:** Price of tyres will increase / quantity traded will rise (1). Tyres are a complement of cars (1). More tyres may be purchased by drivers / car firms (1).	**6**	

Question	Answer	Marks	Guidance
2(d)	**Discuss whether a large firm will earn more profit per unit sold than a small firm.** **Up to 5 marks for why it might:** May be able to take advantage of economies of scale (1) examples (2) lower average cost (1) permitting a lower price to be charged raising sales / enabling more profit to be made even if the price charged is the same (1). May have funds available to spend on advertising (1) create a brand image / brand loyalty (1) allowing the firm to raise price (1). May have more market power (1) may be able to keep competitors out of the market/have high barriers to entry (1) allowing the firm to raise price (1). **Up to 5 marks for why it might not:** Large firm may experience diseconomies of scale (1) examples (2) higher average cost (1). Small firms may be subsidised by the government (1) lower average cost/extra source of revenue (1). Small firms may be producing a new product (1) for which there may be a high demand (1). Small firms may be in a niche market (1) consumers may be willing to pay a high price (1). Small firms may respond quicker to a change in demand (1) reducing surpluses and shortages (1). Small firms may provide a personal service / develop a personal contact (1) increasing demand / enabling a higher price to be charged (1).	**8**	Accept an answer from the perspective of a small firm earning more/less profit.

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Question	Answer	Marks	Guidance
3(a)	**Identify <u>two</u> methods of trade protection other than tariffs.** • quotas • embargoes • voluntary export restraint • red tape / bureaucracy / artificially high standards • subsidies	**2**	
3(b)	**Explain how market forces will eliminate a surplus and a shortage**. A surplus will be eliminated by a fall in price (1) demand will rise / supply will fall (1). A shortage will be eliminated by a rise in price (1) demand will fall / supply will rise (1).	**4**	2 marks could be awarded for an accurately drawn demand and supply diagram showing changes in price.
3(c)	**Analyse how improvements in education can affect the pattern of employment.** May be more skilled workers (1) increase qualifications (1) workers may seek better paid jobs (1) jobs with better working conditions (1). There is likely to be a reduction in primary sector employment (1) an increase in secondary / tertiary sector employment (1). May be an increase in women in employment (1) if girls benefit from improvements in education (1). May increase employment of teachers (1) if e.g. class sizes are reduced (1). May encourage an increase in migrant workers (1) attracted by better education for their children (1).	**6**	

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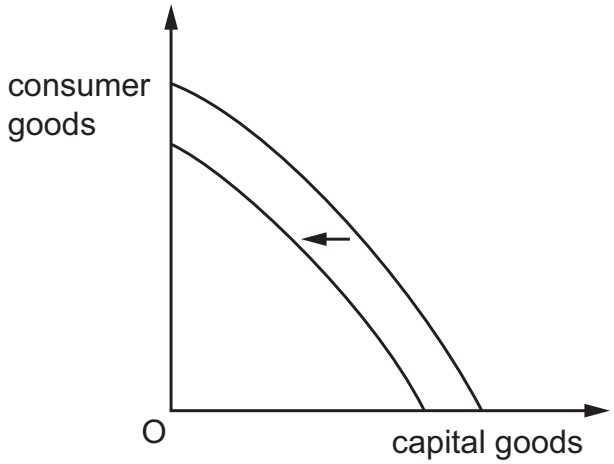
Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not the imposition of import tariffs by a country will reduce its unemployment.** **Up to 5 marks for why it might:** Import tariffs may raise the price of imports (1) demand for imports may fall (1) consumers may switch to domestic products (1) firms may increase output (1) take on more workers (1). Tariffs can protect infant industries (1) allow them to grow (1) and employ more workers (1). Tariffs can protect declining industries (1) reduce structural unemployment (1). Tax revenue may increase (1) example of higher government spending that could reduce unemployment (1). **Up to 5 marks for why it might not:** Other countries may retaliate (1) imposing tariffs on this country's exports (1) employment in the export industries may fall (1). Tariffs on imported raw materials (1) will increase costs of production (1) this may lead to higher prices of domestic products (1) causing a fall in demand (1). Imports may not have domestic substitutes (1) price of imports may still be lower (1) so consumers may continue to buy imports (1) demand for imports may be price inelastic (1).	**8**	

Question	Answer	Marks	Guidance
4(a)	**Define *a capital good.*** A human-made good (1) used to produce other goods and services (1).	**2**	
4(b)	**Explain <u>two</u> causes of an increase in a country's HDI.** • an increase in GDP / GNI / income per head (1) raises the goods and services people can consume / due to e.g. higher employment (1) • an increase in life expectancy (1) indicates better healthcare / due to better healthcare / more investment in healthcare (1) • an increase in education / mean and expected years of schooling (1) increases job opportunities / quality of life / due to government investing more in education (1)	**4**	
4(c)	**Analyse, using a production possibility curve (PPC) diagram, the effect of damaging weather on an economy.** **Up to 4 marks for the diagram:** • axes correctly labelled in terms of two different products or types of products (1) • initial curve or downward sloping line is drawn to the axes (1) • second curve or downward sloping line is drawn to the axes (1) • An indication either by labelling or an arrow that the curve has shifted inwards / left (1) **Up to 2 marks for written analysis:** Bad weather will reduce the quantity of resources (1). The amount that can be produced with fewer resources will fall (1).	**6**	

Question	Answer	Marks	Guidance
4(d)	**Discuss whether countries with a high Gross Domestic Product (GDP) per head will have a faster rate of economic growth than countries with a low GDP per head.** **Up to 5 marks for why they might:** They are likely to have good education (1) good healthcare (1) this will mean skills will be high (1) productivity will be high (1) there may be advances in technology (1) reducing costs of production (1) exports may increase (1). Unemployment may be low (1) with most resources being used (1). MNCs may be attracted to set up in the country (1) contributing to the country's output (1). Foreign banks may be more willing to lend to the countries' firms (1) allowing them to expand (1). High incomes are likely to mean high demand / high consumer spending (1) encouraging firms to produce more (1). **Up to 5 marks for why they might not:** Countries with a low GDP per head may discover raw materials (1) which may be in high world demand (1). People in poorer countries may have more drive to improve their living standards (1) they may work harder (1). Richer countries may have a lower rate of population growth or declining populations (1) this may mean their labour forces are growing more slowly (1) restricting their ability to produce more goods and services (1). Other factors may influence economic growth (1) e.g. type of government policies pursued / deficit on the current account of the balance of payments (1).	**8**	

Question	Answer	Marks	Guidance
5(a)	**Identify <u>two</u> supply-side policy measures.** • a cut in income tax • a cut in corporation tax • a cut in unemployment benefit • education • training • privatisation • deregulation • subsidy • legislation to reduce trade union power	**2**	Accept measures that could increase total supply e.g. lower indirect taxes and reduced interest rate.
5(b)	**Explain <u>two</u> ways a government could reduce relative poverty.** • progressive taxation / higher direct taxes (1) which takes a higher proportion of the income of the rich (1) • reduction of tax on basic foodstuffs / indirect taxes (1) benefiting mainly the poor (1) • state benefits given to the poor (1) increasing their purchasing power / living standards (1) • education and training of the poor (1) increasing their earning potential (1) • provision of healthcare to the poor (1) increasing productivity/reducing cost of medication (1) • provision of subsidies to firms (1) reducing unemployment / reducing prices (1)	**4**	Reward but do not expect reference to minimum wage and price controls.

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Question	Answer	Marks	Guidance
5(c)	**Analyse the reasons why small shops may be easy to set up.** They do not take much money to set up (1) costs initially will be low (1) low fixed costs (1) it may be possible to borrow the money (1) or use savings (1). There may be government subsidies (1) designed to encourage the growth of small firms/shops / lower costs of production (1). Running a small shop does not require significant management skills (1) people do not need a high level of education to run a small shop (1). May be less paperwork involved / regulations (1) reducing time and effort (1).	**6**	

Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not firms will benefit from a fall in unemployment**. **Up to 5 marks for why they might:** A fall in unemployment will increase incomes (1) this is likely to increase total (aggregate) demand (1) firms may sell more products (1) raise firms' profits (1). Having more workers will enable firms to increase their output (1) can respond to rising demand (1). Lower unemployment may increase consumer confidence (1) encouraging them to spend more (1). Tax revenue will rise (1) spending on unemployment benefit will fall (1) government may spend more in ways that will benefit firms (1) e.g. spending on training (1). **Up to 5 marks for why they might not:** Firms may find it more difficult to recruit workers (1) they may not able to fill some jobs (1) this may mean that output will be restricted/order not filled (1). Competition for workers may drive up wages (1) increasing firms costs (1) lowering their profits (1). Trade unions may become more powerful (1) leading to more strikes (1). Less skilled workers may be employed (1) reducing productivity (1) raising costs (1). Shortage of workers may force firms to use more capital-intensive production methods (1) increasing their costs (in the short run) (1). Some firms may lose whilst others gain (1) example of a reason e.g. differences in what is being produced (1).	**8**	

Question	Answer	Marks	Guidance
6(a)	**Identify <u>two</u> reasons why market failure may occur.** The existence of external costs (1) and external benefits (1). Abuse of monopoly power (1) advertising distorting choice (1). Inefficient allocation of resources / not producing the right quantity / not producing at the lowest possible cost (1).	**2**	Reward but do not expect: merit goods, demerit goods, public goods and information failure.
6(b)	**Explain how resources are allocated in a mixed economic system.** Resources in the public sector (1) are allocated by government decisions/directives (1) products are produced by state-owned enterprises resources are allocated to overcome market failure (1). Resources in the private sector (1) are allocated by the price mechanism / market forces / demand and supply / firms / consumer sovereignty (1) profit provides an incentive for firms to produce what consumers demand (1).	**4**	Maximum of 3 marks for explaining how only one sector allocated resources.
6(c)	**Analyse how a high rate of inflation may harm the poor.** Inflation may raise the price of basic necessities (1) reducing purchasing power of the poor (1) increasing absolute poverty (1). Inflation may reduce the value of any savings the poor have (1) reducing their ability to access e.g. healthcare, education and housing (1) reducing job opportunities (1). Inflation may reduce the country's international competitiveness (1) lower output (1) increase unemployment (1) making it more difficult for the poor to gain jobs (1). Inflation may reduce the purchasing power of state benefits (1) e.g. pensions or unemployment (1). The poor may be less likely to belong to trade unions (1) less ability to raise wages (1).	**6**	

Question	Answer	Marks	Guidance
6(d)	**Discuss whether or not increasing government spending will enable a government to achieve its aims for the economy.** **Up to 5 marks for why it might:** Government spending will increase total (aggregate) demand (1) this may encourage firms to produce more (1) economic growth may increase (1) deflation may be avoided (1) and unemployment may fall (1) the poor may gain jobs (1) making income more evenly distributed (1). Government spending on healthcare (1) may raise living standards / life expectancy (1). Government spending on education (1) may improve environmental standards (1). Government subsidies (1) may increase labour productivity (1) costs of production may fall (1) lowering cost-push inflation (1) increasing international competitiveness (1) improving the current account position (1). Government spending on state benefits (1) may reduce income inequality (1) may raise living standards (1). **Up to 5 marks for why it might not:** Higher government spending may cause inflation (1) if total supply does not rise in line with total demand (1). Some of the higher income created may be spent on imports (1) this may increase a current account deficit (1). An increase in government spending on unemployment benefits (1) may increase voluntary unemployment (1).	**8**	

Question	Answer	Marks	Guidance
7(a)	**State the formula used to calculate PED.** % change in quantity demanded divided by % change in price (2). Change in demand divided by change in price (1).	**2**	
7(b)	**Explain <u>two</u> reasons why the price of sugar may fall.** • demand may fall (1) • supply may increase (1) • a fall in income will lower demand (1) because of less purchasing power (1) • a fall in population will lower demand (1) as there will be fewer consumers (1) • a change in tastes will lower demand (1) as people may find sugar less appealing (1) • concern about health will lower demand (1) as consumers will switch to other foods (1) • a rise in the price of a complement (1) e.g. tea (1) • a fall in the price of a substitute (1) e.g. sweeteners (1) • reduction in costs of production will increase supply (1) as it is likely to lead to higher profits (1) • subsidies will increase supply (1) as they will give an incentive to firms to produce more (1) • a cut in indirect tax will increase supply (1) as it lowers costs (1) • good weather conditions will increase supply (1) as less of the crop will be lost (1) • more firms in the market (1) increasing competition in the market (1)	**4**	

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Question	Answer	Marks	Guidance
7(c)	**Analyse the possible reasons why a producer's fixed cost may increase.** Fixed costs are costs that do not alter with output (1) in the short run (1). Rent may increase (1) landlords may decide to charge more for factories and offices (1). The amount charged for insurance may increase (1) insurance companies may be seeking higher profits / their costs may have risen (1). Interest paid on loans may increase (1) e.g. the central bank may have increased the rate of interest (1). A firm may have moved to a larger factory / changed its production process / using more capital goods (1) leading to higher fixed capital costs (1). Inflation may occur (1) increasing e.g. the cost of workers with long-term contracts (1).	**6**	

Question	Answer	Marks	Guidance
7(d)	**Discuss whether or not a country will benefit from specialising in an agricultural product such as sugar.** **Up to 5 marks for why it might:** It may increase efficiency/productivity (1) workers may be well trained in sugar production (1) advantage may be taken of economies of scale (1) lower cost (1) lower price (1) exports may increase / imports may fall (1) improving the current account position (1). The country may have the right climate (1) to give a good crop of sugar beet/cane (1) economic growth may increase (1). Agriculture may be labour intensive (1) creating employment for high number of workers (1). The country may gain a reputation for high quality agricultural products (1) increasing demand (1). May benefit if demand for the product is high (1). **Up to 5 marks for why it might not:** Demand may fall (1) due to a change in tastes (1) rise in competitors (1). Supply may be reduced (1) by bad weather or a disease (1). Demand for manufactured good and for services tend to increase more as income rises (1) larger profits tend to be earned on these products (1). Diseconomies of scale may set in (1) Economies of scale tend to be more significant in manufacturing (1). Agricultural products tend to have more trade restrictions imposed on them (1) making it more difficult to export them (1). Market prices of agricultural products are more variable (1) farmers face uncertainty in predicting income (1). The country may become dependent on other countries for other products (1).	**8**	Reward but do not expect reference to absolute and comparative advantage.

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ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 2019**

MARK SCHEME

Maximum Mark: 90

Published

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Question	Answer	Marks	Guidance
1(a)	**Identify, using information from the extract, <u>two</u> industries that are in the primary sector of the Icelandic economy.** • farming • fishing	**2**	
1(b)	**Explain, using information from the extract, <u>two</u> reasons for government regulation of the fishing industry in Iceland.** Protect domestic fishermen (1) to ensure they have a stable income (1) to ensure that jobs are preserved (1) can compete with foreign fishermen (1). Protect the stock of fish (1) to ensure sustainability of fish stocks (1) for future generations (1).	**4**	
1(c)	**Explain, using information from the extract, <u>two</u> reasons, apart from changes in employment, for Iceland's high growth rate from 2002–2007.** • increased availability of bank loans (1) more borrowing (1) to fund consumption (1) and to fund investments (1). • increasing income of its major trading partners, including the European Union and Norway (1) Iceland can now export more to their trading partners (1) increase net exports / external demand / aggregate demand (1)	**4**	
1(d)	**Calculate, using information from the extract, Iceland's GDP in 2007.** $18.53 billion (2) 18.53 or working e.g. $17bn × 0.09 = $1.53bn (1)	**2**	

Question	Answer	Marks	Guidance
1(e)	**Analyse, using Fig 1.1, the relationship between changes in the economic growth rate and the unemployment rate over the period shown.** They both rose over the period (1) showing a positive relationship (1) unexpected (1) evidence from the data e.g. the unemployment rose from approx. 3.4 to 5% (1) the economic growth rate rose from 0.5 to 1.8% (1) Unemployment rate was relatively constant from 2002 to 2008 (1) while economic growth fluctuated (1). Unemployment was relatively stable from 2009 to 2014 (1). Between 2007 and 2009 the fall in the economic growth rate (1) to a negative value / recession (1) while there was a rise in the rate of unemployment (1). From 2009 to 2014 economic growth increased (1) and unemployment fell (1) the trends are moving in opposite directions (1) as would be expected (1) high economic growth rate should create more jobs (1). Between 2002 and 2004 there's a significant increase in the economic growth rate (1) while there was only a slight fall in the unemployment rate (1).	**5**	No marks for a descriptive approach e.g. identifying the growth rate or the unemployment rate for specific years.
1(f)	**Explain, using information from the extract, whether the supply of Iceland's fish is price-elastic or price-inelastic.** It is price-inelastic (1) because the quantity of fish supplied tends to change by a smaller percentage than the change in its price (1).	**2**	

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Question	Answer	Marks	Guidance
1(g)	**Discuss the advantages and disadvantages of the activities of commercial banks to an economy.** **Up to 3 marks for advantages to an economy**: Lending (1) to consumers (1) enabling them to increase consumption (1) raising their living standards (1) and to firms (1) allowing them to invest (1) increase employment (1) increase output (1) expand into international markets (1) improve the current account of the balance of payments (1). Attract MNCs (1) by providing a range of services to these companies (1). Banks employ many people (1) keeping unemployment low (1) **Up to 3 marks for disadvantages to an economy**: May encourage saving (1) decreasing consumption/total demand (1) Banks may fail (1) losing customers' money (1) risking damage to the economy / recession (1). May lend to risky businesses (1) which may cause fluctuations in output (1). May lend to individuals who cannot repay (1) pushing them into debt (1). May charge high interest rates (1) to gain high profits (1) which will increase firms' costs of production (1) and make it difficult for individuals to repay (1). May lend for purchase of imports (1) worsening the current account (1) Risk of inflation (1) if banks lend too much (1).	**5**	

Question	Answer	Marks	Guidance
1(h)	**Discuss whether or not a growth in tourism is an advantage to a country such as Iceland.** **Up to 4 marks for why it might be**: Tourism is an export of services (1) bringing in foreign currency (1) improving the current account balance (1). Tourism may increase government tax revenue (1) this could be spent on e.g. education (1). Tourism increases the demand for goods and services (1) creating employment/reducing unemployment (1) e.g. in hotels/restaurants/shops (1) increases output / contributes to economic growth (1). Tourism may attract MNCs/foreign investment (1) e.g. foreign hotel chains may set up in the country (1). More revenue from tourism may result in a rise in the exchange rate (1) this may reduce the price of imports (1) Less reliance on primary / secondary sector (1) benefits of diversification (1). **Up to 4 marks for why it might not be**: Tourism may create external costs (1) example e.g. pollution (1). Tourism may deplete resources (1) e.g. water (1). Tourism may place a strain on infrastructure, e.g. transport systems (1) Tourism jobs may be low-paid (1) low skilled (1) seasonal (1). Foreign firms may send profits home (1) foreign hotels may bring own employees (1). A high exchange rate may reduce exports / international competitiveness (1). Tourism may increase demand in the economy (1) pushing up the prices the local population have to pay / creating inflation (1).	**6**	

Question	Answer	Marks	Guidance
2(a)	**Define a *surplus on the current account of the balance of payments*.** When the revenue from trade in goods and trade in services exported exceeds the revenue from trade in goods and trade in services imported (2). When the inflow from primary income and secondary income is higher than the outflow of primary income and secondary income (2). Exports greater than imports (1).	**2**	
2(b)	**Explain <u>two</u> possible causes of low unemployment.** high levels of economic growth/GDP (1) output requires more workers (1) high levels of education and training (1) acquire skills needed for jobs (1) high levels of investment (1) high demand for workers (1) high levels of consumer spending (1) more production / more labour (1) high levels of exports (1) increasing demand for labour high government spending / low taxes (1) to stimulate economic growth (1) low interest rates (1) encouraging more consumption / investment (1)	**4**	
2(c)	**Analyse how long-term unemployment can cause relative poverty.** Relative poverty is when household income is low compared to the average (median) income in that country, e.g. less than 60% of average income (1) Long-term unemployed have very low incomes (1) cannot afford items which average households are able to (1) e.g. adequate housing, healthcare (1) may depend on government benefits (1) may be unable to provide children with good education (1) children may not be able to take up good jobs (1) productivity may be lower (1) compared to those who are better educated (1). Savings will be used up (1) reducing the ability to escape poverty (1) Health deteriorates (1) reducing the ability to find work (1) depression may occur (1) reducing the motivation to find work (1)	**6**	

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether or not an increase in a surplus on the current account of the balance of payments decreases unemployment.** **Up to 5 marks why it may**: More exports (1) means more output is needed (1) more workers will be needed (1) as demand for labour is a derived demand (1). A surplus means more funds flowing into the economy (1) increasing total (aggregate) demand (1) which could generate jobs (1) Incomes increase (1) consumption may increase (1) increasing revenue of firms (1) which could then be reinvested (1) **Up to 5 marks why it may not**: Exports may be capital-intensive (1) using less labour to produce exports (1). A surplus in one country may create a deficit in another (1) other countries may not be able to continue buying exports (1) other countries may impose protectionist policies (1) to prevent future deficits (1). An increase in a surplus may raise the exchange rate (1) reducing net exports (1) increasing unemployment (1).	**8**	

Question	Answer	Marks	Guidance
3(a)	**Define *supply-side policy*.** Policy which is designed to increase the total (aggregate) output / supply / productive capacity of an economy (2). Policy aimed at making markets work more efficiently (1) to encourage economic growth (1).	**2**	
3(b)	**Explain <u>two</u> functions of the stock exchange.** • raising capital for businesses (1) by selling shares to the investing public (1) • mobilising savings for investment (1) through purchase of shares (1) • funds are put into productive activities (1) in the hope of generating high returns (1) • government finance raising (1) for development projects (1) • share prices as a general indicator (1) of the performance of the economy (1)	**4**	
3(c)	**Analyse <u>two</u> possible conflicts between government aims.** Lower unemployment vs. price stability (1) lower unemployment means higher incomes (1) increasing total demand (1) creating demand-pull inflation (1) lower unemployment means less spare capacity (1) wage demands increase (1) wage-price spiral (1). Economic growth vs. price stability (1) production increases (1) faster than the increase in resources (1) increase in total demand leads to higher prices rather than increased output and employment (1). Economic growth vs. environmental protection (1) output increases (1) consumption increases (1) causing a rise in external costs (1) example e.g. pollution, destruction of habitats (1).	**6**	Maximum of 4 marks if only one conflict analysed.

Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not infrastructure projects will benefit the economy.** **Up to 5 marks for why they might**: Infrastructure projects will employ workers directly (1) May help reduce firms' production costs (1) example (1) increasing profits (1) increasing output (1) increasing employment (1) encouraging investment (1) increasing total (aggregate) demand (1) Creates external economies of scale (1) reducing costs for firms within an industry e.g. better transport servicing an industry (1) improving efficiency (1) May attract MNCs to the country (1) **Up to 5 marks for why they might not**: High cost of infrastructure projects (1) may need to raise taxes (1) or borrow large amounts (1) opportunity costs (1) funds could have been spent on e.g. health care (1). External costs (1) e.g. pollution, habitat destruction (1) Risk of inflation (1) due to increased government spending (1) Short run costs may occur e.g. congestion (1) but long run benefits may arise e.g. faster travel times (1)	**8**	

Question	Answer	Marks	Guidance
4(a)	**Identify <u>two</u> motives for consumer spending.** • to satisfy needs e.g food, shelter • to satisfy wants e.g. luxury goods • fear of future price rises • to gain satisfaction from that consumption	**2**	
4(b)	**Explain <u>two</u> benefits a firm can gain by borrowing.** • it can pay running costs / unexpected expenses (1) to enable the firm to stay in business (1) • it can invest/purchase capital (1) to lower costs/improve efficiency (1) to increase profits (1) • it can improve products/add new products (1) by spending on R&D (1) • it can spend on advertising (1) to increase demand/market share (1) • in a recession, it can help to cover its costs (1) in order to stay in business, e.g. paying wages, covering debts (1)	**4**	
4(c)	**Analyse <u>two</u> consequences of a depreciating foreign exchange rate.** • price of exports decreases (1) quantity of exports demanded increases (1) value of exports increases (1) net exports increase (1) • price of imports increases (1) quantity demanded for imports decreases (1) value of imports decreases (1) • current account deficit decreases / surplus increases (1) total (aggregate) demand increases (1) inflation increases (1) • price of imported raw materials / semi-finished goods increases (1) cost of production increases (1) price level increases / inflation (1) • discourages savers from overseas (1) who fear losing money (1)	**6**	Maximum of 4 marks if only one consequence analysed.

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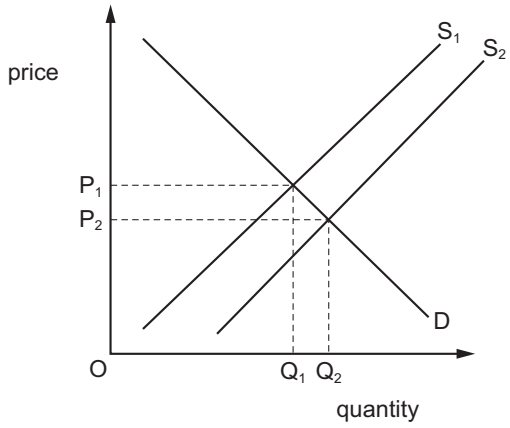
Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not a fall in interest rates will benefit an economy.** **Up to 5 marks for why it might:** Cost of borrowing decreases / borrowing increases (1) may cause increase in consumption (1) investment (1) decrease in savings (1) total (aggregate) demand increases (1) economic growth (1) reduces unemployment (1). May increase spending on research and development (1) increase productivity (1) increase potential growth (1). Value of currency will fall (1) decrease price of exports (1) increase price of imports (1) net exports increases (1). **Up to 5 marks for why it might not:** May cause inflation (1) due to increased levels of borrowing / consumption / demand (1) Returns from savings decreases (1) those who rely on savings will suffer (1) e.g. pensioners (1). Value of currency will fall, increasing price of imports (1) decreases choice / reduce purchasing power (1) decrease standards of living (1) cost-push inflation (1). Could result in firms/individuals borrowing who would not be able to repay if the interest rate rises (1) unsustainable economic growth (1).	**8**	

Question	Answer	Marks	Guidance
5(a)	**Define *public limited company*.** A company whose shares are traded on a stock exchange (1) these shares can be bought and sold by the public (1) the company has limited liability (1).	**2**	
5(b)	**Explain <u>two</u> reasons for growth in average earnings.** • increase in demand for goods and services (1) increase demand for workers / derived demand (1) an increase in demand would increase wages (1) • increase in inflation (1) workers demand higher wages (1) • trade union bargaining power (1) e.g. threat of industrial action (1) • increased productivity of workers (1) increasing demand for labour (1) • reduction in income tax (1) increasing disposable incomes (1) • the legal minimum wage increases (1) the lowest paid earn more, increasing the average (1)	**4**	2 marks could be awarded for an accurately drawn demand and supply diagram.
5(c)	**Analyse, using a demand and supply diagram, how government subsidies help firms grow.** **Up to 4 marks for the diagram:** Axes correctly labelled – price and quantity or P and Q (1) Demand and supply curves correctly labelled (1) Shift in supply curve to the right (1) Equilibriums – shown by lines or labels e.g. E1 and E2 (1) **Up to 2 marks for written analysis**: Will lead to a decrease in cost of production (1) output increases / price will fall (1). Profits / revenue of firms may increase (1) profits can be reinvested (1) increasing productivity (1) increasing competitiveness of firms (1).	**6**	

Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not trade protection supports the growth of domestic firms.** **Up to 5 marks for how it might:** Protectionism may increase the price of imports (1) making imports less desirable (1) quantity of imports demanded decreases (1) quantity of domestic goods demanded increases (1). Protectionism may reduce the quantity of imports e.g. quotas (1) An increase in demand for domestic goods may lead to an increase in revenue (1) and profits (1) of domestic firms, encouraging them to hire more workers (1) decreasing unemployment (1). Trade protection can allow infant industries to grow / prevent sunset industries from declining (1) which may enable then to take greater advantage of economies of scale (1) making them more internationally competitive (1). **Up to 5 marks for how it might not:** Protectionism might lead to retaliation (1) other countries might put a protectionist policy on domestically produced goods (1) increasing the price of the country's exports / reducing the quantity allowed (1) decreasing the demand for exports (1). An increase in price of imported raw materials may increase some firms costs of production (1) lowering profits (1). Domestic substitute raw materials may be of a lower quality (1) which will reduce the quality of the output of domestic firms (1) may lead to lower demand (1). Trade protection may make domestic firms complacent/less efficent (1) may become reliant on protection (1) less incentive to grow (1).	**8**	

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Question	Answer	Marks	Guidance
6(a)	**Define *social cost*.** Social cost is equal to the sum of private costs (1) and external costs (1). Cost to the entire society (1).	**2**	
6(b)	**Explain <u>two</u> reasons why a firm would want to specialise in producing only one product.** • a firm can specialise in what it is best at producing (1) increasing efficiency / productivity (1) achieve economies of scale (1) decrease cost of production (1) leading to higher output / higher profits (1) • increasing global demand (1) which would raise revenue (1) • resources are well suited to the product (1) e.g. good climate (1) • a firm can gain a good reputation in producing the product (1) specialisation may improve the quality of the product (1) increasing demand for the product (1)	**4**	
6(c)	**Analyse how the ability of firms to produce on a larger scale is beneficial to consumers.** Producing on a larger scale may enable economies of scale (1) example (1) when average costs decrease (1). Price of the product may fall (1) enabling consumers to buy more of the product (1) improving living standards (1). Producing on a larger scale reduces shortages (1) increases the quantity of products available to consumers (1). Producing on a larger scale may enable more to be spent on R&D (1) increasing the quality of products available to consumers (1).	**6**	

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether or not the operation of a market economic system is harmful to an economy.** **Up to 5 marks for why it is:** Poor consumers will have little influence on what is produced (1) because they have limited purchasing power / inability to afford products (1). Monopolies may occur (1) charging high prices (1) producing low quality (1). Products causing external costs will be overproduced (1) overconsumed (1) example (1). Products providing external benefits will be underproduced (1) and underconsumed (1) example (1). Income and wealth may be unequally distributed (1) e.g. those on fixed incomes disadvantaged (1). **Up to 5 marks for why it is not:** In theory there is consumer sovereignty (1) consumers determine what is produced (1) firms respond to changes in consumer demand (1). Competition between firms (1) and the profit motive (1) increases efficiency (1) leading to low prices (1) and high quality products (1). A variety of products may be produced / there may be choice (1).	**8**	Accept but do not expect reference to merit goods, demerit goods and public goods.

Question	Answer	Marks	Guidance
7(a)	**Define *labour*.** The human factor of production (1) mental and physical effort (1) required for production (1).	**2**	
7(b)	**Explain <u>two</u> motives for saving.** • to gain interest (1) as a form of income / as a return on saving (1) • for the future (1) e.g. for unexpected events, save for pensions (1) • to purchase expensive items (1) e.g. cars, houses, furniture / items which can't be bought immediately (1) • for children's education (1) to improve social mobility (1)	**4**	
7(c)	**Analyse the reasons for countries having different population growth rates.** Different birth rates (1) due to different levels of income (1) different levels of education (1) different awareness of contraception / family planning (1) Different death rates (1) because of different healthcare standards prevalance of diseases (1) different availability of hospitals/doctors (1). Different levels of immigration / emigration (1) better standards of living/job opportunities to attract more immigrants/prevent emigrants (1). Different levels of female labour force participation rates (1) more female labour force participation, lower birth rates (1). Different government regulations / incentives / disincentives (1) e.g. one-child policy reducing population growth rates/tax breaks or allowances for couples with children (1). Different cultural/spiritual reasons (1) example (1)	**6**	

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Question	Answer	Marks	Guidance
7(d)	**Discuss whether or not a rise in the working-age population, as a percentage of the total population, will be beneficial to a country.** **Up to 5 marks why it might be:** Increase in working age population will increase the size of labour force / supply of labour (1) increasing incomes (1) consumption (1) and increasing output / economic growth (1). Cost of labour may decrease (1) overall cost of production decreases (1) attracting foreign investments / MNCs (1) increasing aggregate demand (1) The working age population may spend more than other age groups (1). It will reduce the dependency ratio (1) reducing pressures on government spending (1). **Up to 5 marks why it might not be:** If birth rates are low, population might soon be ageing (1) leading to unsustainable growth (1) decreasing future output (1). If no jobs are available, unemployment will increase (1) example of problems associated with unemployment (1). Working-age people may be unskilled / have skills in the wrong areas (1) slows economic growth (1). More people working may cause increased external costs (1) e.g. pollution, congestion (1).	**8**	

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/11**

Paper 1 Multiple Choice **May/June 2019**

45 minutes

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

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1 What would an economist regard as an example of the factor of production capital?

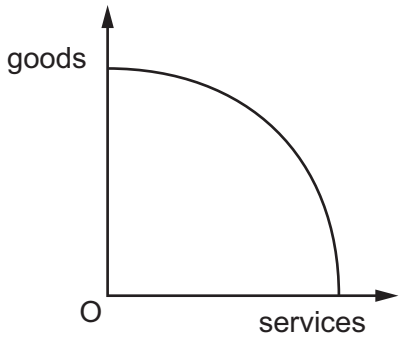
A an individual's purchase of stocks and shares

B borrowing by a firm to pay for electricity

C the building by a firm of a new factory

D total savings by individuals in a country

2 The diagram shows a production possibility curve (PPC).



Why is the curve usually drawn like this?

A International free trade exists.

B Opportunity cost changes.

C Resources are unlimited in supply.

D Some resources will be unemployed.

3 In recent years more golf courses, which use large quantities of water, have opened in China.

What may be the opportunity cost of this?

A cost of water

B loss of farmland

C sales of golf equipment

D wages of golf course staff

4 Which situation indicates a mixed economy?

A Economic activity is controlled entirely by the private sector.

B Individual choices are unaffected by government actions.

C Services are provided by both private and public sectors.

D The government carries out all planning and decision making.

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5 What causes market failure?

A government provision of services

B social costs equal private costs

C the existence of external benefits

D the existence of perfect competition

6 A newspaper reported that 'The world market for coffee has returned to equilibrium'.

Which situation supports this statement?

A A sequence of poor harvests resulted in shortages.

B Decreased transport costs led to a surplus of supply.

C Farmers matched demand by planting more coffee bushes.

D The price of coffee was fixed between producers.

7 The table shows the demand schedule for a good at different prices.

price $	quantity demanded
8	200
10	160
12	120
14	60

The current market price for the good is $10.

Following a 20% increase in price, what will be the change in the quantity demanded?

A –60 **B** –40 **C** +120 **D** +200

8 Carlos has been offered a new job with a large multinational company. He is undecided whether to accept the position.

What is a non-wage factor he might consider?

A bonus payments

B holiday entitlement

C overtime rate

D salary level

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9 Unlike the UK and US, a significant proportion of the shares on the stock exchanges of China and Russia are of state-owned enterprises.

Which judgement about China and Russia can be made from this information?

A their distribution of income and wealth

B their level of development

C their stages of production

D their type of economic system

10 What is the **most** important factor that affects how much a family saves?

A the income of the family

B the level of taxation

C the rate of inflation

D the reliability of banks

11 The table shows the change in real incomes for a number of occupations between 1985 and 2015.

occupation	change in real income %
doctors	153
lawyers	114
accountants	60
bricklayers	37
bus and coach drivers	19
fork-lift truck drivers	–5

What can be concluded from the table?

A All occupations were better off in 2015 than in 1985.

B Fork-lift truck drivers earned the lowest wages in 2015.

C Doctors have earned more than lawyers since 1985.

D Professionals received higher percentage increases in income than manual workers.

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12 A large bakery buys a flour mill.

Which form of integration is this?

A conglomerate

B horizontal

C vertical backwards

D vertical forwards

13 Why is the energy supply industry dominated by very large firms in many economies?

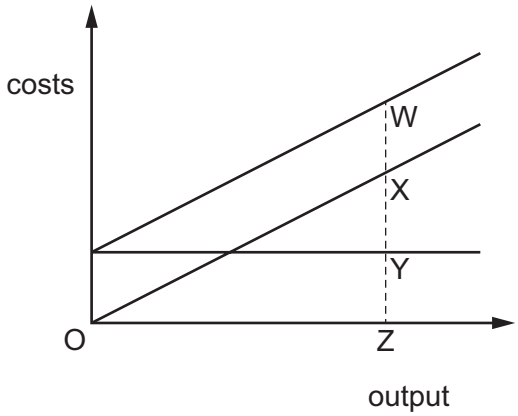
A Government controls prevent the exploitation of consumers.

B High fixed capital costs exist.

C Labour-intensive production techniques are used.

D Non-price advertising increases competition.

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



Which distance represents the firm's fixed costs?

A WX **B** WY **C** XY **D** XZ

15 An entrepreneur buys a workshop for $200 000 to make plastic boxes. In the first year of operation he spends $70 000 on materials, employs ten production workers paid by the amount produced (piece rate) at a total cost of $80 000 and buys two delivery vehicles for $10 000 each.

What are his total variable costs?

A $100 000 **B** $150 000 **C** $220 000 **D** $370 000

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16 A government increases the rate of income tax in order to pay for extra transfer payments, including cash benefits to the poor.

What must occur as a result of this?

A It changes the distribution of income.

B It ensures the equality of incomes.

C It leads to more people paying income taxes.

D It reduces the level of unemployment.

17 The standard rate for Value Added Tax (sales tax) is 20% in a country. Different consumers buying the same product have to pay the same amount of tax.

What kind of tax is this?

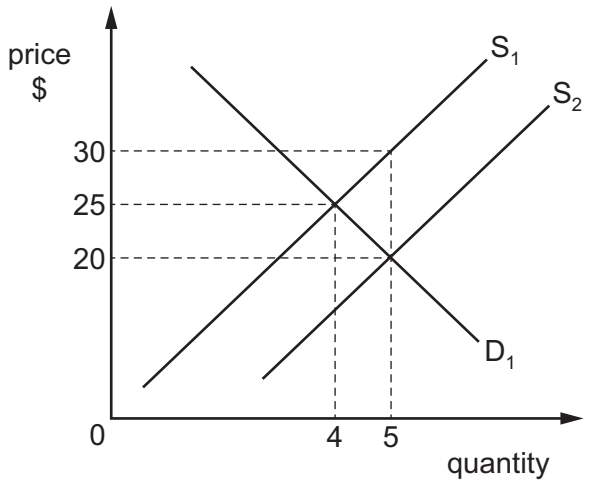
A direct

B progressive

C proportional

D regressive

18 The diagram shows the demand curve D_1 and supply curve S_1 for a good. The government introduces a subsidy to encourage production.



What will be the total cost of the subsidy to the government?

A $40 **B** $50 **C** $100 **D** $150

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19 Which statement about interest rate changes is accurate?

A A fall in interest rates will always increase inflation.

B A rise in interest rates may increase cost-push inflation.

C A rise in interest rates will raise the level of investment in a country.

D Interest rate changes have no impact on the level of production.

20 In Uganda, the rate of inflation fell from 5% in 2014 to 2% in 2015.

Which conclusion can be drawn from this information?

A Prices were higher in 2015 than in 2014.

B The cost of living fell between 2014 and 2015.

C The standard of living fell between 2014 and 2015.

D Ugandan citizens were better off in 2015 than 2014.

21 What would **not** increase the Human Development Index (HDI) of a country?

A an increase in the level of car ownership

B an increase in life expectancy at birth

C a rise in the GDP per head

D a rise in the number of years of schooling

22 A country is experiencing a period of full employment.

What is **most** likely to lead to an increase in demand-pull inflation?

A an increase in government spending

B an increase in imports

C an increase in income tax rates

D an increase in sales tax

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23 The table shows the percentage change from 2015–2016 in gross domestic product (GDP) and consumer prices for selected countries.

Which country was suffering from economic recession and inflation?

	country	GDP	consumer prices
A	Australia	+1.8	+1.3
B	Brazil	–2.9	+8.3
C	China	+6.7	+2.0
D	Japan	+1.1	–0.2

24 Which policy is **most** likely to reduce relative poverty?

A make income tax rates less progressive

B reduce benefit payments

C reduce the minimum wage

D reduce the rate of sales tax

25 Given the following information, which country is most likely to have the highest standard of living?

		birth rate	death rate	life expectancy	infant mortality rate
A	Bangladesh	27	10	58	93
B	Bhutan	36	14	53	107
C	Botswana	31	21	40	57
D	Brunei	25	5	72	22

26 In a country the birth rate increased but the population decreased.

What could have happened to other factors to cause this?

A a fall in infant mortality but no change in the death rate

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C no change in migration but the death rate rose

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27 The US government decides to reduce the size of the quota on a good it buys from China.

What is likely to happen?

A The good will become cheaper in the US.

B The US balance of trade will worsen.

C The US government's revenue will decline.

D There will be less of the good imported into the US.

28 What is the most accurate definition of a foreign exchange rate?

A a rate at which exports are exchanged for imports

B a rate determined by the demand and supply of the currency

C a value of a currency as fixed by the government

D a value of a currency expressed in terms of another currency

29 In 2013, the European Union (EU) levied a 48% tariff on low-priced Chinese solar panels because the low price was the result of subsidies from the Chinese government.

Which argument for protectionism was the EU using?

A the anti-dumping argument

B the infant industry argument

C the strategic industry argument

D the sunset industry argument

30 A large amount of the agricultural products in a country were damaged by floods.

What is likely to have happened to the price of agricultural products and the volume of imports of agricultural products?

	price of products	volume of imports
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

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ECONOMICS **0455/12**

Paper 1 Multiple Choice **May/June 2019**

45 minutes

Additional Materials: Multiple Choice Answer Sheet
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1 A government wishes to increase agricultural output. It gives farmers the tools to irrigate the farmers' fields.

Which factors of production are provided by the farmers?

A capital and enterprise

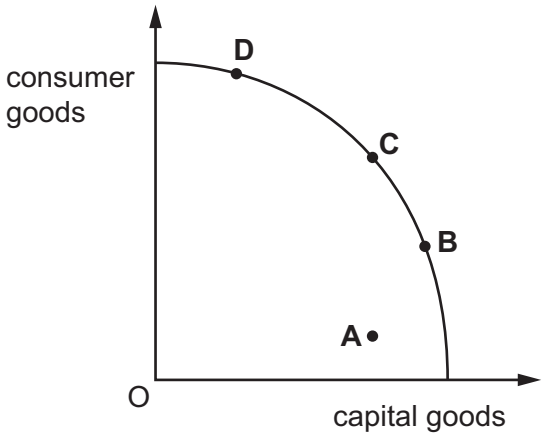
B enterprise and labour

C labour and land

D land and capital

2 The diagram shows a production possibility curve (PPC) for an economy that produces both capital goods and consumer goods.

At which point will the economy show the highest potential for sustained long run economic growth?



3 In recent years more golf courses, which use large quantities of water, have opened in China.

What may be the opportunity cost of this?

A cost of water

B loss of farmland

C sales of golf equipment

D wages of golf course staff

4 Cuba is implementing free market reforms.

What is a likely advantage of this?

A a wider variety of goods and services produced

B greater equality between the different groups in society

C increased provision of public goods

D less consumption of goods with external costs

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5 An airline upgrades its services by providing bigger aircraft. The airline claims it will reduce catering waste and lower carbon (CO_2) emissions per passenger journey although fares may rise.

What is a private cost and an external benefit of this decision?

	private cost	external benefit
A	bigger aircraft	higher fares
B	higher fares	lower CO_2
C	less catering waste	bigger aircraft
D	lower CO_2	less catering waste

6 What can be concluded from the demand curve for the product shown in the diagram?

A Price increases will raise the producers' revenue.

B Producers are unable to respond to a price rise.

C The product is one with many substitutes.

D There are 20 people able to buy the product.

7 A mobile (cell) phone operator increases the price of making calls on its network. After the price increase, the revenue of the mobile phone operator falls by 10%.

What is the price elasticity of demand (PED) for the mobile operator's service?

A elastic

B inelastic

C perfectly elastic

D unit elastic

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8 Why does specialisation increase the productivity of employees?

A Average cost of production increases.

B Staff turnover is high.

C Time is saved by not moving between tasks.

D Workers lose interest in their job.

9 In recent years some central banks have reduced interest rates below 1% per year.

What is the purpose of this monetary policy?

A to discourage lending by the commercial banks

B to encourage investment to stimulate the economy

C to increase individual savings

D to reduce inflation

10 What is the **most** important factor that affects how much a family saves?

A the income of the family

B the level of taxation

C the rate of inflation

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11 The table shows the change in real incomes for a number of occupations between 1985 and 2015.

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C Doctors have earned more than lawyers since 1985.

D Professionals received higher percentage increases in income than manual workers.

12 What is the main difference between capital-intensive production and labour-intensive production?

A the market structure of the production process

B the output that the production process creates

C the resources on which the production relies

D the size of the firm that uses the production process

13 What is the definition of diseconomies of scale?

A the decrease in average revenue as output increases

B the decrease in fixed cost as output increases

C the increase in average total costs as output increases

D the increase in total costs as output increases

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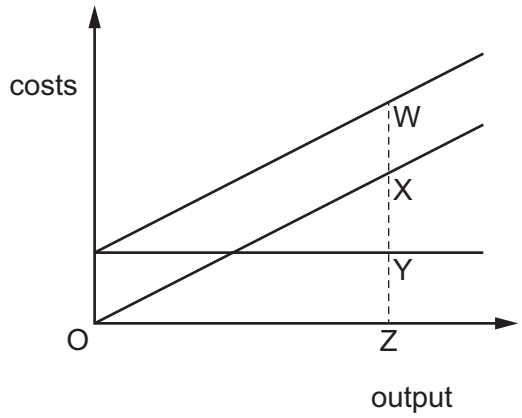
14 The diagram shows the fixed costs, variable costs and total costs of a firm.



Which distance represents the firm's fixed costs?

A WX **B** WY **C** XY **D** XZ

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What are his total variable costs?

A $100 000 **B** $150 000 **C** $220 000 **D** $370 000

16 What is **most** likely to cause a rise in the rate of inflation in an economy?

A a fall in import prices

B a fall in wage rates

C a rise in the level of government spending

D a rise in the level of unemployment

17 The government increases taxation in order to fund an increase in spending on government training schemes.

Which policy combination would this involve?

A fiscal policy and monetary policy only

B fiscal policy and supply-side policy only

C monetary policy and supply-side policy only

D monetary policy, supply-side policy and fiscal policy

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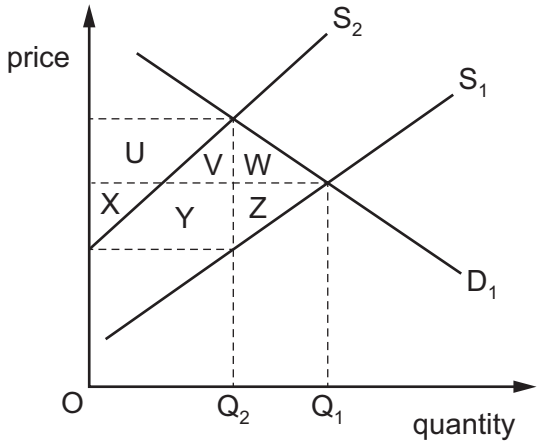
18 The diagram shows the effect of the imposition of a tax on a product.



Which area represents the part of the tax paid by consumers of the product?

A U + V

B U + V + W

C U + V + X + Y

D U + X

19 Why might a government decide to subsidise a high-cost steel industry?

A if cheaper imports of steel are improving the balance of payments

B if economic growth is increasing due to the success of other industries

C if redundant steel workers can easily be retrained

D if unemployment in steel producing areas is increasing

20 The table shows possible sequences between the rate of interest and other economic variables.

Which sequence is the **most** likely?

	interest rate	borrowing	investment	GDP
A	higher	decrease	increase	increase
B	higher	increase	decrease	decrease
C	lower	decrease	decrease	decrease
D	lower	increase	increase	increase

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21 Why is the Human Development Index (HDI) a better measure of living standards than GDP per head?

A It takes into account changes in output.

B It takes into account changes in population.

C It takes into account health and education data.

D It takes into account inflation.

22 What describes frictional unemployment?

A unemployment caused by a general fall in economic activity

B unemployment caused by the time of year

C unemployment caused by wages being too high

D unemployment caused by workers searching for jobs

23 In January 2016 the rate of inflation in a country changed from 3% to 2%. In March 2016 the rate of inflation was 4%.

What happened to the price level in January and March?

	January	March
A	fell	fell
B	fell	rose
C	rose	fell
D	rose	rose

24 What usually happens as a developing country becomes more developed?

A The average age of the population falls.

B The fertility rate declines.

C The infant mortality rate increases.

D The primary sector expands.

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25 Given the following information, which country is most likely to have the highest standard of living?

		birth rate	death rate	life expectancy	infant mortality rate
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What could have happened to other factors to cause this?

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27 The US government decides to reduce the size of the quota on a good it buys from China.

What is likely to happen?

A The good will become cheaper in the US.

B The US balance of trade will worsen.

C The US government's revenue will decline.

D There will be less of the good imported into the US.

28 The world demand for oil is price-inelastic and oil is paid for in US dollars.

If the price of oil falls rapidly, how might it affect the exchange rate of the US dollar?

	market for US dollar	exchange rate for US dollar
A	greater demand for US$	value increases
B	greater supply of US$	value falls
C	less demand for US$	value falls
D	less supply of US$	value increases

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29 What is the **most** likely disadvantage of international specialisation?

A decreased levels of global output

B increased average production costs

C increased productivity levels

D overdependence on other economies

30 A large amount of the agricultural products in a country were damaged by floods.

What is likely to have happened to the price of agricultural products and the volume of imports of agricultural products?

	price of products	volume of imports
A	fall	fall
B	fall	rise
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ECONOMICS **0455/13**

Paper 1 Multiple Choice **May/June 2019**

45 minutes

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1 In farming, what is an example of what economists call capital?

A savings the farmer has in the bank

B shares in a farming company

C the money the farmer set aside to pay taxes

D the tractor owned by the farmer

2 What would cause an outward shift of a country's production possibility curve (PPC)?

A a fall in unemployment

B an increase in the rate of income tax

C an increase in the labour force

D a reduction in expenditure on education

3 In recent years more golf courses, which use large quantities of water, have opened in China.

What may be the opportunity cost of this?

A cost of water

B loss of farmland

C sales of golf equipment

D wages of golf course staff

4 What is a characteristic of tertiary industries?

A They are located away from centres of population.

B They do not sell to the final consumer.

C They tend to be labour-intensive.

D They transform raw materials into goods.

5 China has built a new railway in Kenya from the capital, Nairobi, to the seaport of Mombasa. Kenya must repay the cost of the railway to China. Journey time has been reduced significantly but fares have increased and farmers have lost agricultural land along the new line.

Who bears the external costs of this operation?

A China who built the new railway

B farmers who have lost agricultural land

C Kenya who must repay the cost to China

D passengers who pay the higher fare

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6 What is meant by equilibrium in a market?

A where products offered for sale equal consumer demand

B where profit is at the expected level

C where the quantity of inputs equals the quantity of output

D where total costs equal total revenue

7 A product has a price elasticity of demand of –0.5.

What happens to the demand for a product if its price falls from $1 to $0.80?

A It decreases by 10%.

B It decreases by 20%.

C It increases by 10%.

D It increases by 20%.

8 The demand for gas in a country becomes price-inelastic.

What will happen as a result?

A Gas workers will be less likely to be successful in obtaining wage increases.

B Gas workers will be more likely to be successful in obtaining wage increases.

C Total expenditure on gas by consumers will fall when its price rises.

D Total expenditure on gas by consumers will rise when its price falls.

9 Which advantage do coins have that make them more suitable than banknotes to act as money?

A They are more divisible.

B They are more durable.

C They are more portable.

D They are more recognisable.

10 What is the **most** important factor that affects how much a family saves?

A the income of the family

B the level of taxation

C the rate of inflation

D the reliability of banks

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11 The table shows the change in real incomes for a number of occupations between 1985 and 2015.

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A All occupations were better off in 2015 than in 1985.

B Fork-lift truck drivers earned the lowest wages in 2015.

C Doctors have earned more than lawyers since 1985.

D Professionals received higher percentage increases in income than manual workers.

12 Which business organisation is **most** likely to have unlimited liability?

A co-operative

B multinational

C public limited company

D sole trader

13 What is an example of a technical economy of scale?

A Banks provide loans at a lower interest rate to bigger firms.

B Bigger firms hire more workers.

C Firms obtain discounts when buying in bulk.

D Machines are used closer to their full capacity.

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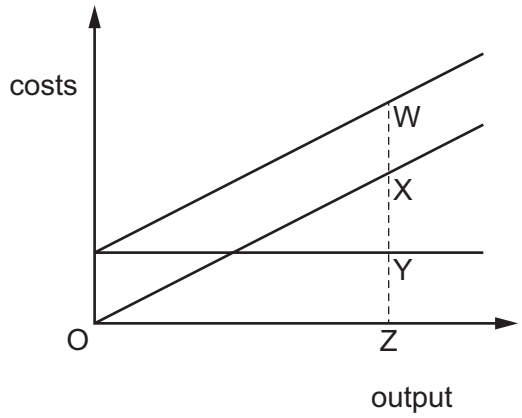
14 The diagram shows the fixed costs, variable costs and total costs of a firm.



Which distance represents the firm's fixed costs?

A WX **B** WY **C** XY **D** XZ

15 An entrepreneur buys a workshop for $200 000 to make plastic boxes. In the first year of operation he spends $70 000 on materials, employs ten production workers paid by the amount produced (piece rate) at a total cost of $80 000 and buys two delivery vehicles for $10 000 each.

What are his total variable costs?

A $100 000 **B** $150 000 **C** $220 000 **D** $370 000

16 Which form of taxation always takes an increasing percentage of the taxpayer's income as it rises?

A indirect

B progressive

C proportionate

D regressive

17 What is the **most** likely effect of a government reducing the money supply?

A Employment will decrease.

B Growth will increase.

C Inflation will increase.

D Tax rates will decrease.

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18 Sometimes the government regulates the market to protect the interests of consumers.

Which kind of regulation would achieve this protection?

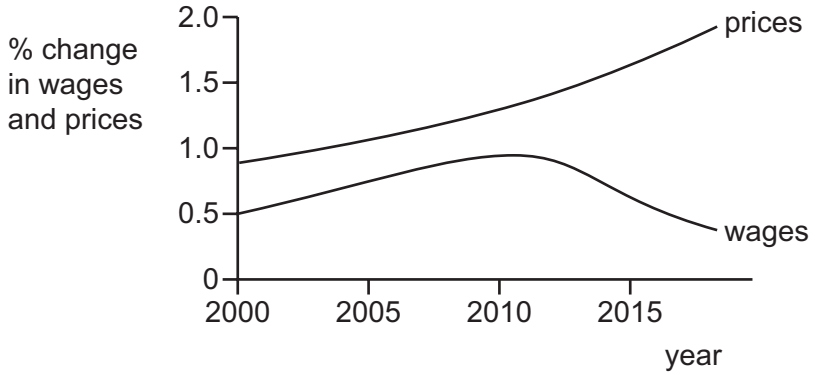
A discouraging economies of scale that lead to lower costs

B preventing mergers which result in high monopoly prices

C reducing shop opening hours

D reducing the range of products supplied to the market

19 The diagram shows percentage (%) changes in prices and wages over time.



What does the diagram indicate?

A Inflation is proportionately related to wage levels.

B The gap between wages and prices is constant.

C Wages are highest in 2010.

D Wage earners have increasingly less purchasing power.

20 Why might GDP per head be underestimated in a developed economy?

A It does not account for changes in population.

B It does not include financial services output.

C It does not include the hidden economy.

D It does not take into account the primary sector.

21 What is included in the Human Development Index (HDI)?

A gender inequality

B life expectancy at birth

C political freedom

D the impact of pollution

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22 What is most likely to have caused a long-term decrease in the numbers employed in the banking sector of an economy?

A frictional unemployment caused by relocating a bank's headquarters

B seasonal unemployment caused by reduced customer demand in the summer

C technological unemployment caused by an increase in internet banking

D voluntary unemployment caused by a reduction in wage rates

23 What might cause prices to rise because of cost-push inflation?

A an increase in government spending on education

B an increase in household consumption

C an increase in the balance of payments surplus

D an increase in wages and salaries

24 Which action might be taken by an economy wishing to produce a greater range of products?

A concentrate on the production of primary products

B encourage imports of manufactured goods

C encourage investment by multinational companies

D increase interest rates

25 Given the following information, which country is most likely to have the highest standard of living?

		birth rate	death rate	life expectancy	infant mortality rate
A	Bangladesh	27	10	58	93
B	Bhutan	36	14	53	107
C	Botswana	31	21	40	57
D	Brunei	25	5	72	22

26 In a country the birth rate increased but the population decreased.

What could have happened to other factors to cause this?

A a fall in infant mortality but no change in the death rate

B a rise in net immigration but no change in the death rate

C no change in migration but the death rate rose

D the death rate fell with no change in migration

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27 The US government decides to reduce the size of the quota on a good it buys from China.

What is likely to happen?

A The good will become cheaper in the US.

B The US balance of trade will worsen.

C The US government's revenue will decline.

D There will be less of the good imported into the US.

28 Changes in the foreign exchange rate of a country resulted in a depreciation of its currency.

What is **not** likely to happen?

A The costs of imported raw materials will fall.

B The country's export trading position will become more competitive.

C The country's residents will find it more expensive to take holidays abroad.

D The current account deficit will be unchanged.

29 Which item will register as an outflow on the services section of the current account of the US balance of payments?

A money paid by chemical producers in the US for foreign oil

B money paid by foreign firms for US cars

C money paid by migrant workers in the US to their families overseas

D money paid by US tourists visiting attractions in other countries

30 A large amount of the agricultural products in a country were damaged by floods.

What is likely to have happened to the price of agricultural products and the volume of imports of agricultural products?

	price of products	volume of imports
A	fall	fall
B	fall	rise
C	rise	fall
D	rise	rise

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ECONOMICS **0455/21**

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Section A

Answer this question.

1 Universal basic income (UBI)

UBI is a scheme where a government provides everyone with a payment, regardless of their circumstances. Such a scheme can help a number of groups including the sick and the old. In 2016, the Indian government was looking at a UBI as an alternative to its existing system of state benefits. A politician in Costa Rica proposed a UBI of $337.5. Finland started a two-year experiment with a version of UBI in 2017.

A guaranteed minimum income might help some of the poor who currently do not receive state benefits and may reduce inequality. In a number of countries, income and wealth inequality is increasing. For instance, in Russia 16% of the population live below the official poverty line and 10% of the population own 87% of the country's wealth. State benefits are relatively low in Russia and the country has one income tax rate of 13%. One cause of the rise in the gap between the rich and the poor in Russia has been the effect on prices and profits arising from the privatisation of a number of state monopolies.

Differences in annual average incomes (annual GDP per head) between countries can affect life expectancy as shown in Table 1.1.

Table 1.1 Annual GDP per head and life expectancy in selected countries in 2016

Country	Annual GDP per head (US$)	Life expectancy (years)
Costa Rica	16 200	78.8
Finland	42 000	80.8
India	7 400	68.6
Mali	2 300	55.7
Monaco	76 000	89.5
Russia	26 200	70.4

In Finland, a country with an average monthly income per head of $3500, the trial UBI is $600 per month. This does not cover everyone's needs in a country with high prices, high tax rates and periods of very cold weather. In India, the average monthly income per head is almost the same as Finland's UBI.

A UBI could help the unemployed including the temporary unemployed. Governments welcome a reduction in unemployment. This is because it increases output and enables governments to reduce spending on state benefits for the unemployed. Governments could then increase spending on other areas including education and healthcare.

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(a) Identify, using information from the extract, **two** reasons why a person may have a low income. [2]

(b) Explain, using information from the extract, whether Russia has a progressive, proportional, or regressive income tax system. [2]

(c) Calculate, using Table 1.1, what percentage of annual average income in Costa Rica a person would have if he receives UBI of $337.5 a month. [2]

(d) Analyse, using Table 1.1, the relationship between annual GDP per head and life expectancy. [5]

(e) Explain an example of opportunity cost in the extract. [4]

(f) Discuss whether or not a monopoly will charge high prices. [5]

(g) Explain, using information from the extract, **two** reasons why someone from India with the same income as someone from Finland may enjoy a higher living standard. [4]

(h) Discuss whether or not a government paying higher state benefits to the unemployed will reduce unemployment. [6]

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Section B

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

2 The Saudi Arabian government is encouraging the growth of the private sector. It is a low-cost oil producer, but its exports to South Africa have fallen recently. South Africa has a floating foreign exchange rate, but its central bank has recently tried to prevent a large fall in its foreign exchange rate.

(a) Define *a floating foreign exchange rate*. [2]

(b) Explain **two** benefits a government may gain from the growth of the private sector. [4]

(c) Analyse why a country with low costs of production may experience a decrease in its exports. [6]

(d) Discuss whether or not a government should prevent a fall in its country's foreign exchange rate. [8]

3 In February 2017, Europe experienced a shortage of fresh vegetables due to bad weather. For a period of time, the markets for a number of vegetables, including broccoli and lettuces, were not in equilibrium. The price of food tends to fluctuate more than the price of manufactured goods and services. These fluctuations influence the rate of inflation.

(a) When is a market in equilibrium? [2]

(b) Explain how a rise in the price of food would affect a country's consumer prices index (CPI). [4]

(c) Analyse, using a demand and supply diagram, how bad weather is likely to affect the market for broccoli. [6]

(d) Discuss whether or not a higher inflation rate will benefit producers. [8]

4 Changes in the supply of enterprise result in the development of new firms. In 2016, a theme park in Hong Kong made a loss with visitor numbers falling by 9%. In 2017, the same public limited company opened another larger theme park in Shanghai. The new theme park is expected to benefit from both internal and external economies of scale.

(a) Define *a loss*. [2]

(b) Explain, giving examples, the difference between an internal economy of scale and an external economy of scale. [4]

(c) Analyse how a government could increase the supply of enterprise. [6]

(d) Discuss whether or not consumers would benefit from a firm changing from being a public limited company to a public corporation (state-owned enterprise). [8]

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5 In February 2017, China's central bank raised the rate of interest. It wanted to reduce borrowing and the growth of the money supply, but it was worried that the rise in the interest rate might reduce the country's economic growth rate. The change in interest rate is likely to have increased the workload of skilled commercial bank workers.

(a) Identify **two** functions of money. [2]

(b) Explain **two** reasons why a central bank may want to reduce borrowing. [4]

(c) Analyse why skilled workers are usually paid more than unskilled workers. [6]

(d) Discuss whether or not a rise in the rate of interest will reduce economic growth. [8]

6 A number of book publishers operate in Pakistan. These include multinational companies (MNCs). They employ a range of specialist workers. A number of these specialists estimate the price elasticity of demand (PED) for their firms' books. There is a debate about whether some books should be subsidised by the government.

(a) Define *a multinational company*. [2]

(b) Explain **two** disadvantages a worker could experience from specialising. [4]

(c) Analyse how a change in the PED for its products may benefit a firm. [6]

(d) Discuss whether or not the government should subsidise the production of books. [8]

7 It was predicted that global unemployment would rise by over two million in 2017. Unemployment rates, however, vary between countries. Some governments use fiscal policy measures and others use supply-side policy measures to reduce unemployment. The unemployment rate can also be influenced by trade protection.

(a) Identify **two** fiscal policy measures. [2]

(b) Explain **two** reasons why the unemployment rate may be higher in one country than another. [4]

(c) Analyse how supply-side policy measures may reduce unemployment. [6]

(d) Discuss whether or not a government should protect its country's industries from foreign competition. [8]

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ECONOMICS **0455/22**

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Section A

Answer this question.

1 Premium Friday

At the start of February 2017, the Japanese government introduced its 'Premium Friday' scheme. This encourages employers to allow their workers to leave work at 15:00 on the last Friday of each month, without experiencing any reduction in their wages.

The Japanese government wants to reduce the number of hours people work. One reason is to improve the health, and so possibly the productivity, of workers. Fig. 1.1 shows the average number of hours worked and productivity (GDP per hour worked in US $) in six selected countries.

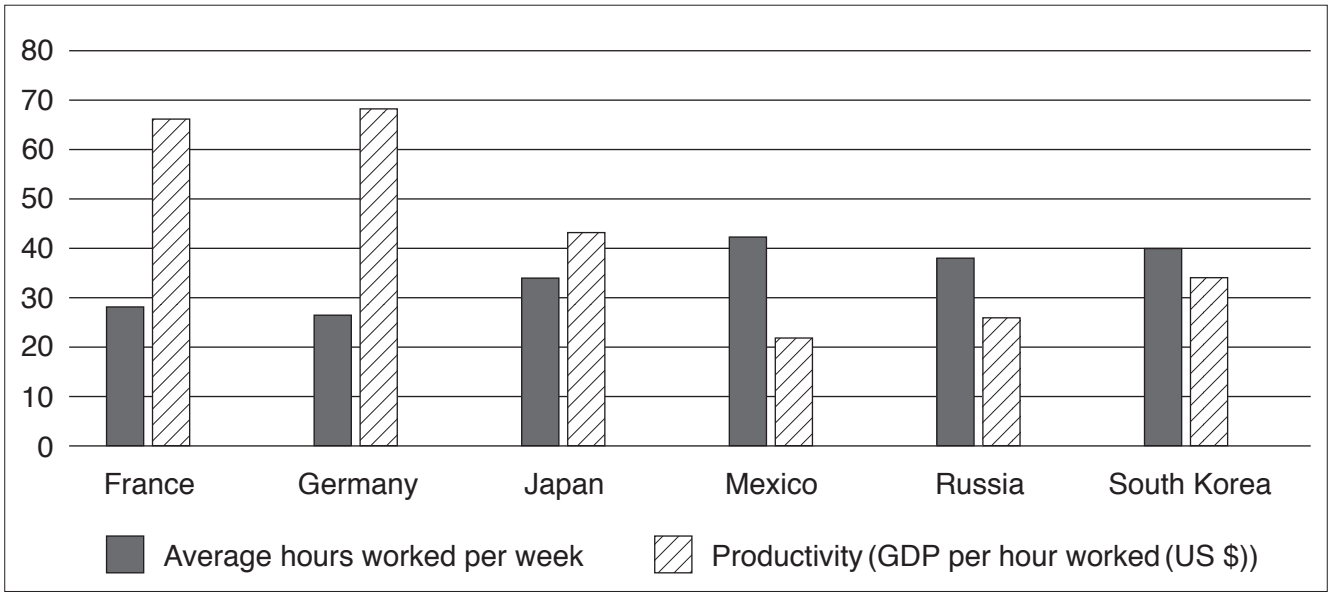

Fig. 1.1 Average hours worked and productivity of selected countries in 2017

Nearly one quarter of Japanese workers work more than 50 hours a week and some work more than 25 hours overtime a week. The average Japanese worker only takes half of their paid holidays. Nearly 20 years of low economic growth and deflation have created a sense of job insecurity. Trade unions in Japan have been concentrating on trying to achieve shorter working hours.

The government thinks that working fewer hours would give people more time to bring up a child and look after elderly relatives. Japan's birth rate has fallen every year for the last 36 years, and at a faster rate than the fall in the death rate leading to a fall in the size of the population.

The government hopes more leisure time will encourage an increase in consumer spending. Higher consumer spending would benefit Japanese firms and would reduce the chances of deflation returning.

The initial response to Premium Friday was not promising. At the end of February 2017, only 4% of Japanese workers left early. In the longer run, however, the scheme may be more successful. This is because unemployment in the country had fallen with only 2 million out of a labour force of 66 million being unemployed at the end of February 2017. Low unemployment increases job security and usually increases wages. In Japan's case, however, the higher demand for labour has been matched by a higher supply. Some of this higher supply has come from migrant workers, but a greater proportion has come from more Japanese people working past retirement age and more women working.

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(a) Identify, using information from the extract, **two** factors that influence an individual's choice of occupation. [2]

(b) Explain, using information from the extract, an opportunity cost of working. [2]

(c) Calculate, using information from the extract, the number of Japanese workers who left work early on Premium Friday in February 2017. [2]

(d) Explain, using information from the extract, why the size of Japan's population has fallen in recent years. [4]

(e) Analyse, using Fig. 1.1, the relationship between the average hours worked and productivity. [5]

(f) Discuss whether or not a cut in income tax would stop deflation. [5]

(g) Explain, using information from the extract, why wage rises have been low in Japan. [4]

(h) Discuss whether or not Japan will benefit from employing more migrant workers. [6]

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Section B

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

2 The markets for cars and tyres are closely related. The five largest tyre firms used to make 66% of all tyres. The entry of more than 250 Chinese firms has reduced the global market share of the largest five firms to less than 50%. This also changed the price elasticity of demand (PED) for individual firms' tyres. Some of these firms are state-owned enterprises and some are in the private sector.

(a) Identify **two** types of business organisation that operate in the private sector. [2]

(b) Explain what effect more firms producing tyres would have on the PED of individual firms' tyres. [4]

(c) Analyse, using a demand and supply diagram, the effect of an increase in demand for cars on the market for tyres. [6]

(d) Discuss whether a large firm will earn more profit per unit sold than a small firm. [8]

3 There was a global surplus of steel in 2017. In mid-2017, the US government considered imposing tariffs on steel imports to protect its declining steel industry. Cheap imports from other countries were reducing employment in the US steel industry. The pattern of US employment was also being affected by improvements in education.

(a) Identify **two** methods of trade protection other than tariffs. [2]

(b) Explain how market forces will eliminate a surplus and a shortage. [4]

(c) Analyse how improvements in education can affect the pattern of employment. [6]

(d) Discuss whether or not the imposition of import tariffs by a country will reduce its unemployment. [8]

4 In March 2017, Peru was hit by floods and the strongest winds in decades. Roads, bridges, houses and capital goods were destroyed. It is expected that the damage caused will affect Peru's Human Development Index (HDI) and economic growth rate. In 2016, Peru experienced a 4% economic growth rate which was higher than the growth rate of the USA.

(a) Define a *capital good*. [2]

(b) Explain **two** causes of an increase in a country's HDI. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the effect of damaging weather on an economy. [6]

(d) Discuss whether countries with a high Gross Domestic Product (GDP) per head will have a faster rate of economic growth than countries with a low GDP per head. [8]

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5 Moldova is Europe's poorest economy with many of its people living in poverty. It is mainly an agricultural economy with many small farms. Its shops are also small. The government has used a range of policies, including supply-side policy, to improve the economy's performance. It has mostly been successful. For instance, unemployment has fallen.

(a) Identify **two** supply-side policy measures. [2]

(b) Explain **two** ways a government could reduce relative poverty. [4]

(c) Analyse the reasons why small shops may be easy to set up. [6]

(d) Discuss whether or not firms will benefit from a fall in unemployment. [8]

6 In a mixed economic system, such as Portugal's, the government intervenes in the economy. Reasons for government intervention include to correct market failure and to achieve its aims for the economy, such as control of inflation. In 2017, one-fifth of Portugal's population was living in poverty and the government increased its spending.

(a) Identify **two** reasons why market failure may occur. [2]

(b) Explain how resources are allocated in a mixed economic system. [4]

(c) Analyse how a high rate of inflation may harm the poor. [6]

(d) Discuss whether or not increasing government spending will enable a government to achieve its aims for the economy. [8]

7 The price elasticity of demand (PED) for sugar in most countries is less than 1. In 2017, the price of sugar fell. However, the price of specialised, higher quality sugar grown in countries such as Mauritius fell by less than the average global price. Efficient producers, such as some farmers in Brazil that have a low fixed cost of production, were also less affected by the fall in price.

(a) State the formula used to calculate PED. [2]

(b) Explain **two** reasons why the price of sugar may fall. [4]

(c) Analyse the possible reasons why a producer's fixed cost may increase. [6]

(d) Discuss whether or not a country will benefit from specialising in an agricultural product such as sugar. [8]

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Section A

Answer this question.

1 Iceland's Economic Structure

The people of Iceland once depended on farming and fishing as their main source of income. By 2008, the Icelandic economy was also very heavily dependent on its financial sector. However, the country is now well-known internationally for tourism.

Even though the primary sector now only employs a small proportion of the country's labour force, the influence of this sector in policy-making is very strong. For example, in the fishing industry, there are many government regulations. Regulations that restrict foreign investment in the fishing industry both protect domestic fisherman and the stock of fish in Icelandic waters. Regulation also affects the price elasticity of supply (PES) of fish. The quantity of fish supplied tends to change by a smaller percentage than the change in its price.

From 2002 to 2007, Iceland's annual economic growth rate averaged 5%. In 2006, Iceland's Gross Domestic Product (GDP) was US$17 billion and in 2007 it grew by 9%. This high growth rate was due to the increased availability of bank loans and also the increasing income of its major trading partners, including the European Union (EU) and Norway.

It was during this period of rapid economic growth that the financial sector became an important part of the Icelandic economy. The major commercial banks supported increased consumer spending and major construction projects which improved the standard of living of Icelanders. In addition, commercial banks also expanded into international markets. The international markets were growing rapidly between 2002 and 2007 which brought more money back into the Icelandic financial sector.

However, Iceland faced a major financial crisis in 2008 where all three of its major privately-owned commercial banks failed. This led to falling overall levels of output and increased unemployment. Fig. 1.1 shows the economic growth rate and unemployment rate in Iceland from 2002 to 2014.

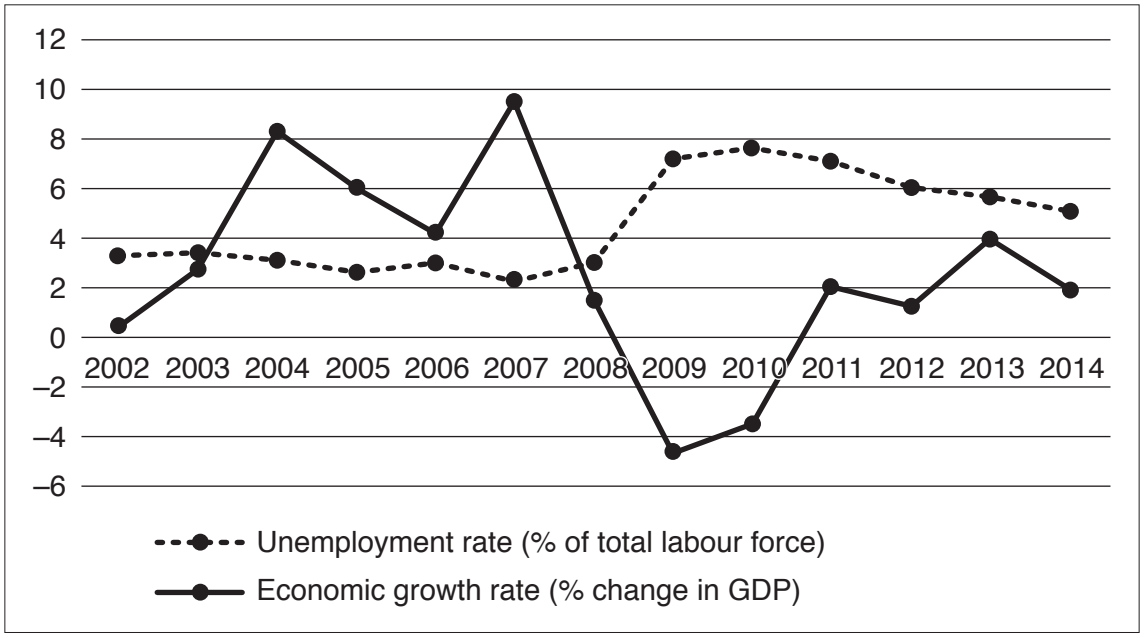

Fig. 1.1 Economic growth rate and unemployment rate in Iceland from 2002 to 2014

The recovery from 2010 to 2017 was initially possible due to loans obtained from international organisations. More recently, it was also due to successful tourism campaigns that have made Iceland a 'must-see' destination for tourists.

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(a) Identify, using information from the extract, **two** industries that are in the primary sector of the Icelandic economy. [2]

(b) Explain, using information from the extract, **two** reasons for government regulation of the fishing industry in Iceland. [4]

(c) Explain, using information from the extract, **two** reasons, apart from changes in employment, for Iceland's high economic growth rate from 2002 to 2007. [4]

(d) Calculate, using information from the extract, Iceland's GDP in 2007. [2]

(e) Analyse, using Fig. 1.1, the relationship between changes in the economic growth rate and the unemployment rate over the period shown. [5]

(f) Explain, using information from the extract, whether the supply of Iceland's fish is price-elastic or price-inelastic. [2]

(g) Discuss the advantages and disadvantages of the activities of commercial banks to an economy. [5]

(h) Discuss whether or not a growth in tourism is an advantage to a country such as Iceland. [6]

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Section B

Answer **three** questions from this section.

2 Germany's economy is one of the best performing economies in the European Union (EU). Germany has low unemployment rates and a surplus on the current account of the balance of payments. Single parents, long-term unemployed, immigrants, elderly, and low-skilled workers have not always benefitted from Germany's economic performance. This has created increasing levels of relative poverty.

(a) Define *a surplus on the current account of the balance of payments*. [2]

(b) Explain **two** possible causes of low unemployment. [4]

(c) Analyse how long-term unemployment can cause relative poverty. [6]

(d) Discuss whether or not an increase in a surplus on the current account of the balance of payments decreases unemployment. [8]

3 Confidence in the government's reform agenda led to very strong growth of India's stock exchange index in 2017. Firms liked the supply-side policy measures that had been introduced, such as government spending on infrastructure projects including building new motorways. However, opponents of the government claimed that the government was prioritising one government aim over others.

(a) Define *supply-side policy*. [2]

(b) Explain **two** functions of a stock exchange. [4]

(c) Analyse **two** possible conflicts between government aims. [6]

(d) Discuss whether or not infrastructure projects will benefit an economy. [8]

4 After the UK's decision to leave the European Union (EU) in June 2016, the value of the British currency, the pound (£), depreciated. However, in August 2016, despite the fall in the value of the £, the Bank of England reduced interest rates from 0.5% to 0.25%. This was to encourage further spending and borrowing to avoid a lower economic growth rate.

(a) Identify **two** motives for consumer spending. [2]

(b) Explain **two** benefits a firm can gain by borrowing. [4]

(c) Analyse **two** consequences of a depreciating foreign exchange rate. [6]

(d) Discuss whether or not a fall in interest rates will benefit an economy. [8]

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5 The South Korean economy was dominated by many family-owned firms which have now become large public limited companies. The government provided subsidies and imposed trade protection to help their domestic firms to grow. Since 2010, average earnings have risen in South Korea.

(a) Define *public limited company*. [2]

(b) Explain **two** reasons for growth in average earnings. [4]

(c) Analyse, using a demand and supply diagram, how government subsidies help firms grow. [6]

(d) Discuss whether or not trade protection supports the growth of domestic firms. [8]

6 Non-renewable energy (e.g. coal) is thought to cause a higher social cost than renewable energy (e.g. solar or wind power). Excessive demand for non-renewable energy causes a failure of the market economic system. However, producers of renewable energy, some of which specialise in one form of energy, are beginning to produce on a larger scale.

(a) Define *social cost*. [2]

(b) Explain **two** reasons why a firm would want to specialise in producing only one product. [4]

(c) Analyse how the ability of firms to produce on a larger scale is beneficial to consumers. [6]

(d) Discuss whether or not the operation of a market economic system is harmful to an economy. [8]

7 Some economists have claimed that the 21st century will be the 'African century' because of the growth in their working-age population. Forecasts show that by 2030, Africa's contribution to the increase in the global labour force will exceed that from the rest of the world. This will affect incomes, saving, and economic policies in African countries.

(a) Define *labour*. [2]

(b) Explain **two** motives for saving. [4]

(c) Analyse the reasons for countries having different population growth rates. [6]

(d) Discuss whether or not a rise in the working-age population, as a percentage of the total population, will be beneficial to a country. [8]

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Grade thresholds – November 2019

Cambridge IGCSE™ Economics (0455)

Grade thresholds taken for Syllabus 0455 (Economics) in the November 2019 examination.

		minimum raw mark required for grade:						
	maximum raw mark available	A	B	C	D	E	F	G
Component 11	30	23	19	16	14	12	10	8
Component 12	30	24	20	16	14	12	10	8
Component 13	30	22	18	15	13	12	10	8
Component 21	90	60	49	38	31	25	19	13
Component 22	90	61	49	38	31	24	18	12
Component 23	90	60	50	39	32	25	19	13

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	105	86	68	57	47	37	27
Y	12, 22	127	107	87	68	57	46	36	26
Z	13, 23	121	103	85	68	57	47	37	27

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/11**

Paper 1 Multiple Choice **October/November 2019**

MARK SCHEME

Maximum Mark: 30

Published

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

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Question	Answer	Marks
29	D	**1**
30	C	**1**

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ECONOMICS **0455/12**

Paper 1 Multiple Choice **October/November 2019**

MARK SCHEME

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

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Question	Answer	Marks
29	B	**1**
30	C	**1**

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ECONOMICS **0455/13**

Paper 1 Multiple Choice **October/November 2019**

MARK SCHEME

Maximum Mark: 30

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

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Question	Answer	Marks
29	B	**1**
30	C	**1**

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ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2019**

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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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.

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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.

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Question	Answer	Marks	Guidance
1(a)	**State a factor of production and identify an example of it from the extract.** land (1) scarce land in Manhattan / New York (1). labour (1) finance industry workers / wages (1). capital (1) stock exchange (1). enterprise (1) new business start ups (1)	**2**	
1(b)	**Explain, using information from the extract, <u>two</u> causes of economic growth in New York.** • good human capital (1) high skills / labour productivity (1) • economic freedom encouraging business start-ups (1) increased investment / innovation (1) • strong finance/manufacturing growth (1) increased investment/consumption/exports (1) • education (1) improved skills (1) increased productivity/growth of tertiary sector/greater GDP per capita (1) attracts students who spend on local goods and services (1) • falling unemployment (1) greater use of resources (1)	**4**	Two **causes** must be explained for maximum marks.
1(c)	**Calculate, using information from the extract, the total number of workers in New York city.** 2m (2). Correct working 1.6m × 100/80, or 80% = 1.6m, or 20% = 0.4m (1).	**2**	.

Question	Answer	Marks	Guidance
1(d)	**Analyse, using Table 1.1, the relationship between average weekly hours worked and average weekly wages.** **Expected relationship** – they would move in the same direction (1). **Reason** for expected relationship – more hours to produce more output (1). **Evidence in support** of expected relationship - data does **not** support expected relationship (1). **Evidence against** expected relationship – wages increase (1) hours fall / hours stay same (1) workers getting paid more per hour (1).	**5**	A **pattern of analysis** is expected in response to this type of question. If there is no expected pattern of analysis, the following may be worthy of some reward, e.g.: less hours worked will lead to workers becoming more productive; therefore earning more (1)
1(e)	**Explain, using information from the extract, one reason for differences in earnings between different jobs in New York.** • diiferent skills required / lower productivity (1) higher skill leads to higher pay (1) • discrimination (1) men paid more than women / male-dominance in the financial sector leads to higher pay for men (1) • different industries (1) finance paid more than in education (1)	**2**	

Question	Answer	Marks	Guidance
1(f)	**Explain, using information from the extract, the possible negative effects of economic growth in New York.** • pay gap widening/inequality (1) creating more social tensions (1) reducing productivity due to dissastisfaction (1) • external costs / environmental problems (1) increased pollution (1) lack of green, open space (1) • risk of financial crisis / recession (1) bank runs/asset bubbles bursting (1) lack of job security (1) • more people move to New York for employment (1) increasing the shortage of affordable homes (1) increasing housing prices (1)	**4**	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th><th>Guidance</th></tr>
<tr><td>1(g)</td><td>Discuss the advantages and disadvantages of a city having a large tertiary sector.

Up to 3 marks for advantages:
Generates economic growth (1) high value output (1).
Generates jobs (1) leading to low unemployment (1).
Tertiary sector has high productivity (1) high pay (1) which can lead to increased consumer spending (1).
Encourages foreign investment (1) more capital spending (1) may also encourage financial investment (1).
Less pollution (1) no need for factories which creates lots of external costs (1).
Low transport costs (1) not having to move raw materials (1).
Can export services (1) improve the current account of the balance of payments (1).
More tax revenue (1) government can spend more on e.g. healthcare (1).

Up to 3 for marks for disadvantages:
Limited job choices (1) no manufacturing/agricultural jobs (1).
Risk of specialising (1) overdependence on other economies (1).
Inequality (1) not all will be able to get jobs in high-paying services such as finance (1) need high qualifications to get high pay (1).
Congestion/transport problems (1) overcrowding (1) high house prices/housing shortage (1).</td><td>5</td><td>Apply this example to all questions with the command word DISCUSS
(1g, 1h, 2d, 3d, 4d and 5d)

Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is rewarded.

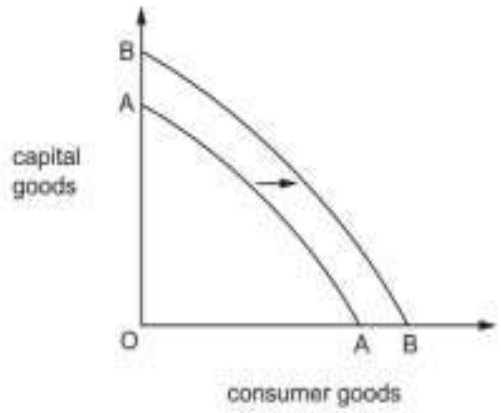
<table>
<tr><th>Generic example</th><th>mark</th></tr>
<tr><td>Tax revenue may decrease…</td><td>1</td></tr>
<tr><td>because of reason e.g. incomes may be lower.</td><td>1</td></tr>
<tr><td>Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument.</td><td>0</td></tr>
<tr><td>Tax revenue may increase because of a different reason i.e. <u>not</u> the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education.</td><td>1</td></tr>
</table>

Application can be made to the financial sector, but it is not essential.</td></tr>
</table>

Question	Answer	Marks	Guidance
1(h)	**Discuss whether or not opening up to free trade benefits an economy.** **Up to 4 marks for how it might:** Opening up to free trade will increase choices from imports (1) obtain products cannot produce (1) reduce prices (1) standards of living increases (1). More competition from imports (1) improve quality (1) increase productivity (1). Encourage more foreign investments (1) increase employment / decrease unemployment (1) increase capital spending (1) increase innovation (1) May increase the opportunity of specialisation (1) increase exports (1) increase GDP/GDP per capita/income (1). Avoid retaliation (1) that can occur if trade restrictions are imposed (1). **Up to 4 for marks for how it might not:** Domestic producers might be adversely affected (1) can't compete with foreign firms (1) who might be more cost competitive (1) unemployment increases (1). Increase imports (1) will increase current account of the balance of payment deficit (1). May become dependent on other countries (1) they may gain monopoly power (1). Free trade may involve the removal of tariffs (1) reducing government revenue (1)	**6**	

Question	Answer	Marks	Guidance
2(a)	**Define *industry*.** Firms (1) that produce the same product (1) example (1)	**2**	
2(b)	**Explain <u>two</u> types of integration (merger).** • horizontal integration (1) firms from same industry and same level of production integrate (1) • vertical integration (1) firms from same industry but different levels of production integrate (1) • conglomerate integration (1) firms from different industries integrate (1)	**4**	Allow full marks if forward and backward vertical integration is explained accurately.
2(c)	**Analyse the advantages that an MNC has over a firm which only produces domestically.** Set up in economies where labour costs are less (1) and raw material costs are cheaper (1) which can give them cost advantage in the international markets (1). Greater market (1) easier access to foreign markets (1) greater profits (1) fewer trade barriers (1) production set up in countries which have lots of favourable trade agreements (1) bigger output (1) economies of scale (1). Reduction in risk (1) diversified markets (1). Locate operations near the potential market (1) which results in lower transportation cost (1). Wider access to more skilled workers (1) more productive (1).	**6**	

Question	Answer	Marks	Guidance
2(d)	**Discuss whether or not an economy benefits from firms which are monopolies.** **Up to 5 marks for how it might:** Monopolies can gain more profits (1) they will be able to reinvest more (1) more choices from the company (1) total demand increases (1) economic growth (1) expand production (1) employ more workers (1) unemployment decreases (1) more R&D (1) more innovation (1) higher quality (1) more productivity (1) more exports (1) improved current account position (1). **Up to 5 marks for how it might not:** Lack of competition (1) complacency (1) less productivity (1) less innovation (1) price is higher (1) inflation (1) exploitation of consumers (1) less choice (1) lower quality (1).	**8**	

Question	Answer	Marks	Guidance
3(a)	**Identify <u>one</u> example of a direct tax and one example of an indirect tax.** Income Tax / Corporation Tax / National Insurance / Profit Tax (1). Value Added Tax (VAT) / Goods and Services Tax (GST) / Sales Tax / tax on product e.g. bar of chocolate (1).	**2**	
3(b)	**Explain <u>two</u> reasons why a firm may become more capital intensive as it grows.** • to increase output (1) capital more efficient/productive (1) • to reduce costs (1) labour costs becoming relatively higher than machines (1) increasing profits (1) • may be able to take advantage of technical economies of scale (1) specialist capital may become viable for a large firm (1)	**4**	Accept making more profit may allow a firm to afford more investment in capital.
3(c)	**Analyse, using a production possibility curve (PPC) diagram, the possible effects of faster internet speeds for economic growth.** **Up to 4 marks for the diagram:** • axes correctly labelled in terms of two different products or types of products (1) • the curve or downward sloping line is drawn to the axes (1) • second curve or downward sloping line is drawn to the axes (1) • an indication either by labelling or an arrow that the curve has shifted outwards / right (1) **Up to 2 marks for written analysis:** Faster internet speed increases productive capacity / the maximum quantity of products that can be produced within a certain time period (1) better communication infrastructure (1) e.g. labour can work faster, capital is better (1) lower costs of production (1) encourage more investments therefore increase financial capital (1) increased productive capacity results in (potential) economic growth / cause economic growth (1).	**6**	 ***Do not reward analysis marks for description of diagram e.g. PPC shifts to the right.***

Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not an economy would benefit from less government regulation.** **Up to 5 marks why it might:** More freedom (1) less red tape / bureaucracy (1) easier to set up new firms (1) more competition (1) decrease cost of production (1) decrease price (1) including exports (1) increase quantity demanded (1) increase total revenue (1) increase profits (1) more investments (1) increase demand for labour (1) less unemployment (1) decrease current account deficit (1) increase aggregate demand (1) increase economic growth (1). More control over prices (1) resulting from removal of e.g. a maximum price (1). **Up to 5 marks why it might not:** Less labour regulations would reduce job security (1) more exploitation of workers (1) e.g lower wages / longer working hours (1) more inequality (1). Less environmental regulations would increase pollution (1) e.g. air pollution / water pollution (1) health standards of society reduces (1) Less antitrust/anticompetitive regulations will create monopolies (1) small firms can't compete (1) higher prices (1). Less protection of domestic firms from e.g. embargo (1) domestic firms may go out of business (1). Discourage consumption of harmful products (1) e.g. smoking ban (1). External costs may be ignored (1) e.g. air pollution, noise (1). It may mean that there is less consumption of beneficial (merit) goods (1) e.g compulsory state education (1)	**8**	

Question	Answer	Marks	Guidance
4(a)	**Identify <u>two</u> non-wage factors that could affect an individual's choice of occupation.** • opportunity for promotion • job security • satisfactory work • varied work • pleasant working conditions • fringe benefits • location • danger	**2**	
4(b)	**Explain <u>two</u> causes of inflation.** • demand-pull inflation (1) increase in *total* demand/ lower interest rate / increase business confidence / increase consumer confidence / depreciation of the currency / lower income tax / lower cost of borrowing / increase disposable income / increase exports (1) increase in money supply (1) • cost-push / increase in costs (1) increase price of commodities / increase cost of production / depreciation of the currency / increase indirect taxes (1)	**4**	
4(c)	**Analyse the impact of strikes on an economy.** Disrupted production (1) loss of output (1) decreased productivity (1) less economic growth (1) increased cost of firms (1) reduced profits (1) rising prices / inflation (1) unemployment (1). Better working conditions of the workers (1) higher wages (1). Exports decreasing (1) increase current account deficit / decrease current account surplus (1). Less investment by MNCs (1). There may be capital investment to replace workers (1).	**6**	

Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not an increase in wages will reduce a firm's profit.** **Up to 5 marks for why it might:** Higher wages will mean a higher wage bill (1) if output does not increase by more than wages, labour costs per unit will increase (1) costs of production will increase (1) profit is revenue minus costs (1) with higher costs and the same revenue, profit will fall (1). Prices will rise (1) if demand is elastic, revenue will fall (1) **Up to 5 marks for why it might not:** Paying higher wages may prevent strikes (1) this can reduce costs of production (1). Higher wages may motivate workers (1) this can increase productivity (1) reduce costs of production (1). Higher wages may make it easier to recruit skilled workers (1) this will raise productivity (1) reduce costs of production (1) increase profits (1) Other costs may be falling (1) e.g. rent, corporation tax (1). Demand for the firm's products may be increasing (1) this will raise revenue (1). Higher wages may be paid to a smaller labour force (1) reducing the wage bill (1). Replace workers with machines (1) may leave costs unchanged (1).	**8**	2 marks could be awarded for an accurately drawn Demand and Supply diagram.

Question	Answer	Marks	Guidance
5(a)	**Define *monetary policy*** Policy to control the supply of money / demand-side policy (1) by changing interest rates / influencing the price of money (1) exchange rates / Quantitative Easing (1).	**2**	
5(b)	**Explain <u>two</u> functions of money** • medium of exchange (1) avoids double coincidence of wants needed in barter/enables people to buy and sell products (1) • unit of account / measure of value (1) easy to compare value of products / putting a value on products (1) • store of value (1) for savings / future consumption / will not lose value (1) • standard of deferred payment (1) credit / instalments/enable people to borrow and lend (1)	**4**	
5(c)	**Analyse the consequences of an appreciating currency on the current account of the balance of payments of a country.** An appreciation in the exchange rate means a rise in the value of the currency (1) higher export prices (1) lower import prices (1) increase quantity demand for imports (1) decrease quantity demand for exports (1) increase value of imports (1) decrease value of exports (1) may reduce net exports (1) current account deficit increases / current account surplus decreases (1).	**6**	Reward but do not expect reference to outcome will be influenced by PED.

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Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not a reduction in taxes is beneficial for an economy.** **Up to 5 marks for why it is:** Reduction in taxes will attract investments (1) this creates new jobs (1) this could also improve the productivity of the economy (1) as there might be investments in R&D / technology (1) creating economic growth (1) Cut in income tax will increase disposable income (1) increase total demand (1) lower unemployment (1) Cut in corporation tax/indirect tax (1) may reduce costs of production (1) inflation decreases (1). Cut in tariffs will increase competition (1) improve e.g. product quality (1). **Up to 5 marks for why it is not:** Decreased government revenue (1) budget deficit (1) government can't spend on e.g. infrastructure (1) opportunity cost (1) foreign investment might increase the value of the currency further (1) exports become uncompetitive (1). Reduction in indirect tax (1) may increase consumption of harmful products/example (1) may reduce people's health (1). Reduction in tariffs may e.g. cause infant industries to go out of business (1) increasing unemployment (1). An increase in total (aggregate) demand may cause inflation (1)	**8**	2 marks could be awarded for an accurately drawn Demand and Supply Diagram showing tax reduction

Question	Answer	Marks	Guidance
6(a)	**Define *Gross Domestic Product*.** GDP measures the (total) output/income/expenditure (1) of a country/economy (1).	**2**	
6(b)	**Explain <u>two</u> ways in which more affordable medicines can improve standards of living**. • more people can have medicines (1) improve health (1) raise productivity / enable people to work / not off work sick (1) • different choice of medicines (1) consumers can find what suits them best (1) • hospitals will have more medicines (1) easier to treat those who are ill/reduce death rate (1) • less spent on healthcare (1) can spend more on other things that can improve standard of living such as education, holidays (1) • higher productivity (1) higher incomes (1)	**4**	Accept higher HDI if linked to improved life expectancy (1). Do not accept birth control or birth rate explanation.
6(c)	**Analyse how investment in research and development can help a firm to grow in size.** More innovation (1) e.g. Faster machines (1) increase productivity (1) decrease cost of production (1) decrease price of products (1) increase demand (1) increase market share (1) increase profits (1) more reinvestments (1). New products produced (1) larger exports (1) enter new markets (1) at start no direct competition (1) may be high demand (1). More skilled workers needed (1) creating a bigger workforce (1) Provide information (1) influence what is produced (1).	**6**	

Question	Answer	Marks	Guidance
6(d)	**Discuss whether or not a reduction in imports is beneficial to an economy.** **Up to 5 marks for why it might be:** Reduction in imports may improve the trade in goods / trade in goods and services balance (1) this will improve the current account position / reduce a current account deficit (1) this may reduce a country's debts (1) avoid downward pressure on the exchange rate (1). Spending on imports may be replaced by spending on domestically produced products (1) this would increase the country's output / cause economic growth (1) this would increase demand for labour (1) raise employment / reduce unemployment (1) increase incomes and living standards (1). Fewer imports may enable infant industries to grow (1) may protect declining strategic industries (1). May prevent dumping (1) explanation of what is meant by dumping (1) Imports may be harmful products (1) might affect people's health (1). **Up to 5 marks for why it might not be:** Imports of capital goods / raw materials may decline (1) these might be cheaper / lower quality than domestically produced capital goods and/or raw materials (1) this will raise costs of production (1) make the country's products less internationally competitive (1) lower output/reduce economic growth (1) worsen the current account position (1) raise unemployment (1). Fewer imports may reduce choice (1) reduce competition (1) may raise prices (1) lower quality of people's lives (1). Exports may be falling by more than imports (1) so current account position may be worsening (1). Quantity of imports may be falling but value of imports may be rising (1).	**8**	

Question	Answer	Marks	Guidance
6(d)	If the reduction is caused by protectionist measures (1) this would reduce benefits of free trade (1). Loss of tariff revenue (1) may be a major source of tax revenue/reduce amount that can be spent on e.g. education (1). Imports may be of beneficial products (1) not produced in the country (1).		

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Question	Answer	Marks	Guidance
7(a)	**Define *choice* and provide an example.** Two or more different alternatives that an economic agent may have OR the idea of sacrifice and opportunity cost (1) different coloured bicycle helmets / any example (1).	**2**	
7(b)	**Explain how the CPI is calculated.** CPI uses a basket of goods and services (1) weighted to account for the proportion of income (1) spent by the average household (1) found in a survey (1) uses a base year (1) for comparison (1) prices around the country surveyed (1) various types of firms / sources e.g. physical shops and also online (1) weights multiplied by price changes (1).	**4**	
7(c)	**Analyse the possible reasons for the increase in global demand for bicycle helmets.** Increase in popularity of cycling (1) helmets are complements to bicycles (1) quantity demanded for bicycles increasing would increase the demand for helmets (1). Increase in environmental awareness (1) less driving (1) more bicycles (1) thus, more demand for bicycle helmets (1). Increase in health and safety awareness (1) dangers of cycling (1) increased awareness of benefits of helmets (1). Increase in income (1) bicycle helmet is normal good (1) YED positive (1). Increase subsidies for bicycles (1) decrease price of bicycles (1). Increase demand for bicycles (1) increase demand for bicycle helmets Increase in population (1). Reduction in price of helmets (1).	**6**	2 marks could be awarded for an accurately drawn Demand and Supply diagram.

Question	Answer	Marks	Guidance
7(d)	**Discuss whether or not increasing sales of a product will be beneficial to a firm.** **Up to 5 marks why it will be:** Increase sales revenue/income (1) increase profits (1) allowing firm to reinvest (1) into R&D (1) employ more labour (1) making new products (1) better quality products (1) profits increase even more (1). Revenue may increase if PED is elastic (1) as demand will rise by a greater proportion than price (1). Economies of scale (1) as output increases and average cost falls (1) efficiency arising from bulk buying / lower interest rates / indivisibility / division of labour (1). **Up to 5 marks why it will not be:** Price might be lower (1) revenue is lower (1) profit is lower (1) sales of product increase but sales of other products decrease (1) not enough to offset each other (1). Extra sales only achieved through higher costs of production (1) e.g. advertising (1). Diseconomies of scale (1) increase output and average costs increases (1) due to control and coordination problems (1).	**8**	

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **October/November 2019**

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.

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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.

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Question	Answer	Marks	Guidance
1(a)	**Identify, from the extract, <u>two</u> pairs of substitutes.** • Driverless cars and bus travel • Driverless cars and taxi travel • Bus travel and taxi travel • Machines / advanced technology and workers	**2**	
1(b)	**Explain, using information form the extract, whether the market for driverless cars is expected to be in equilibrium in 2030.** No (1) supply is expected to exceed demand (1).	**2**	
1(c)	**Calculate, using information from the extract, the price elasticity of supply (PES) of driverless cars.** 2.5 (2). Correct working: 20% / 8% OR 20 / 8 (1).	**2**	
1(d)	**Explain, using information from the extract, <u>two</u> external costs that driverless cars could reduce.** • accidents (1) people are injured and killed as a result of other people's driving / accidents impose costs on hospitals and healthcare / less human error / driverless cars reduce the death rate / accidents can cause traffic congestion / fewer accidents may reduce cost of repairs (1) • pollution (1) cars emit carbon dioxide / pollution causes health problems / driverless cars are more environmentally friendly / use electricity which causes less pollution (1) • lower cost of insurance to (other) drivers (1) as a result of less accidents / lower cost of repairs (1)	**4**	

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Question	Answer	Marks	Guidance
1(e)	**Analyse, using Table 1.1, the relationship between educational spending and the unemployment rate.** **Expected relationship** – a country that spends more (a high proportion) of their GDP on education would have a low unemployment rate / a country with a higher unemployment rate is likely to spend less on education / it is an inverse relationship (1). **Reasons** for expected relationship – workers would be likely to be more skilled and productive / higher unemployment may result in less tax revenue to spend on education (1). **Evidence in support** of expected relationship – e.g. New Zealand or US (1) highest spenders and lowest unemployment rates (1). **Evidence against** expected relationship – e.g. Argentina or South Africa (1) Argentina spends a lower proportion than Ghana and Brazil but has a lower unemployment rate / South Africa spends more a higher proportion than Argentina and Brazil but has a higher unemployment rate (1).	**5**	A **pattern of analysis** is expected in response to this type of question. If there is no expected pattern of analysis, the following may be worthy of some reward, e.g.: • it is not a consistent relationship (1) • there are other influences on the unemployment rate (1) However, do not reward simple statements (repetition) of the figures given in the table. For example, USA spends 8.2% on education and has an unemployment rate of 4.7%, is not to be rewarded.

Question	Answer	Marks	Guidance
1(f)	**Discuss whether or not an increase in house building will benefit the people who live in the area.** **Up to 3 marks for why it might:** House building may create jobs (1) lower unemployment (1) generate income / raise wages / raise living standards (1). House building will increase the supply of housing (1) the lower price of housing (1) makes houses more affordable (1) fewer homeless (1). May attract more firms to set up in the area (1) more services may be provided (1) due to more people living in the area / larger labour force (1). May save travel time for those working nearby (1) reduce pollution / congestion (1). **Up to 3 marks for why it might not:** House building may cause external costs (1) examples (2). More houses may reduce the value of people's homes (1) reduce their wealth (1). There is an opportunity cost (1) the area used could have been used for e.g. school buildings (1). Demand for extra services may not be met (1). Jobs may only be temporary / seasonal unemployment (1). More housing may create overcrowding in the area. (1).	**5**	**Apply this example to all questions with the command word DISCUSS (1(g), 1(h), 2(d), 3(d), 4(d) and 5(d))** Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is rewarded. **Generic example** — **Mark** Tax revenue may decrease … — **1** ... because of reason e.g. incomes may be lower. — **1** Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument. — **0** Tax revenue may increase because of a different reason i.e. not the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education. — **1**

Question	Answer	Marks	Guidance
1(g)	**Explain, using information from the extract, <u>two</u> reasons why the power of trade unions may decline in the future.** Fall in membership (1) lower funds / less bargaining power (1). Rise in unemployment / workers being replaced by machines (1) trade unions may be reluctant to take industrial action for fear that members will be replaced by unemployed / non-member workers (1). Government may reduce the power of trade unions (1) making it harder for trade unions to protect workers' rights (1). Movement from primary to tertiary sector (1) which may be less unionised / better working conditions (1).	**4**	Some points may be interchangeable e.g. rise in unemployment (1) resulting in fall in membership (1).

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Question	Answer	Marks	Guidance
1(h)	**Discuss whether or not a rise in unemployment is harmful.** **Up to 4 marks for why it is:** Output is likely to fall (1) incomes will decline / poverty increase (1) living standards will fall (1) lower total (aggregate) demand (1). Tax revenue will fall (1) government may have to cut spending on e.g. education and healthcare (1). Government may increase tax rates (1) which may create disincentive effect (1). The government will have to spend more on unemployment benefit (1) this will involve an opportunity cost (1) may result in a budget deficit (1). Unemployed workers may lose skills / become out of date (1) may need retraining (1). May increase emigration (1) lose skilled workers (1). May cause social problems e.g. crime / mental health problems (1). **Up to 4 marks for why it is not:** Inflation may fall (1) due to lower total (aggregate) demand (1). Firms may find it easier to recruit new workers (1) this will make it easier to expand (1) at lower wage costs (1). Productivity may be higher (1) more skilled workers kept (1). Unemployment may give the unemployed time to search for a better job (1) eventually raises their incomes (1). Rise may only be temporary (1). May reduce demand for imports (1) improve current account of the balance of payments (1). May be less pollution with lower output (1).	**6**	Reward but do not expect reference to a downward multiplier effect and/or not reaching productive capacity.

Question	Answer	Marks	Guidance
2(a)	**Identify <u>two</u> reasons why people are living longer.** • better healthcare • improved nutrition • better housing • better living standards • higher incomes	**2**	
2(b)	**Explain <u>two</u> reasons why net immigration may increase the standard of living in a country.** May increase the size of the labour force (1) increase the number of goods and services available / increase output / increase GDP / economic growth (1). May bring in new skills (1) raise productivity (1) increase the quality of products produced (1). Fill jobs that local workers do not want to do (1) reduce shortages (1). Fill jobs that local workers do not have the qualifications to do (1) reduce shortages (1). Increase total (aggregate) demand (1) which will encourage firms to increase their output (1). Make better use of other resources (1) if the country lacks labour / is underpopulated (1). Increase tax revenue (1) enabling government to spend more on e.g. education (1). Immigrants may set up firms (1) creating jobs / reducing unemployment (1) / purchasing power (1). May lower costs of production (1) make products more affordable (1).	**4**	Reward but do not expect reference to optimum population. Do not reward lower wages because the effect on the standard of living is uncertain.

Question	Answer	Marks	Guidance
2(c)	**Analyse how fiscal policy could be used to stop a recession.** The government could cut taxes (1) this could raise disposable income / purchasing power (1) which may increase consumer spending (1) cuts in corporate tax may provide more funds for firms (1) raise investment (1) encourage firms to expand their output (1) increase employment / reduce unemployment (1). A government could increase its own spending (1) example e.g. healthcare (1) this would increase total (aggregate) demand (1) encouraging an increase in output (1). Spending on infrastructure (1) may reduce firms costs and so encourage higher output (1).	**6**	
2(d)	**Discuss whether or not low-income countries have a faster rate of population growth than high-income countries.** **Up to 5 marks for why some do:** Some have a high birth rate (1) reasons e.g. low number of women working, (1) need for children to support parents in old age (1) lack of education (1) falling death rate (1) natural increase (1) due to improved healthcare (1) rise in incomes (1). **Up to 5 marks for why some do not:** Some high-income countries experience a high rate of net immigration (1) factors attracting immigrants e.g. job opportunities, high income (2). Some low-income countries experience net emigration (1). Some low-income countries experience natural disasters and wars (1) poor health care (1) which increase the death rate (1). Some high-income countries are experiencing a fall in the death rate (1) causes e.g. improved living standards, advances in medicines (2) although birth rates falling (1) governments may provide incentives to try to raise the birth rate (1) including financial aid / free child care (1).	**8**	Some points may be interchangeable e.g. factors attracting immigrants may encourage emigration from poorer countries, but do not reward on both sides of the discussion. Maximum of 4 marks for a list-like approach.

Question	Answer	Marks	Guidance
3(a)	**Identify <u>two</u> ways a government could encourage saving.** • raise the rate of interest • introduce tax-free saving schemes • provide information / education about the benefits of saving • introduce compulsory saving schemes • government measure that can increase income e.g. lower taxes	**2**	
3(b)	**Explain <u>two</u> reasons why productivity may increase.** Improvements in education and training (1) would increase the skills of workers (1). More capital equipment / investment (1) which may increase the speed / accuracy at which workers work / more efficient machinery (1). Increase in wages (1) which will motivate workers (1). Lower working hours (1) workers less tired (1). Better working conditions (1) less stressed (1). Better weather / improvements in the type of crops grown / better feed for animals (1) which can increase agricultural output / which may result from research and development (1). Immigration of workers (1) with better skills (1). Better healthcare (1) workers fitter (1). Successful supply-side policy measure (1) e.g. spending on infrastructure (1). Specialisation (1) workers concentrating on particular tasks may produce products more quickly / efficiently (1).	**4**	

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Question	Answer	Marks	Guidance
3(c)	**Analyse how an increase in investment could influence inflation.** Higher investment will mean higher spending on capital goods (1) it could increase total (aggregate) demand (1) this could increase demand-pull inflation (1) if total (aggregate) demand exceeds total (aggregate) supply (1). May increase demand for imported capital goods / raw materials (1) causing imported / cost-push inflation (1). Higher total (aggregate) demand could increase employment / decrease unemployment (1) which could increase total (aggregate) demand further (1). In short run may raise costs of production (purchase of machines) (1) causing cost-push inflation (1). In the long run it could increase output (1) may introduce advances in technology (1) increase efficiency / productivity (1) it could reduce costs of production (1) reducing cost-push inflation (1). Investment in human capital (1) raising workers' skills (1).	**6**	

Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not older workers are paid more than young workers.** **Up to 5 marks for why they might be:** They have more experience (1) they are likely to have received more training (1) they may have higher productivity (1) more skilled (1) more reliable / make fewer mistakes (1) in higher demand (1) lower supply (1). They may have been with the same employer for some time (1) and may have been promoted (1). Some older workers may be rewarded for staying with the same employer / young workers may be at start of career (1) be paid a loyalty bonus (1). In some countries, the minimum wage may rise with age (1). **Up to 5 marks for why they might not be:** Some older workers in jobs requiring physical strength (1) may be less fit / young workers may be fitter (1). Older workers may be less occupationally mobile (1) geographically immobile (1) and so may not move to gain higher wages (1). Young workers may be more up to date with advances in technology / new methods / new ideas (1) their skills may be in higher demand (1). Young workers may be in expanding industries (1). Young workers may work more hours (1) may be better educated / more qualified (1).	**8**	

Question	Answer	Marks	Guidance
4(a)	**Identify <u>two</u> components of the HDI.** • GDP (GNI) per head / income per head / average income • education • life expectancy	**2**	For education accept (adult) literacy.
4(b)	**Explain how the proportion of a country's resources devoted to the primary, secondary and tertiary sectors change as its economy develops.** A smaller proportion of resources are likely to be devoted to the primary sector (1) increases in technology / productivity / education requires fewer resources / resources move to more financially rewarding uses / use of more machinery (1). A greater proportion of resources are devoted to manufacturing at first (1) and then a smaller proportion (1) the manufacturing sector becomes more efficient (1). The service sector continues to grow (1) in developed economies, most labour is employed in the service sector (1). Some developing countries' tertiary sector has grown faster than secondary sector – jumped a stage (1).	**4**	

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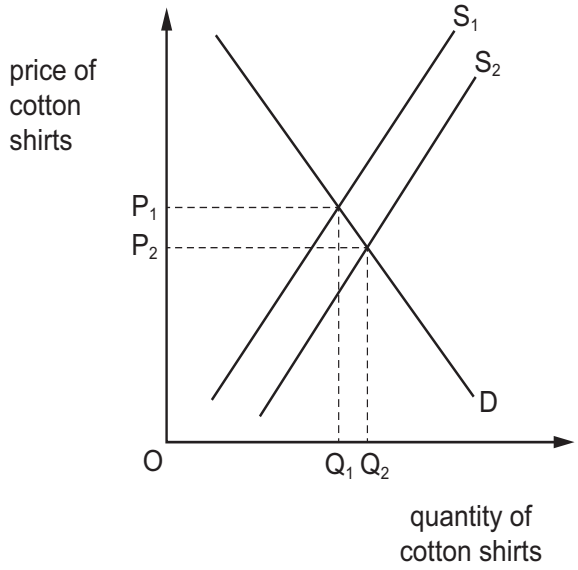
Question	Answer	Marks	Guidance
4(c)	**Analyse, using a demand and supply diagram, how a fall in the price of cotton would affect the market for cotton shirts.** **Up to 4 marks for the diagram:** Axes correctly labelled – price and quantity or P and Q (1). Demand and supply curves correctly labelled (1). Supply curve shifted to the right (1). Equilibriums – shown by lines or e.g. E1 and E2 (1). **Up to 2 marks for written analysis:** A fall in the price of cotton will reduce the cost of producing cotton shirts (1) price will fall / quantity will rise (1). ***Do not reward analysis marks for description of diagram e.g. quantity changes from Q1 to Q2.***	**6**	

Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not an increase in the size of a country's gold mining industry will benefit an economy.** **Up to 5 marks for why it might:** It may provide more jobs (1) reduce unemployment (1). It may increase output / cause economic growth (1) increase wages (1) increase living standards (1). Some of the gold may be exported (1) improve the current account position (1). The industry may experience (external) economies of scale (1) lower average cost (1) example of an external economy (1). It will be more beneficial if world demand is increasing (1). May attract multinational companies to set up in the country (1). Tax revenue may increase (1) enabling government to spend more on e.g. infrastructure (1). **Up to 5 marks for why it might not:** A rise in the supply of gold may reduce its price (1) reduce revenue (1) reduce exports (1). External costs may be created (1) damage to the natural environment / pollution (1). The industry may experience (external) diseconomies of scale (1) higher average cost (1) example of an external economy (1). Mining is a dangerous occupation (1) wages may be low as primary sector (1) jobs may be unskilled (1). Resource of gold may be depleted (1) stopping future generations being able to take advantage of them (1). It will be less beneficial if other gold producing countries are increasing their output (1).	8	

Question	Answer	Marks	Guidance
5(a)	**Identify <u>two</u> examples of land used in growing agricultural crops.** • soil • water • natural fertiliser • seeds • weather	**2**	Note: land on its own is insufficient, but the area of land or farmland can be rewarded.
5(b)	**Explain why the concept of price elasticity of supply (PES) may be useful to a government in deciding whether to subsidise the production of a product.** A subsidy is aimed at increasing supply / lowering price (1). If supply is elastic, supply will change by a greater (1) percentage (1) than price. Should subsidise production of the product (1). If supply is inelastic, supply will change by a smaller (1) percentage (1) than price. Should not subsidise production of the product (1).	**4**	Note: supply change is greater/smaller than price change (1) supply changes by a greater/smaller ***percentage*** than price (2)
5(c)	**Analyse why the demand for a product may be higher in one country than in another country.** Incomes may be higher (1) allowing people to buy more of the product (1). There may be a larger population (1) more potential buyers (1). The product may be more to the taste of people in that country (1) example e.g. falafel is popular in the middle east (1). The product may be more heavily advertised (1) which may increase the attractiveness of the product (1). Price may be lower (1) due to lower costs of production / government subsidy / lower (indirect) taxes (1). Price of substitutes may be higher (1) example (1). Credit may be more available / interest rate lower (1) making it easier for people to borrow to buy the product (1).	**6**	

Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not the government should influence the production of basic food items, such as bread or rice.** **Up to 5 marks for why it should:** The poor may spend a higher proportion of their income on food (1) a subsidy on food (1) may reduce poverty (1) lower indirect tax may reduce poverty (1) lower price (1) basic food items / bread / rice may be regarded to be a basic necessity (1) There may be market failure (1) bread may be overconsumed (1) this may cause obesity (1) a tax will raise price (1) this may discourage demand for basic food items / bread / rice (1) reduce obesity (1) it may also reduce wastage (1). Regulation may be needed (1) to ensure the basic food / bread / rice is produced under clean conditions / with safe ingredients (1). Basic food items / bread / rice may be produced by a monopoly (1) which could use its power to restrict supply (1) push up price (1) regulation may be need to prevent this (1). Demand for basic food items / bread / rice may be inelastic (1) firms may take advantage of this to push up price (1). **Up to 5 marks for why it should not:** Market forces may produce an efficient output (1) the profit motive (1) may encourage producers to respond to changes in consumer demand (1) surpluses and shortages will be eliminated by changes in prices (1). There may be a high level of competition in the industry (1) encouraging producers to make basic food items / bread / rice of a high quality (1). An indirect tax will be regressive (1) fall more heavily on the poor (1). A subsidy will involve an opportunity cost (1) example (1). Reducing an indirect tax will lower tax revenue (1) lowering government's ability to spend on e.g. healthcare (1). Government discouragement of production of basic items may result in more being imported (1) which will harm the balance of payments (1).	**8**	Reward but do not expect reference to price controls.

Question	Answer	Marks	Guidance
6(a)	**Identify the difference between an export and an import.** An export is sold to other countries / outflow of goods and services in exchange for money / credit item in the balance of payments (1) an import is purchased from other countries / inflow of goods and services in exchange for money / debit item in the balance of payments (1).	**2**	
6(b)	**Explain how a rise in the income of its main trading partners may affect a country's trade in goods balance.** A rise in income abroad will increase the countries' ability to purchase products (1) demand for this country's exports may rise (1) particularly luxury products / products without domestic substitutes (1) exports are a credit item in the trade in goods balance (1) the trade in goods balance may improve (1) may move from a deficit to a surplus / any deficit may be reduced / any surplus may be increased (1). The rise in income may be the result of the countries selling more goods to this country (1) this may increase the country's imports (1) imports are a debit term (1) the trade in goods balance may move from a surplus to deficit / any deficit may become larger / any surplus may get smaller (1).	**4**	
6(c)	**Analyse how a rise in a country's foreign exchange rate may affect its unemployment rate.** A rise in the exchange rate will make exports more expensive (1) imports cheaper (1) demand for exports may fall / export revenue may decrease (1) demand for imports may rise / import expenditure may rise (1) net exports may fall (1) total (aggregate) demand may fall (1) output may decline (1) demand for labour may fall (1) unemployment may rise (1) cyclical unemployment (1).	**6**	Reward but do not expect reference to PED.

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether or not a government should subsidise its exports.** **Up to 5 marks for why it should:** A subsidy would lower costs of production (1) lower the price of exports (1) this may make them more internationally competitive (1). Some industries producing exports may be infant industries (1) may need support before advantage can be taken of economies of scale (1). Exports may rise (1) this may improve the current account / trade in goods and services balance (1) raise GDP / increase economic growth (1) increase employment / lower unemployment (1). **Up to 5 marks for why it should not:** Some domestic firms may already be price competitive (1) and so do not need a subsidy (1). The subsidy may encourage some domestic firms to become inefficient (1) not cutting their costs (1) and improving the quality of their output (1). It may be regarded to be a form of trade protection (1) other countries may retaliate (1) so exports may not increase (1). There will be an opportunity cost involved (1) example (1).	**8**	

Question	Answer	Marks	Guidance
7(a)	**Identify <u>two</u> characteristics of perfect competition.** • many buyers • many sellers • no barriers to entry (and exit) • (firms are) price takers • Identical / homogeneous product • no attachment between buyers and sellers • perfect knowledge	**2**	
7(b)	**Explain <u>two</u> goals a business organisation may have.** Profit maximisation (1) making as much profit as possible / increasing the gap between revenue and cost / rewarding entrepreneurs (1). Growth / expansion (1) increasing the size of the firm by e.g. merging / seeking to gain market power (1) to take advantage of economies of scale (1). Survival (1) during difficult times such as recession / when a firm is first established the aim may just be to stay in the market (1). Profit satisficing (1) achieving enough profit to keep shareholders' happy while following other objectives (1). Social welfare (1) business organisations operating in the public sector may e.g. be concerned about the environment / charging a low price to help the poor (1).	**4**	

Question	Answer	Marks	Guidance
7(c)	**Analyse the main reasons for the differences in the size of firms.** Type of business organisation (1) state-owned enterprises and multinational companies operate on a larger scale than sole traders (1). Size of market (1) the market for some products is large / expanding (1) example (1) while others are declining (1) example (1). Some firms have more access to finance (1) public limited companies can sell shares (1) sole traders cannot (1). Some firms grow through merging (1) type of merger e.g. horizontal merger (1). Motives of owners (1) e.g. some prefer the firm to remain small so that they can retain control / ownership (1). Some firms may be subsidised (1) which may encourage them to produce a higher output (1). Some firms may be more profitable (1) can reinvest profits / internal growth (1). Length of time in the market (1) longer there, more time to grow (1). Some firms may be able to take advantage of economies of scale (1) example of an economy (1). Some firms may experience diseconomies of scale (1) example (1). Type of product / capital v. labour-intensive (1) e.g. aircraft have to be produced on a large scale (1).	**6**	Maximum of 3 marks for a list-like approach.

Question	Answer	Marks	Guidance
7(d)	**Discuss whether or not the use of supply-side policy measures by a government will reduce firms' average costs of production.** **Up to 5 marks for why they might:** Education and training (1) should increase labour productivity (1) this could reduce labour costs (1). A cut in income tax (1) may reduce upward pressure on wages (1). A cut in indirect taxes (1). Privatisation (1) may make firms more efficient (1) especially if there is competition in the market (1). Deregulation (1) may reduce the cost of complying with rules and regulations (1). Subsidies (1) may enable firms to buy more efficient machinery (1) train workers (1) may be able to take advantage of economies of scale (1). Remove tariffs (1) enable firms to get raw materials at lower prices (1). Spending on infrastructure (1) reducing transport costs (1). **Up to 5 marks for why they might not:** Education and training may not be in the areas in demand (1) may not increase workers' skills (1) some workers who are educated / trained may emigrate (1). Wages of workers may rise by more than productivity (1) increasing labour costs (1). Privatised firms may become private sector monopolies (1) this will reduce pressure on them to keep costs down (1). Subsidies may be given to reduce unemployment / maintain employment (1) additional workers may be less productive (1) may experience diseconomies (1). There may be corruption (1).	**8**	Maximum of 5 marks if only one policy measure discussed.

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Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/23**

Paper 2 Structured Questions **October/November 2019**

MARK SCHEME

Maximum Mark: 90

Published

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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.

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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.

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Question	Answer	Marks	Guidance
1(a)	**Identify, from the extract, <u>two</u> primary sector industries.** • agriculture • copper mining • emerald mining	**2**	
1(b)	**Calculate, using information from the extract, how many people in Zambia lived in poverty in 2017.** • 9m (2). • Correct working: 15 m × 60% (1).	**2**	
1(c)	**Explain, using information from the extract, why Zambia had a high rate of population growth in 2017.** • Birth rate exceed death rate / more people being born than dying (2). • High birth rate / high natural increase (1). • Birth rate 41.8 and death rate 12.4 (1).	**2**	
1(d)	**Explain, using information from the extract, why a depreciation of the kwacha harmed the Zambian economy.** • Inflation rate rose (1) from 10.1% in 2015 to 20.6% in 2016 (1). • Growth rate fell (1) from 6.8% after 2014 (1). • Depreciation is a fall in the value of the currency (1) import prices would have been higher (1) increasing costs of production (1) leads to higher prices (1) demand for higher wages (1) creating a wage-price spiral (1). • Higher inflation may have reduced international competitiveness (1) reducing output / economic growth rate (1) leading to lower employment (1) and reduction in living standards (1).	**4**	

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Question	Answer	Marks	Guidance
1(e)	**Analyse, using Fig.1.1, the relationship between copper output and revenue from the sale of copper.** **<u>Expected relationship</u>** - a direct relationship would have been expected / moved in same direction / as copper output rose, revenue should have risen (1). <u>**Evidence** in support of **unexpected** relationship</u> • Does not support expected relationship / shows an inverse relationship (1). • Between 2010–14 revenue rose (from 100 to 128) but output fell (from 100 to 90) so prices rose (1). • Between 2014–17 revenue fell (from128 to 90) but output rose (from 90 to 108) which meant that prices fell (1). • In 2014 copper revenue was highest 128 and output at its lowest 90, while in 2017 copper revenue was at its lowest 90 and output at its highest 108, so changes in revenue were greater than changes in output of copper (1). **Analysis of inverse relationship**: • When output fell, price per unit may have risen more than fall in output, due to loss of economies of scale causing average costs to rise (1). • Price for Zambian copper affected by world market prices (1). • Copper is likely to be inelastic in demand so prices rise by more than fall in output increasing revenue (1).	**5**	A **pattern of analysis** is expected in response to this type of question. Do not reward simple statements (repetition) of the figures given in the table.

Question	Answer	Marks	Guidance
1(f)	**Discuss whether or not a central bank should reduce commercial bank lending.** **Up to 3 marks for why it should**: • Lowering consumer expenditure / investment by firms (1) may reduce demand-pull inflation (1) making exports more competitive (1). • May prevent households and firms getting into debt (1) that they cannot repay banks (1) may avoid a financial crisis in the future (1). • May reduce spending on imports (1) improve the current account position (1). **Up to 3 marks for why it should not:** • It may reduce consumer expenditure (1) investment (1) this will lower total (aggregate) demand (1) which may reduce economic growth (1). • Some firms may go out of business (1) causing unemployment (1) results in poverty (1). • Firms may not keep up with advances in technology (1) reduce international competitiveness (1) harm the current account position (1). • Households may not be able to borrow to pay for their everyday living / their children's education / their higher education (1) lower their career prospects (1).	**5**	**Apply this example to all questions with the command word DISCUSS (1g, 1h, 2d, 3d, 4d and 5d)** Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is rewarded. **Generic example** — **mark** Tax revenue may decrease … — **1** ... because of reason e.g. incomes may be lower. — **1** Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument. — **0** Tax revenue may increase because of a different reason i.e. not the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education. — **1**

Question	Answer	Marks	Guidance
1(g)	**Explain, using information from the extract, <u>two</u> reasons why productivity may have been low in Zambia.** • Low investment (1) e.g. fewer workers might be working with new advanced capital equipment (1). • Cut in the government spending on training (1) workers may be less skilled (1). • People living in poverty / poor health (1) more time off work (1). • Lack of infrastructure e.g. lack of roads / lack of school buildings (1) means greater difficulty getting to work / gaining adequate education (1). • Only 48% of the population work (1) less people in work (1). • Life expectancy of only 52.5 years (1) lack of skills / experience (1).	**4**	
1(h)	**Discuss whether or not building a new city will benefit an economy.** **Up to 4 marks for why it might:** • Jobs will be created (1) reduce unemployment (1) higher total demand / economic growth (1) creating higher income / less poverty (1). • Better housing may be constructed (1) overcrowding may be reduced / less homelessness (1) living standards may rise (1). • MNCs may be attracted into the country (1) by improved facilities (1). • Results in higher tax revenue (1) which government can spend on other objectives e.g. education and health (1). **Up to 4 marks for why it might not:** • It will involve an opportunity cost (1) money spent/resources used could have been used to e.g. improve education and healthcare (1) may cause a budget deficit (1). • It may cause external costs (1) e.g. damage the environment (1). • People and firms may not want to move (1) new facilities will be wasted (1). • Causes inflation (1) if already at or close to full employment (1). • Pushes up prices (1) causing cost-push inflation (1). • Depletes natural resources / raw materials (1) more dependent on imports (1).	**6**	

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Question	Answer	Marks	Guidance
2(a)	**Define *tertiary sector* and give an example of an industry operating in the tertiary sector.** Services (1) e.g. banking (1).	**2**	
2(b)	**Explain <u>two</u> reasons why farm workers may be low paid.** • high supply / easily replaced / lower productivity / labour intensive / low value products (1) low skills/qualifications required (1). • low demand (1) can be replaced by capital equipment (1). • low bargaining strength (1) weak trade unions/low trade union membership (1)	**4**	
2(c)	**Analyse how lower unemployment may cause inflation.** • More people in work (1) incomes may rise (1) as more people are earning wages / higher purchasing power (1) this could increase spending (1) which may increase total (aggregate) demand (1) without a rise in output / supply (1) causing demand-pull inflation (1). • There may be a shortage of workers/increased competition for workers (1) wages may be raised (1) to attract workers (1) this increases the average cost of production (1) firms raise prices to maintain profit margins (1) causing cost-push inflation (1).	**6**	

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Question	Answer	Marks	Guidance
2(d)	**Discuss whether or not a country with high wage rates will have a high unemployment rate.** **Up to 5 marks for why it might:** • High wages may mean high cost of production (1) this may mean higher prices / inflation (1) international competitiveness may be low (1) exports may fall (1) imports may rise (1) net exports may fall (1) total (aggregate) demand may fall (1) causing cyclical unemployment / firms may lay off workers (1). • May encourage capital intensive production (1) particular industries may be driven out of business by foreign competition (1) causing structural unemployment (1). **Up to 5 marks for why it might not:** • High wages may motivate workers to work harder (1) making them feel appreciated (1) causing productivity to be high (1) resulting in high demand for labour (1). • Workers may be working with high value capital equipment (1) keeping cost per unit low (1). • High wages can mean high consumer spending (1) so total (aggregate) demand may be high (1) resulting in higher demand for workers (1). • Wages may rise above benefits (1) leading to less voluntary unemployment (1). • Higher tax revenue (1) allows government to increase spending on reducing unemployment e.g. training (1).	**8**	

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Question	Answer	Marks	Guidance
3(a)	**Identify the difference between a tax and a subsidy.** • A tax is a payment to the government (1) whereas a subsidy is a grant from the government (1). • A tax increases costs/prices (1) a subsidy reduces costs/prices (1). • A tax reduces consumption / production (1) a subsidy increases consumption / production (1). • A tax is a cost for people / firms (1) a subsidy is a cost to the government (1). • A tax is placed on demerit goods (1) a subsidy is given to merit goods (1).	**2**	
3(b)	**Explain <u>two</u> reasons why demand for a product may be price-inelastic.** • The product may not have a substitute (1) consumers will not be able to switch to rival products / example (1). • The product may be a necessity (1) people will need to buy it even if price rises / example (1). • The product may take up a small proportion of income (1) people may not notice a price rise / example (1). • The product may be addictive (1) people cannot do without the product / example (1). • The purchase of the product cannot be postponed/there is only a short time period (1) so people do not have time to find alternatives (1). • Advertising changes tastes of consumer (1) making the product a “must have” (1).	**4**	

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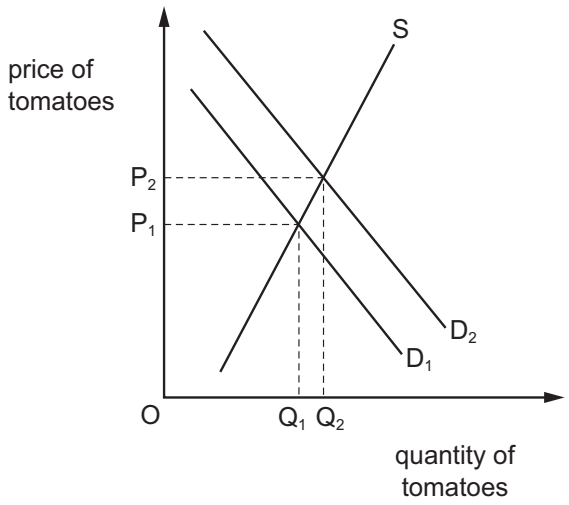
Question	Answer	Marks	Guidance
3(c)	**Analyse, using a demand and supply diagram, the effect a report stating that eating tomatoes is good for health will have on the market for tomatoes.** **Up to 4 marks for the diagram:** Axes correctly labelled – price and quantity or P and Q (1). Demand and supply curves correctly labelled (1). Demand curve shifted to the right (1). Equilibriums – shown by lines or e.g. E1 and E2 (1). **Up to 2 marks for written analysis:** The report will encourage people to eat more tomatoes (1) rise in demand leads to shortages (1) a rise in price (1) and an increase in output of tomatoes (1). The supply of tomatoes is likely to be relatively inelastic (1) and so an increase in demand will be likely to have more impact on price than quantity (1). ***Do not reward analysis marks for description of diagram e.g. price changes from P2 to P1 or quantity changes from Q1 to Q2.***	**6**	

Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not introducing more capital-intensive production methods will increase a firm's profits.** **Up to 5 marks for why it might:** • Machines may introduce more advanced technology (1) increases productivity (1) higher output means firm benefits from economies of scale (1) less workers means lower labour costs (1) may reduce average costs / (1) may enable price to be lower (1) revenue will rise (1) if demand is elastic (1). • Better quality products could be produced (1) increasing demand (1). • May increase international competitiveness (1) sell more exports (1). **Up to 5 marks for why it might not:** • Machines may be expensive (1) workers may not be trained in their use (1) average costs could rise (1) reducing gaps between revenue and cost (1). • Machines may break down (1) consequences of breakdown e.g. interruptions in supply (1). • Initial set-up costs may be high (1) profits are reduced in short-run (1). • A fall in price may cause revenue to fall (1) if demand is inelastic (1). • Consumers may prefer handmade/personalised products (1) demand may fall (1). • Labour may be in large supply (1) resulting in low wages (1). • Government may subsidise firms to employ workers (1) to reduce unemployment (1).	**8**	

Question	Answer	Marks	Guidance
4(a)	**Identify the difference between economic growth and recession.** • Economic growth is an increase in GDP/output (1). • Recession is a fall in GDP/output / negative economic growth (1).	**2**	
4(b)	**Explain how the HDI compares living standards between countries.** • Measures output/income/material standard of living (1) GDP/GNI per head (1). • Measures healthcare (1) life expectancy (1). • Measures education (1) mean and expected years of schooling / literacy rate (1). • Provides an index figure for each country (1) from 0 to 1 / divides countries into very high, high, medium and low (1). • Higher HDI means higher standard of living (1).	**4**	
4(c)	**Analyse the effects of a rise in a country's birth rate.** • In the short run, fewer women may be able to work (1) which will decrease the size of the labour force (1) more children (1) increases the dependency ratio (1) putting pressure on the working population (1). • In the longer run there will be more workers (1) this may decrease the dependency ratio (1) population size may increase (1) increase output (1) encourage investment (1). • Government will have to devote more resources e.g. to primary education / childcare / support families (1) this may mean fewer resources can be devoted to e.g. improving living standards (1). • Higher demand for industries related to young children e.g. baby clothes, child minding (1) may reduce unemployment (1). • Increase in population/ overpopulation (1) causes a strain on resources (1) fall in living standards (1). • If birth rate still lower than death rate (1) will still have an ageing population (1).	**6**	Reward but do not expect reference to the optimum population.

Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not parents should have to pay a fee to send their children to school.** **Up to 5 marks for why they should:** • Some parents can afford to pay (1) some parents will work hard to pay (1) paying may make them more prepared to demand good standards (1) would see themselves as consumers (1). • May result in more resources being devoted to education (1) teachers reive higher pay (1) and motivated to work harder (1) parents demand high standards for their money (1) improving outcomes (1). • Education provides private benefits (1) in the form of higher pay (1) more career choice (1). • The government paying for education (1) involves an opportunity cost (1) e.g. spending on healthcare (1). • A fee may be charged for secondary education but not primary education (1) if it is considered a basic level of education should be available to all (1) parents may choose to pay for education if they think it will be of high quality (1). **Up to 5 marks for why they should not:** • Some parents may not send their children to school (1) some will not be able to afford to (1) some may undervalue education (1) may reduce desire to have children (1). • Opportunity cost to parents (1) e.g. less spending on other goods / services (1). • It would increase income inequality (1) price would take a higher percentage of the income of the poor (1) less educated workforce (1) lower standard of living (1). • Education provides external benefits (1) higher productivity (1) higher output/GDP (1) these could be lost (1) • The government may need to provide education free to ensure the right quantity of education is consumed (1) that the poor have access to education (1).	**8**	Reward but do not expect reference to education being a merit good.

Question	Answer	Marks	Guidance
5(a)	**Define saving**. • Income (1) not spent / minus spending (1). • Putting money in the bank (1) for future use (1).	**2**	
5(b)	**Explain <u>two</u> benefits a country can gain from having a stock exchange.** • Provides a market for the sale of shares and bonds (1) encourages saving and investment (1). • Makes it easier for firms to grow / source of finance for firms (1) makes people more willing to buy shares / facilitates mergers (1). • Government able to raise funding through bonds (1) to support expenditure in economy (1). • May encourage MNCs to set up in the country (1) which can increase economic growth / exports / employment (1). • May encourage the setting up of other financial institutions (1) creating high-skilled/well-paid jobs (1).	**4**	
5(c)	**Analyse how firms may be affected by a rise in the rate of interest.** • It will increase the cost of borrowing (1) this may discourage firms from investing (1) reducing their growth (1) may put up their prices (1). • Firms may decide to save more (1) as the return will increase (1) the opportunity cost of investment will rise (1). • It may increase the cost of past loans (1) reducing firms' profits (1). • Demand for consumer goods may fall (1) as consumers will be discouraged from borrowing (1) be encouraged to save (1) so lower demand will reduce firms' revenue (1).	**6**	

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Question	Answer	Marks	Guidance
5(d)	**Discuss whether or not an economy will benefit from its firms getting larger.** **Up to 5 marks for why it might:** • To produce more (1) more workers may be employed (1) which may reduce unemployment (1). • Larger firms may be more price competitive/produce at lower average cost (1) due to economies of scale (1) example (1) this may increase output (1) causing economic growth (1) lower prices (1) it may also increase exports (1) improving the current account position (1). **Up to 5 marks for why it might not:** • More imported raw materials/capital goods may be purchased (1) worsening the current account position (1). • Larger firms may have more market power (1) may be less efficient (1) may experience diseconomies of scale (1) example (1) average costs may rise (1) cause cost-push inflation (1) reducing exports (1) worsening the current account position (1).	**8**	

Question	Answer	Marks	Guidance
6(a)	**Define *wages.*** • A payment (1) to a worker (1). • Amount earned (1) by labour / employees (1). • Reward (1) for labour (1).	**2**	
6(b)	**Explain why the opportunity cost of becoming a teacher for one worker may be greater than for another worker.** • Opportunity cost is the (next) best alternative (1) forgone (1). • One worker may have earned more than another (1) and so would be giving up more earnings (1). • One worker may give up more non-wage benefits (1) example e.g. promotion chances (1). • One worker has further to travel to work / higher costs of travelling (1) loss of leisure time / time with family / lower net income (1).	**4**	
6(c)	**Analyse how an individual's earnings are likely to change over her or his lifetime.** • At first an individual's earnings are likely to be low (1) they will lack training / experience (1) low qualifications / skills (1) unlikely to have been promoted (1). • In early middle-age earnings may be higher (1) become more productive due to higher skills / experience(1) adding value for employer (1) may have been promoted (1) may work overtime (1) have higher expenses (1) e.g. purchase of a house / paying to support children (1). • In late-age before retirement (1) earnings may be high due to experience (1) but may be low due to working part-time (1) being less productive (1) as being more tired / less physically fit (1). • At retirement (1) rely on pension / family for financial support (1). • Gender discrimination may fall (1) so increasing a woman's earnings (1).	**6**	

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Question	Answer	Marks	Guidance
6(d)	**Discuss whether most people would prefer to work for a multinational company (MNC) or a sole trader.** **Up to 5 marks for why they might want to work for an MNC:** • An MNC may earn high profits (1) benefits from economies of scale (1) lower costs enable them to pay high wages (1) may offer good fringe benefits (1) example (1) better working conditions (1) • An MNC may provide training (1) improving their skills (1) give the opportunity to work with advanced technology (1) making it easier to get a well-paid job in another firm (1) better reputation / status for employee (1). • The firm may provide the opportunity of promotion (1) and possibly the opportunity to work in another country (1) • MNC more likely to provide stable employment (1) more likely to survive in recession (1) **Up to 5 marks for why they might want to work for a sole trader:** • A sole trader may provide a friendlier environment (1) more contact with the employer (1) less exploitation of worker's rights (1) may have more say in decision-making (1). • There may be a greater sense of job security (1) as an MNC may pull out of the country (1). • A worker may gain more responsibility working for a sole trader (1) undertaking a greater range of tasks (1). • The sole trader's business may be closer to the worker's home (1) more convenient / lower costs of travelling to work (1).	**8**	

Question	Answer	Marks	Guidance
7(a)	**Define *a trade in services deficit.*** • Imports of services being greater than exports of services (2). • A deficit on a section of the balance of payments (1).	**2**	
7(b)	**Explain <u>two</u> population problems a rich, developed country may experience.** • an ageing population (1) due to a falling death rate and birth rate / increasing dependency / increasing the cost of healthcare and/or pensions (1). • **A decreasing population** (1) a declining labour force (1) due to a falling birth rate / increasing dependency (1). • net immigration (1) putting pressure on schools/hospitals/housing (1).	**4**	
7(c)	**Analyse how a move to freer international trade may benefit a country's producers**. • With lower tariffs (1) their exports will be cheaper (1) the volume of exports will not be restricted by quotas (1). • If producers are efficient (1) they will sell more abroad (1). • Producers will be able to buy imported raw materials more cheaply (1) this will reduce their costs of production (1) increase their profits (1).	**6**	

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Question	Answer	Marks	Guidance
7(d)	**Discuss whether or not the standard of living is higher in developed countries than in developing countries.** **Up to 5 marks for why it might be:** • Higher average income (1) enabling people to buy more goods and services (1) spend money on healthcare (1) education (1) enabling people to live longer / be more productive (1). • Government tax revenue is likely to be higher (1) enabling the government to spend more on e.g. pensions, healthcare (1). **Up to 5 marks for why it might not be:** • Some people's living standards in developed countries are low/some people's living standards in developing countries are high (1) income is not evenly distributed (1). • Working hours in some developed countries are high (1) leading to stress (1) less leisure time (1). • Environmental conditions are better in some developing countries (1) with less pollution (1).	**8**	Reward answers from the opposite perspective - developing countries have a lower standard of living than developed countries.

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Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/11**

Paper 1 Multiple Choice **October/November 2019**

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 **11** printed pages and **1** blank page.

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1 What is classified as one of the four economic resources?

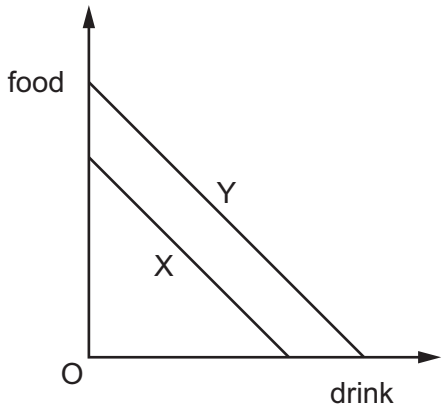
A consumption

B enterprise

C production

D trade

2 Countries X and Y have identical resources. The diagram shows their production possibility curves.



What can be concluded from the diagram?

A X can produce food and drink more cheaply than Y.

B X experiences higher unemployment than Y.

C Y can produce food and drink more efficiently than X.

D Y has higher retail prices than X.

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3 Sam wrote a list of how he would prefer to spend his Saturday afternoon.

first choice	go to a cricket match
second choice	watch the annual town parade
third choice	go to the cinema
fourth choice	visit relatives

Unfortunately a thunderstorm caused the cricket match and the town parade to be cancelled. Sam went to the cinema.

What was the opportunity cost of going to the cinema?

A going to a cricket match

B watching the annual town parade

C visiting relatives

D losing his Saturday free time

4 Which pair of economic institutions can be found in a market economy?

A local government and charities

B monopolies and commercial banks

C nationalised industries and partnerships

D stock exchange and public corporations

5 In a city, what is most **unlikely** to be provided by the private market system?

A a museum

B a school

C a sports field

D street lights

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6 The table shows the quantity demanded and supplied for a commodity at different prices.

price ($)	quantity demanded	quantity supplied
10	100	800
9	210	700
8	400	600
7	500	500
6	600	400

What would happen to the equilibrium price if the quantity supplied increased by 200 units at each price?

A It would decrease by $1.

B It would decrease by $2.

C It would increase by $1.

D It would increase by $2.

7 The table shows the quantity that producers are willing to supply at different price levels.

price ($)	quantity supplied
120	20
150	40
180	80

If the price increases from $120 to $180, what would be the price elasticity of supply?

A 0.16 **B** 4 **C** 6 **D** 60

8 What is an example of a non-wage factor?

A bonus

B commission

C fringe benefits

D overtime rates

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9 An African government has abandoned its own dollar and now uses the US dollar as its currency.

Why would such a policy have been necessary?

A Commercial banks restricted their lending.

B Consumers only used credit cards rather than paper money.

C Its own dollar no longer acted as a store of value.

D The central bank controlled the issue of money too tightly.

10 The table shows how three people (X, Y and Z) spend their income.

	person X	person Y	person Z
food, clothing and housing	35%	50%	20%
entertainment and leisure	25%	20%	40%
luxury goods	40%	30%	40%

For these three people, what is the **most** likely order of income, from highest income to lowest income?

A X → Y → Z

B Y → Z → X

C Z → X → Y

D Z → Y → X

11 A musician has a choice of playing for an orchestra in either Germany or England.

Which combination of incomes and cost of living is **most** likely to cause her to choose the German orchestra?

	Incomes and cost of living in Germany compared with those in England		
	pre-tax (gross) income	after-tax (net) income	cost of living
A	higher	higher	higher
B	higher	lower	lower
C	lower	higher	higher
D	lower	higher	lower

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12 What must result from an increase in output?

A a decrease in the average cost

B a decrease in the total costs

C an increase in the fixed costs

D an increase in the variable costs

13 What is characteristic of a monopoly market structure?

A A monopolist may determine the price of its product.

B A monopolist's product has many substitutes.

C There are no external costs.

D There is easy entry into the market.

14 The table shows the sales of cold drinks made by a company in the UK in 2016 and 2017. Demand for cold drinks is influenced by changes in the temperature. In 2016 the sales followed the usual seasonal pattern.

month	sales 2016 (thousand cans)	sales 2017 (thousand cans)
April	300	290
May	400	350
June	550	270
July	570	490
August	620	590

In which month of 2017 was the usual pattern disturbed?

A May

B June

C July

D August

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15 A firm producing bicycles has the following costs at different levels of output.

output	total fixed costs ($)	total variable costs ($)
10	300	800
20	300	1500
30	300	3300

What happens to the average total cost over this range of output?

A It falls continuously.

B It falls then rises.

C It rises continuously.

D It rises then falls.

16 One aim of government policy is to redistribute income through taxation in order to reduce inequality.

Which policy will achieve this aim?

A Impose a tax of $0.20 on every dollar earned.

B Increase the tax-free allowances after which tax must be paid progressively.

C Introduce a tax on all food.

D Provide an incentive to earn by reducing taxes for the highest paid.

17 What is an example of expansionary monetary policy?

A a decrease in income tax rates

B a decrease in the budget deficit

C a decrease in the money supply

D a decrease in the rate of interest

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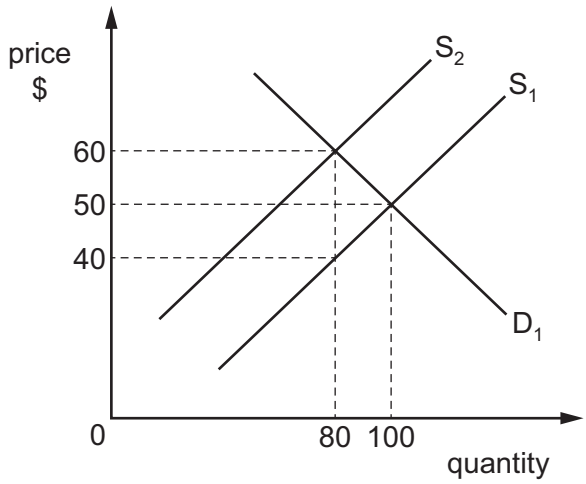
18 Which actions would be likely to increase government expenditure and reduce revenues from taxation?

	government expenditure	tax revenues
A	improve health facilities for the elderly	encourage people to reduce their spending
B	increase the amount of the state pension	increase VAT (sales tax)
C	provide free bus transport for retired people	encourage people to work beyond retirement
D	raise the age of retirement	decrease bus fares

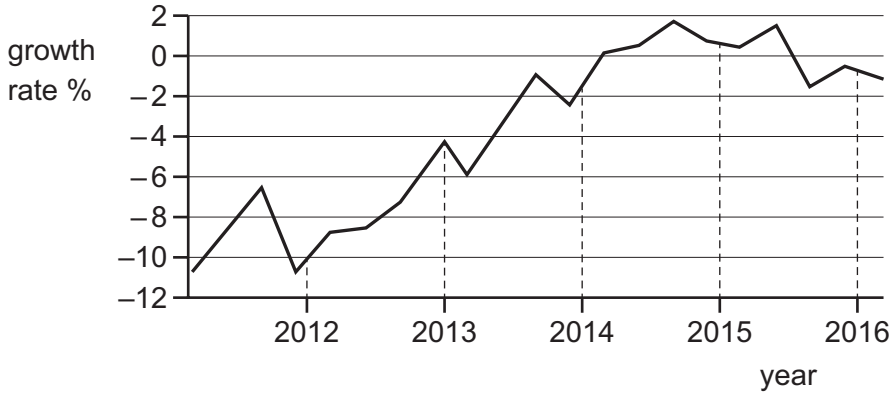
19 The diagram shows the impact of a government imposing an indirect tax on a good. The original demand curve is D_1 and original supply curve is S_1.



What is the total tax revenue gained by the government?

A $1600 **B** $3200 **C** $4800 **D** $5000

20 The chart shows the GDP annual growth rate (percentage), 2012–2016, for Greece.



In which years did Greece experience the longest period of positive economic growth?

A 2012–2013 **B** 2013–2014 **C** 2014–2015 **D** 2015–2016

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21 What are the components of the Human Development Index (HDI)?

A life expectancy at birth, expected years of schooling, GDP

B life expectancy at birth, expected years of schooling, GDP per head

C population growth, adult literacy rate, GDP per head

D population size, expected years of schooling, number of doctors per head

22 Which government policy would reduce economic growth?

A cutting the rate of corporation tax

B increasing expenditure on education

C lowering the rate of income tax

D raising interest rates

23 Rates of inflation and deflation are measured using a consumer prices index (CPI) over a period of time.

The table shows average rates of CPI for Japan from 2010–2014.

year	change in CPI
2010	–0.72
2011	–0.28
2012	–0.03
2013	0.36
2014	2.75

In which period did Japan experience deflation followed by inflation?

A 2010–2011 **B** 2011–2012 **C** 2012–2013 **D** 2013–2014

24 What is a typical characteristic of a developing country?

A equal distribution of income and wealth

B good medical care

C high gross domestic product per head

D high reliance on natural resources

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25 In Botswana, better healthcare has meant that birth rates have been falling faster than death rates. Also the number of children born, on average, to each woman has declined from 6.4 to 3.2.

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B A Kenyan tea company increases its exports.

C A Kenyan trade delegation promoting coffee sales visits India.

D A Zambian company increases its exports to Kenya.

28 Protectionist policies reduce the level of global economic growth.

What is a possible reason for this?

A Incomes earned from trading decline.

B Tariffs encourage trade.

C The average cost of production decreases.

D The production possibility of an economy expands.

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29 The table shows the current account balance for four countries in 2016. It also shows each country's exchange rate against the US dollar for 2015 and 2016.

Which country had a trade surplus and a strengthened currency against the US dollar?

	country	current account balance US$ billion 2016	number of units of currency against US dollar	
			2015	2016
A	Australia	–47.9	1.39	1.38
B	Belgium	+4.8	0.92	0.96
C	China	+266.6	6.48	6.95
D	Taiwan	+74.7	32.90	32.00

30 What would reduce the volume of international trade in the world economy?

A a German bank making a loan to a Nigerian company

B a Japanese car manufacturer establishing a factory in the Czech Republic

C the Canadian government introducing quotas on Malaysian electronics products

D the Swedish government granting aid to Somalia

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ECONOMICS **0455/12**

Paper 1 Multiple Choice **October/November 2019**

45 minutes

Additional Materials: Multiple Choice Answer Sheet
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1 Which statement about factors of production is correct?

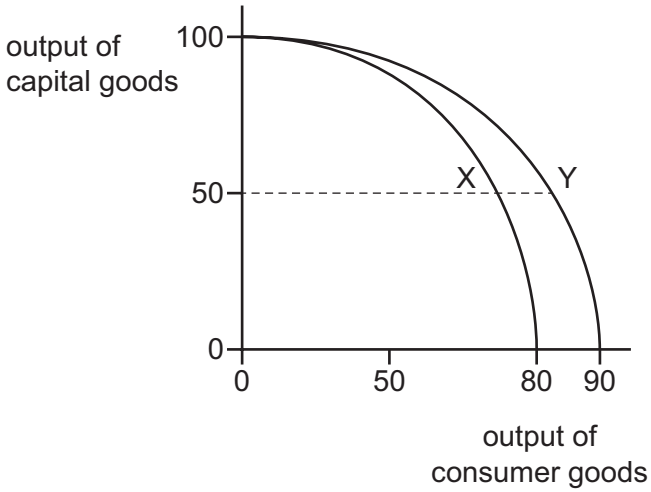
A Capital is the amount of money borrowed from a bank.

B Labour is output made by an employee.

C Land includes commercially grown rice crops.

D Profit is the reward for enterprise.

2 The diagram shows two production possibility curves.



Which statement about the movement from point X to point Y is correct?

A Demand for consumer goods has risen.

B The opportunity cost for producing consumer goods has risen.

C There has been an increase in productivity in consumer goods production.

D There has been an inward shift in the production possibility curve.

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3 Sam wrote a list of how he would prefer to spend his Saturday afternoon.

first choice	go to a cricket match
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third choice	go to the cinema
fourth choice	visit relatives

Unfortunately a thunderstorm caused the cricket match and the town parade to be cancelled. Sam went to the cinema.

What was the opportunity cost of going to the cinema?

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4 Which pair of economic institutions can be found in a market economy?

A local government and charities

B monopolies and commercial banks

C nationalised industries and partnerships

D stock exchange and public corporations

5 What suggests that there is market failure?

A high producer profits

B high retail prices

C lack of competition

D low levels of investment

6 What can cause the supply curve for a product to shift to the right?

A an increase in demand for the product

B an increase in government subsidies to producers

C an increase in indirect taxes on the product

D an increase in the costs of production

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7 A railway company increases ticket prices by 10% for travel between 06:00 and 09:00, causing a reduction in demand by 2%. After 09:00 it reduces ticket prices by 5%, resulting in a 7% increase in demand.

What is the price elasticity of demand in response to these price changes?

	between 06:00 and 09:00	after 09:00
A	elastic	elastic
B	elastic	inelastic
C	inelastic	elastic
D	inelastic	inelastic

8 What is a disadvantage of being a specialist skilled worker?

A Career opportunities are abundant.

B Earnings are related to the level of skill.

C It may be difficult to find work locally.

D Labour supply is elastic and plentiful.

9 What is **not** normally a function of the central bank of a country?

A acting as lender of last resort

B issuing notes and coins

C operating the government's monetary policy

D setting the government's budget

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10 The table shows how three people (X, Y and Z) spend their income.

	person X	person Y	person Z
food, clothing and housing	35%	50%	20%
entertainment and leisure	25%	20%	40%
luxury goods	40%	30%	40%

For these three people, what is the **most** likely order of income, from highest income to lowest income?

A X → Y → Z

B Y → Z → X

C Z → X → Y

D Z → Y → X

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Which combination of incomes and cost of living is **most** likely to cause her to choose the German orchestra?

	Incomes and cost of living in Germany compared with those in England		
	pre-tax (gross) income	after-tax (net) income	cost of living
A	higher	higher	higher
B	higher	lower	lower
C	lower	higher	higher
D	lower	higher	lower

12 Which type of business organisation is necessarily in the public sector of the economy?

A multinational company

B public limited company

C public corporation

D sole trader

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13 Which combination of characteristics correctly describes a monopoly?

	barriers to entry	economies of scale
A	high	possible
B	high	impossible
C	low	possible
D	low	impossible

14 The table shows the sales of cold drinks made by a company in the UK in 2016 and 2017. Demand for cold drinks is influenced by changes in the temperature. In 2016 the sales followed the usual seasonal pattern.

month	sales 2016 (thousand cans)	sales 2017 (thousand cans)
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30	300	3300

What happens to the average total cost over this range of output?

A It falls continuously.

B It falls then rises.

C It rises continuously.

D It rises then falls.

16 Why are indirect taxes, such as VAT of 20% on goods and services, described as regressive when comparing high-income and low-income purchasers?

A High-income purchasers pay a higher percentage of their income in tax.

B High-income purchasers pay a lower percentage of their income in tax.

C Low-income purchasers pay a lower percentage of their income in tax.

D Low-income purchasers and high-income purchasers pay the same percentage of their income in tax.

17 The government has an important role in mixed economies.

Which function would it **not** perform?

A distributing dividends from profits of state-owned enterprises

B employing workers to collect taxes

C investing in transport infrastructure projects

D producing goods in public corporations

18 Which combination of policy measures would be effective in reducing the effects of a recession?

A a reduction in interest rates and a reduction in income tax

B a reduction in interest rates and an increase in income tax

C an increase in interest rates and a reduction in income tax

D an increase in interest rates and an increase in income tax

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19 How would government spending on education be classified?

	fiscal policy	monetary policy	supply-side policy
A	no	no	yes
B	no	yes	no
C	yes	no	yes
D	yes	yes	no

20 Which increase is **most** likely to cause a rise in the output of an economy?

A hyperinflation

B income taxes

C interest rates

D investment

21 Why was the Human Development Index (HDI) introduced as a measure of the standard of living?

A Education and healthcare are important contributors to the standard of living.

B GDP per head only measures development.

C Inequality can only be measured by HDI.

D Literacy rates are not an effective measure of the standard of living.

22 During periods of high unemployment across the entire labour force, the highest unemployment rate in an economy is often in the 16–19 year-old age group.

Which statement explains why 16–19 year-olds may find it difficult to find a job?

A The incentive to earn an income is lower for that age group.

B Their wages are lower than those of adults.

C They lack both work experience and the necessary skills.

D They prefer leisure activities to long working hours.

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23 Venezuela, a leading world oil producer, has experienced hyperinflation of over 400% per annum in recent years.

How does hyperinflation affect an economy?

	prices	effect
A	fluctuate up and down	consumers are uncertain about future price levels
B	fluctuate up and down	consumers can anticipate future price levels
C	rise very rapidly	value of fixed assets remains stable
D	rise very rapidly	money has limited worth as a medium of exchange

24 What is most likely to increase as a country becomes more developed?

A average household income

B average size of family

C infant mortality rate

D the proportion of income spent on food

25 In Botswana, better healthcare has meant that birth rates have been falling faster than death rates. Also the number of children born, on average, to each woman has declined from 6.4 to 3.2.

What may be concluded from this information?

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C A Kenyan trade delegation promoting coffee sales visits India.

D A Zambian company increases its exports to Kenya.

28 What is a disadvantage of trade protection of manufactured goods?

A It can lead to retaliation from trading partners.

B It encourages infant industries to grow.

C It increases demand for domestic manufactured goods.

D It reduces outflows of currencies to pay for imports.

29 What would cause a rise in the deficit on the current account of the balance of payments?

A a fall in foreign direct investment into the country

B a fall in interest earned on overseas investment by the country

C a fall in the value of imported manufactured goods into the country

D a rise in the revenue earned from tourism in the country

30 What would reduce the volume of international trade in the world economy?

A a German bank making a loan to a Nigerian company

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ECONOMICS **0455/13**

Paper 1 Multiple Choice **October/November 2019**

45 minutes

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1 What identifies a finite resource?

A The resource does not renew itself.

B The supply of the resource is greater than demand.

C There is no opportunity cost for the resource.

D There is unlimited supply of the resource.

2 Country X provides computers to help teachers in the classroom.

How would this technology increase the economic potential of country X?

A It improves the quality of human resources.

B It reduces the amount of land required for education.

C It removes the need for teachers.

D It requires more teachers to do the same work.

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5 In a private market system certain goods and services would not be available unless the government intervened.

What does this identify in a private market?

A market distribution

B market equilibrium

C market failure

D market structure

6 There has been a movement upwards along the supply curve of a product.

What is the **most** likely explanation for this?

A Consumer incomes have fallen.

B New technology has made the product cheaper to produce.

C The government has imposed a tax on the product.

D The price of a substitute has increased.

7 Price elasticity of demand (PED) measures the responsiveness of demand to a change in price. It can differ for different goods.

For which good is the PED **most** elastic according to the table?

	good	percentage change in quantity demanded	percentage change in price
A	butter	6.0	5.0
B	cars	5.5	5.0
C	furniture	5.0	5.0
D	petrol	3.0	5.0

8 What is **most** likely to increase the occupational mobility of labour?

A building more houses

B increased spending on re-training schemes

C increased total government spending

D increasing the information on job availability

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9 Which organisations can directly fund the growth of firms?

	central bank	commercial banks	government
A	no	yes	no
B	no	yes	yes
C	yes	no	no
D	yes	no	yes

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12 A public limited company has shares which are

A freely transferable on the stock exchange.

B owned by the government.

C owned only by its workers.

D restricted in their transferability.

13 In 2015, a large UK company attempted to acquire a rival US medical company to become the world's leading supplier. Both companies specialised in the manufacture of medicines for treating rare diseases.

Which term would describe the acquisition if it had been successful?

A backwards vertical integration

B conglomerate integration

C forwards vertical integration

D horizontal integration

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B It falls then rises.

C It rises continuously.

D It rises then falls.

16 A government decides to increase tax revenues from consumer expenditure.

Which tax will it increase?

A capital gains tax

B death duties

C profits tax

D value added tax

17 A government uses a mixture of fiscal policy measures and supply-side policy measures to stimulate growth in the economy.

Which combination of policy measures will achieve this?

	fiscal policy measures	supply-side policy measures
A	increase government expenditure	increase skills training
B	increase government investment	increase indirect taxes
C	increase direct taxation	decrease unemployment benefit
D	increase interest rates	decrease money supply

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18 The table shows tax paid at different income levels in an economy.

income level ($)	tax paid ($)
5 000	500
12 000	2400
20 000	5000
30 000	6000

Which description of the tax system used is correct?

A continually progressive

B progressive then regressive

C proportional

D regressive then progressive

19 The government uses monetary policy and reduces the interest rate.

What might be a consequence of this?

A a decrease in the rate of inflation

B an increase in the level of investment

C an increase in the level of savings

D an increase in unemployment

20 What is the **most** likely result of a sustained increase in Gross Domestic Product (GDP)?

A a decrease in living standards

B a decrease in the budget surplus

C an increase in tax revenues

D an increase in unemployment

21 Which indicator would be included in the Human Development Index (HDI) for a country?

A adult literacy rate

B doctors per 1000 people

C unemployment rate

D years spent in education

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22 Which type of unemployment is the result of a permanent fall in the demand for the products of an industry?

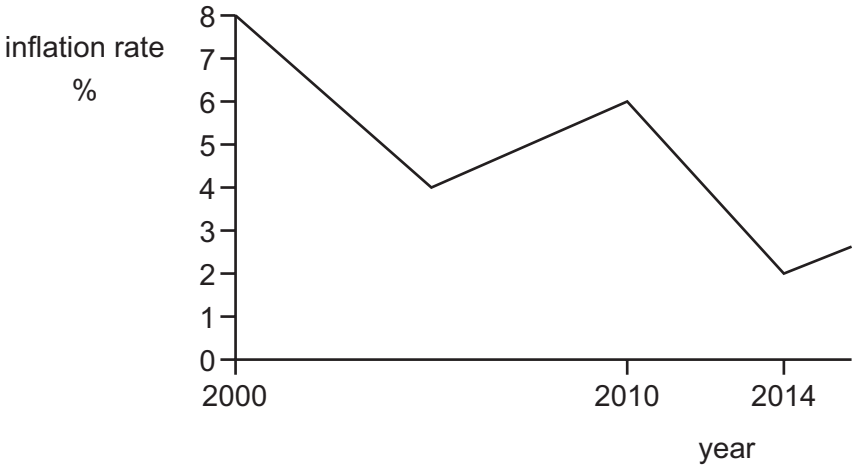
A cyclical

B frictional

C seasonal

D structural

23 The graph shows the rate of inflation in a country between 2000 and 2014.



What can be concluded about average prices?

A They fell throughout the period.

B They peaked in 2000.

C They rose each year.

D They were lower in 2014 than they were in 2010.

24 Which change, as a percentage of GDP, would be **unlikely** to be found in a country as it develops?

A an increase in average incomes and a decrease in unemployment

B an increase in manufacturing production and an increase in shipping services

C an increase in subsistence farming and a decrease in financial services

D an increase in tourism and a decrease in the export of agricultural products

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28 A newspaper headline stated ‘Free trade helps the world’s poorest’.

Why might this be correct?

A Employment will be focused in hi-tech industries.

B Environmental disasters will be avoided.

C Free trade reduces competitiveness for domestic firms.

D The cost of living is likely to go down with free trade.

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29 A trade union succeeds in raising the wages in an industry above the current 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

30 What would reduce the volume of international trade in the world economy?

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ECONOMICS **0455/21**

Paper 2 Structured Questions **October/November 2019**

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.

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Section A

Answer this question.

1 New York: A Global Financial Centre

New York is the best city in the world in terms of human capital according to the Global Financial Centres Index. This, along with economic freedom that encourages new business start ups, has contributed to high economic growth rates. In fact, the city's economic growth rate is higher than the GDP growth rate for the entire USA. Overall, New York's economy grew 3.4% in 2015, faster than the 2.4% recorded nationally. However, land area is scarce, especially in the Manhattan district of New York, where most economic activity is concentrated.

The financial sector is the most important sector in the city's economy – New York is home to the first and second largest stock exchanges in the world and 3 of the top 10 largest banks in the USA have their headquarters in New York. Improvements in education also contribute to New York's fast economic growth rate as New York continues to attract students from all over the world and from various areas of study.

Unemployment rates in the city continue to fall. In addition, average weekly wages in New York are consistently higher than the rest of the USA. Table 1.1 shows the average weekly hours worked and average weekly wages in New York between 2011 and 2017.

Table 1.1 Average weekly hours worked and average weekly wages in New York, 2011–17

	Average weekly hours worked	Average weekly wages (US$)
2011	33.9	906.83
2012	34.1	933.66
2013	33.5	932.31
2014	33.4	935.87
2015	33.5	961.45
2016	33.4	976.95
2017	33.5	1011.03

New jobs that are created today are in middle and low-paying jobs, not in high-paying jobs. Finance industry workers are 20% of the workers in the city, but they earn more than half of all the wages paid in New York. The pay gap between workers in the finance industry and the 1.6 million other workers in the city continues to widen. This is often due to the lack of skills of the lower paid workers and also the male-dominance in the finance industry.

In addition to the income inequality, continuous economic development in the city has affected the environment. The ever-expanding finance industry is also creating the risk of a repetition of the 2007–08 Global Recession with the possibility of bank failures. Rising trade protection by the US government may negatively affect American cities such as New York, especially while Asian cities such as Singapore, Hong Kong, and Shanghai continue to open up to free trade.

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(a) State a factor of production and identify an example of it from the extract. [2]

(b) Explain, using information from the extract, **two** causes of economic growth in New York. [4]

(c) Calculate, using information from the extract, the total number of workers in New York. [2]

(d) Analyse, using Table 1.1, the relationship between average weekly hours worked and average weekly wages. [5]

(e) Explain, using information from the extract, **one** reason for differences in earnings between different jobs in New York. [2]

(f) Explain, using information from the extract, the possible negative effects of economic growth in New York. [4]

(g) Discuss the advantages and disadvantages of a city having a large tertiary sector. [5]

(h) Discuss whether or not opening up to free trade benefits an economy. [6]

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Section B

Answer any **three** questions.

2 In 2017, two firms in the chemical industry in China merged. This created the world's largest chemical group with approximately US$100 billion revenue. The main aim of this integration was to control the domestic market for chemicals and fertilisers by creating a monopoly. The new firm is a multinational company (MNC) as it also produces in other countries such as Italy and Switzerland.

(a) Define *industry*. [2]

(b) Explain **two** types of integration (merger). [4]

(c) Analyse the advantages that an MNC has over a firm which only produces domestically. [6]

(d) Discuss whether or not an economy benefits from firms which are monopolies. [8]

3 Estonia has one of the fastest internet speeds in the world. The government allows both direct and indirect taxes to be paid online. According to the World Bank, it is very easy for a firm to deal with construction permits and to register property in Estonia. A low level of government regulation affects how easy it is to start and to run a firm. Many new firms are labour-intensive but some become more capital-intensive as they grow.

(a) Identify **one** example of a direct tax and **one** example of an indirect tax. [2]

(b) Explain **two** reasons why a firm may become more capital-intensive as it grows. [4]

(c) Analyse, using a production possibility curve (PPC) diagram, the possible effects of faster internet speeds for economic growth. [6]

(d) Discuss whether or not an economy would benefit from less government regulation. [8]

4 In 2016, Argentina's annual inflation was 20%, down from 40% in 2015. Inflation had been high since 2003. Wages were constantly adjusted upwards. In addition, some employees demanded more non-wage benefits. Industrial action, often in the form of strikes called by trade unions, became more common in Argentina.

(a) Identify **two** non-wage factors that could affect an individual's choice of occupation. [2]

(b) Explain **two** causes of inflation. [4]

(c) Analyse the impact of strikes on an economy. [6]

(d) Discuss whether or not an increase in wages will reduce a firm's profit. [8]

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5 The Monetary Authority of Singapore (MAS), the government body which controls the monetary policy of the country, has allowed the Singapore dollar to appreciate. However, the high cost of the Singapore dollar has created a need for new incentives for firms, such as a reduction in taxes and granting subsidies.

(a) Define *monetary policy*. [2]

(b) Explain **two** functions of money. [4]

(c) Analyse the consequences of an appreciating currency on the current account of the balance of payments of a country. [6]

(d) Discuss whether or not a reduction in taxes is beneficial for an economy. [8]

6 A local manufacturer of medicines (pharmaceuticals) in Nigeria wants to expand which will increase the contribution of this industry to the Gross Domestic Product (GDP) of the country. This firm's expansion may enable Nigeria to reduce its dependence on imports of medicines and may make medicines more affordable. To ensure success, however, the firm will need to increase its investment in research and development.

(a) Define *Gross Domestic Product (GDP)*. [2]

(b) Explain **two** ways in which more affordable medicines can improve standards of living. [4]

(c) Analyse how investment in research and development (R&D) can help a firm to grow in size. [6]

(d) Discuss whether or not a reduction in imports is beneficial to an economy. [8]

7 In 2017, the UK included bicycle helmets for the first time in its calculation of the consumer prices index (CPI). Many bicycle retailers now provide their customers with a choice of bicycle helmets. Estimates show that 25 million bicycle helmets are sold globally per year and the number sold is on a steady upward trend.

(a) Define *choice* and give an example. [2]

(b) Explain how the CPI is calculated. [4]

(c) Analyse the possible reasons for the increase in global demand for bicycle helmets. [6]

(d) Discuss whether or not increasing sales of a product will be beneficial to a firm. [8]

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ECONOMICS **0455/22**

Paper 2 Structured Questions **October/November 2019**

2 hours 15 minutes

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Section A

Answer this question.

1 Driverless cars and advances in technology

It is predicted that driverless cars, powered by electricity, will be on the roads by 2030. Driverless cars have already been tried out on the roads in some cities, including Pittsburgh in the USA. It is thought that driverless cars will reduce accidents, will have lower repair costs and will create less pollution.

At first, the supply of driverless cars may exceed the demand, but it is expected that they will soon grow in popularity. As more driverless cars come into use, the demand for bus travel and petrol stations may decline, and some taxi drivers may be made redundant. In contrast, the increased access to transport that driverless cars will give to people, including the elderly, is likely to increase demand for out of town restaurants and places of entertainment.

It has been forecast that the technology being developed in connection with driverless cars will make the supply of them elastic. It is predicted that an 8% rise in the price of driverless cars would cause a 20% rise in the quantity supplied.

Advances in technology and the replacement of workers by machines are forecast to destroy 80 million jobs in the USA. Job losses are also forecast in other countries and trade unions are likely to be less able to resist these due to a fall in membership and governments reducing the power of trade unions. Among the jobs thought to be at risk are accountants, train drivers and financial advisers. Demand for workers in other occupations, including doctors and dentists, may increase but there is a risk that unemployment may rise. The more educated workers are, the more easily they can move from one occupation to another. Table 1.1 shows education spending as a percentage (%) of GDP and the unemployment rate in selected countries.

Table 1.1 Education spending and the unemployment rate in selected countries

Country	Education spending as a % of GDP	Unemployment rate (%)
Argentina	5.3	8.0
Brazil	5.8	13.5
Ghana	6.5	12.0
New Zealand	7.3	4.8
South Africa	6.0	26.0
USA	8.2	4.7

Jobs selling houses and flats may decline but it is expected that the demand for building workers may increase. Some people welcome house building in their area but others oppose it.

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(a) Identify, from the extract, **two** pairs of substitutes. [2]

(b) Explain, using information from the extract, whether the market for driverless cars is expected to be in equilibrium in 2030. [2]

(c) Calculate, using information from the extract, the price elasticity of supply (PES) of driverless cars. [2]

(d) Explain, using information from the extract, **two** external costs that driverless cars could reduce. [4]

(e) Analyse, using Table 1.1, the relationship between educational spending and the unemployment rate. [5]

(f) Discuss whether or not an increase in house building will benefit the people who live in the area. [5]

(g) Explain, using information from the extract, **two** reasons why the power of trade unions may decline in the future. [4]

(h) Discuss whether or not a rise in unemployment is harmful. [6]

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Section B

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

2 It is predicted that the UK economy will avoid another recession in the next two decades and that its population will increase significantly by 2040. Most of this predicted increase will come from immigration. By 2040, it is also expected that one in twelve people will be aged over 80. A number of countries, including some low-income countries, may have a more rapid population growth rate than high-income countries.

(a) Identify **two** reasons why people are living longer. [2]

(b) Explain **two** reasons why net immigration may increase the standard of living in a country. [4]

(c) Analyse how fiscal policy could be used to stop a recession. [6]

(d) Discuss whether or not low-income countries have a faster rate of population growth than high-income countries. [8]

3 In 2015, the Malaysian government set out its objectives to increase productivity and savings. There has been higher consumer expenditure, driven in part by higher wages received mainly by older workers. However, low levels of savings remain a concern. Savings provide funds for investment (spending on capital goods) which contributes to economic growth and can influence inflation.

(a) Identify **two** ways a government could encourage saving. [2]

(b) Explain **two** reasons why productivity may increase. [4]

(c) Analyse how an increase in investment could influence inflation. [6]

(d) Discuss whether or not older workers are paid more than young workers. [8]

4 Mali is a developing country. Its Human Development Index (HDI) rose from 0.297 in 2000 to 0.442 in 2016. Most of Mali's workers are employed in agriculture and cotton is the country's main agricultural crop. The country's main export, however, is gold. The country is the third largest exporter of gold in Africa.

(a) Identify **two** components of the HDI. [2]

(b) Explain how the proportion of a country's resources devoted to the primary, secondary and tertiary sectors change as its economy develops. [4]

(c) Analyse, using a demand and supply diagram, how a fall in the price of cotton would affect the market for cotton shirts. [6]

(d) Discuss whether or not an increase in the size of a country's gold mining industry will benefit an economy. [8]

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5 In May 2017, the price of olive oil rose by more than 10%. This was caused by a drought in Greece, Italy, Spain and Tunisia, the major producing countries. Global supply was forecast to fall by 14% in 2017. Demand for olive oil fell in Europe, but rose in a number of other countries including Australia, Brazil and China. Some basic food items, including bread and rice, are taxed in some countries but are subsidised in other countries.

(a) Identify **two** examples of land used in growing agricultural crops. [2]

(b) Explain why the concept of price elasticity of supply (PES) may be useful to a government in deciding whether to subsidise the production of a product. [4]

(c) Analyse why the demand for a product may be higher in one country than in another country. [6]

(d) Discuss whether or not the government should influence the production of basic food items, such as bread or rice. [8]

6 The Indian government subsidises the country's exports of cotton textiles. The USA, the largest buyer of Indian cotton textiles, benefited from this. India planned to stop the subsidy by 2019. This was welcomed by other cotton textile exporters. The USA may not be much affected, in part, because income usually rises in the country. The value of the Indian rupee against the US dollar was relatively stable in this period but rose slightly in mid-2017.

(a) Identify the difference between an export and an import. [2]

(b) Explain how a rise in the income of its main trading partners may affect a country's trade in goods balance. [4]

(c) Analyse how a rise in a country's foreign exchange rate may affect its unemployment rate. [6]

(d) Discuss whether or not a government should subsidise its exports. [8]

7 More agricultural markets come close to perfect competition than markets for manufactured goods and for services. The goals of business organisations can vary between markets, and within markets. In 2017, the Nigerian government used supply-side policy measures to influence the goals and performance of firms in a range of markets and to lower firms' average costs of production.

(a) Identify **two** characteristics of perfect competition. [2]

(b) Explain **two** goals a business organisation may have. [4]

(c) Analyse the main reasons for the differences in the size of firms. [6]

(d) Discuss whether or not the use of supply-side policy measures by a government will reduce firms' average costs of production. [8]

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Section A

Answer this question.

1 A new capital for Zambia?

Zambia is a middle-income country but one with 60% of its population of 15 million living below the poverty line. In 2017, the Zambian government announced that it was planning to move the country's capital from Lusaka in the south of the country to Ngabwe, a village in the centre of the country. Ngabwe currently lacks good roads and other infrastructure. A move to Ngabwe, however, may help the country to cope with its high rate of population growth and encourage entrepreneurs to set up new businesses in that area. In 2017, the country had a zero net migration rate, a birth rate of 41.8, a death rate of 12.4, and a life expectancy of 52.5 years.

Zambia's economic growth rate averaged 6.8% between 2004 and 2014. This rate fell after 2014 due, in part, to a depreciation in the kwacha, Zambia's currency. The reduction in the foreign exchange rate of the kwacha contributed to the rise in the country's inflation rate from 10.1% in 2015 to 20.6% in 2016.

In 2017, the labour force of 7.2 million accounted for 48% of the country's population. Workers are employed in a range of industries including agriculture, banking, building, copper mining, and emerald mining. Fig. 1.1 shows the relationship between copper output and revenue from the sale of copper, the index for 2010 is 100.

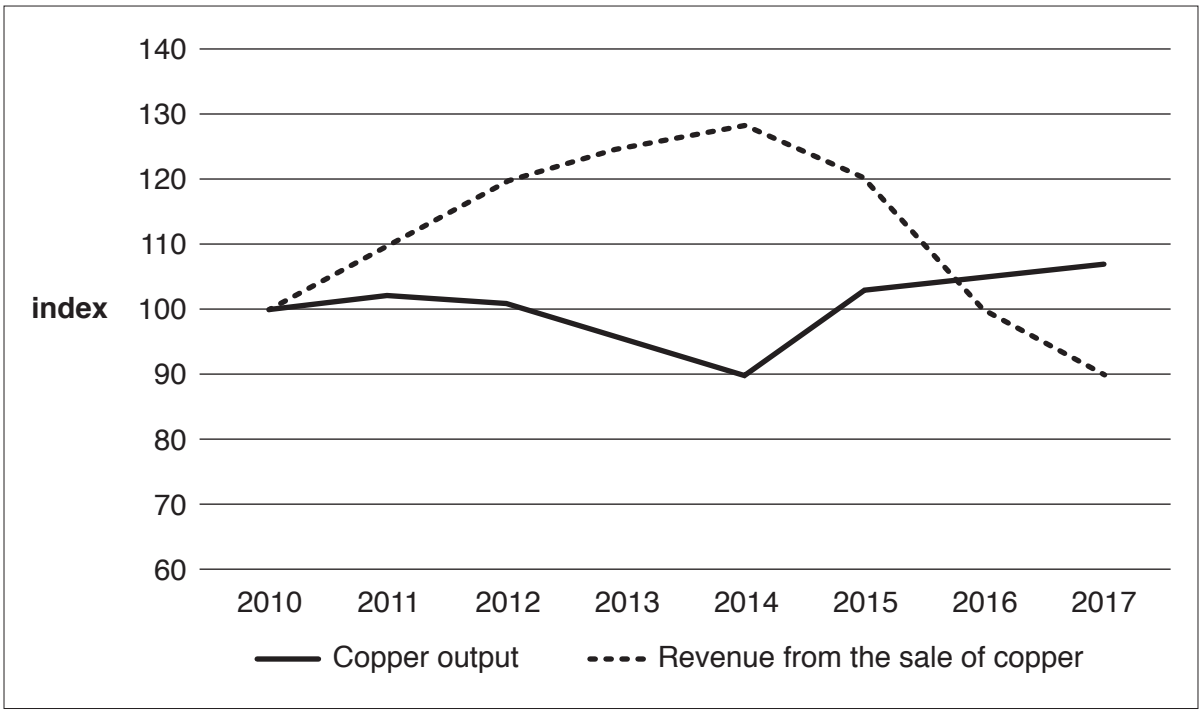

Fig. 1.1 Copper output and revenue from the sale of copper 2010—17 (index numbers)

In 2017, Zambia's central bank reduced commercial bank lending. This lowered investment and household borrowing. Government spending rose more slowly and some cuts were made to the government's spending on training.

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(a) Identify, from the extract, **two** primary sector industries. [2]

(b) Calculate, using information from the extract, how many people in Zambia lived in poverty in 2017. [2]

(c) Explain, using information from the extract, why Zambia had a high rate of population growth in 2017. [2]

(d) Explain, using information from the extract, why a depreciation of the kwacha harmed the Zambian economy. [4]

(e) Analyse, using Fig. 1.1, the relationship between copper output and revenue from the sale of copper. [5]

(f) Discuss whether or not a central bank should reduce commercial bank lending. [5]

(g) Explain, using information from the extract, **two** reasons why productivity may have been low in Zambia. [4]

(h) Discuss whether or not building a new city will benefit an economy. [6]

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Section B

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

2 Between 2007 and 2017, the average wage in China tripled, while it fell in Brazil. The rise in average wage in China was particularly high in the tertiary sector. Farm workers experienced a smaller rise. In June 2017, unemployment in China was only 4% while it was 13.5% in Brazil. Despite the lower unemployment, China's inflation rate was lower than that of Brazil.

(a) Define *tertiary sector* and give an example of an industry operating in the tertiary sector. [2]

(b) Explain **two** reasons why farm workers may be low-paid. [4]

(c) Analyse how lower unemployment may cause inflation. [6]

(d) Discuss whether or not a country with high wage rates will have a high unemployment rate. [8]

3 The food items people buy can be influenced by taxes, subsidies and health reports. A report published in 2017 outlined the health benefits of eating tomatoes including improved vision and reduced risk of heart disease. Egypt is a major producer of tomatoes and it also produces a large amount of cement. Cement is a product with price-inelastic demand. Egyptian cement producers have introduced more capital-intensive production methods.

(a) Identify the difference between *a tax* and *a subsidy*. [2]

(b) Explain **two** reasons why demand for a product may be price-inelastic. [4]

(c) Analyse, using a demand and supply diagram, the effect a report stating that eating tomatoes is good for health will have on the market for tomatoes. [6]

(d) Discuss whether or not introducing more capital-intensive production methods will increase a firm's profits. [8]

4 Australia's economic growth rate has fallen in recent years. Its Human Development Index (HDI), however, is high and in 2016, Australia had the second highest HDI in the world. The Australian government hopes that the country's birth rate will rise from a low of 12.1 in 2016. An increasing proportion of Australian children are going to private sector schools. Their parents have to pay a fee for them to attend these schools.

(a) Identify the difference between *economic growth* and *recession*. [2]

(b) Explain how the HDI compares living standards between countries. [4]

(c) Analyse the effects of a rise in a country's birth rate. [6]

(d) Discuss whether or not parents should have to pay a fee to send their children to school. [8]

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5 Angola is an African country without a stock exchange. In contrast, South Africa has the most active stock exchange in Africa. Firms in South Africa are also much larger than firms in Angola and South African firms undertake more borrowing from commercial banks. Both countries do, however, have a low saving rate which could be increased if the rate of interest was raised.

(a) Define *saving*. [2]

(b) Explain **two** benefits a country can gain from having a stock exchange. [4]

(c) Analyse how firms may be affected by a rise in the rate of interest. [6]

(d) Discuss whether or not an economy will benefit from its firms getting larger. [8]

6 It has recently been revealed that a king works as a part-time pilot for a multinational airline. Some pilots and police officers have left their jobs to become teachers and others have left to become sole traders. The wages teachers earn vary according to their age.

(a) Define *wages*. [2]

(b) Explain why the opportunity cost of becoming a teacher for one worker may be greater than for another worker. [4]

(c) Analyse how an individual's earnings are likely to change over her or his lifetime. [6]

(d) Discuss whether most people would prefer to work for a multinational company (MNC) or a sole trader. [8]

7 In 2016, France had a trade in services deficit. France is a rich, developed country with a high standard of living. The country is, however, facing several challenges including population problems. Also, after elections in 2017, politicians and economists debated whether the country should try to move towards freer international trade.

(a) Define *a trade in services deficit*. [2]

(b) Explain **two** population problems a rich, developed country may experience. [4]

(c) Analyse how a move to freer international trade may benefit a country's producers. [6]

(d) Discuss whether or not the standard of living is higher in developed countries than in developing countries. [8]

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ECONOMICS **0455/01**

Paper 1 Multiple Choice **For examination from 2020**

SPECIMEN PAPER **45 minutes**

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- 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 multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

This document has **10** pages. Blank pages are indicated.

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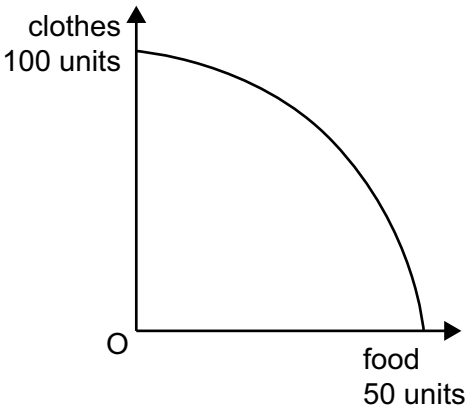
1 Using all available resources an economy produces different combinations of two types of good, clothes and food, shown on the production possibility curve (PPC) diagram.



What does the PPC indicate?

A It is more efficient to produce more of clothes than food.

B It is only possible to increase the output of clothes by reducing the output of food.

C The best situation is to produce equal units of clothes and food.

D The cost of producing a unit of clothes is always higher than the cost of producing a unit of food.

2 A government subsidised a new factory in a rural area to create jobs. It also provided training courses at a college. Objectors claimed the development would destroy an area of natural beauty.

What concepts are involved in this statement?

A economic growth, resource allocation, free market equilibrium

B government intervention, monetary policy, opportunity cost

C public good, market prices, fiscal policy

D supply-side policy, negative externalities, factors of production

3 Reena makes a living by selling paintings of the town in which she lives. She sells them in an open-air market once a week.

In order to be able to sell more pictures in a week she decides to buy a studio, pay someone to help in the studio and try to increase demand by advertising in the local paper.

Which factors of production were changed?

A capital only

B labour and capital

C labour and land

D labour only

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4 A market consists of 10 individuals with different demand curves in a given period.

What is a calculation that could be used as part of the process to determine the market equilibrium in that period?

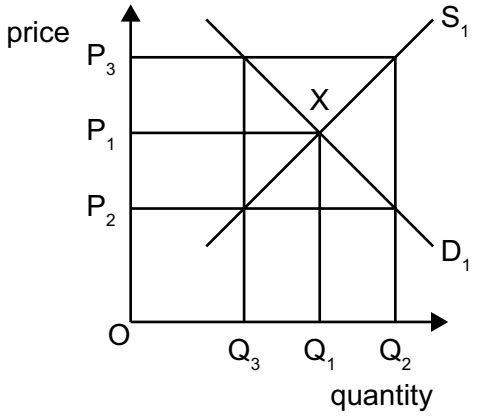
A at each price add the quantities demanded by each individual

B at each quantity average the price that each individual is prepared to pay

C combine the price elasticity of demand (PED) and the price elasticity of supply (PES) at each price

D determine the PED and multiply it by the quantity demanded

5 The diagram shows the market for a good. The equilibrium is at point X. The government fixes a minimum price for the good at P_2.



What will happen in the market as a result?

A The market equilibrium will remain the same.

B The quantity demanded will rise to Q_2.

C The quantity supplied will fall to Q_3.

D There will be an excess supply.

6 How might the concept of price elasticity of demand (PED) be useful for a government?

A to determine the effect on employment of a change in income tax

B to determine the effect on government revenue of a rise in the rate of interest

C to determine the effect of providing a public good

D to determine the result of imposing a tariff on imports

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7 Governments sometimes intervene in the economy when the market fails.

What is the **most** likely reason why government intervention may make the situation worse?

A Government decisions can take a long time to have an effect.

B Governments consider the views of both consumers and producers.

C Governments have more resources to calculate costs and benefits than private firms.

D Governments may take decisions to reduce negative externalities.

8 Which function do central banks and commercial banks have in common?

A acting as a banker's bank

B controlling monetary policy

C dealing with foreign exchange

D supervising the banking system

9 What may cause an individual to save a higher proportion of their income?

A a belief that the price of goods will rise in the future

B a fall in the rate of interest paid by the country's banks

C a fear that income will fall in the future

D a rise in the individual's wish to enjoy higher consumption immediately

10 When might a trade union be **most** likely to achieve a good pay deal for its members?

A when labour costs are a high percentage of the firm's total costs

B when rival firms successfully introduce an alternative product

C when the firm is introducing capital-intensive production

D when the firm is making large profits

11 What is found in a competitive market?

A Every firm earns large profits.

B Firms with limited capital can enter the market.

C The costs of production are always lower than in a monopoly.

D There is limited choice for consumers.

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12 What benefit is likely to result from the extension of specialisation within manufacturing?

A For a consumer, there are more individually made goods available.

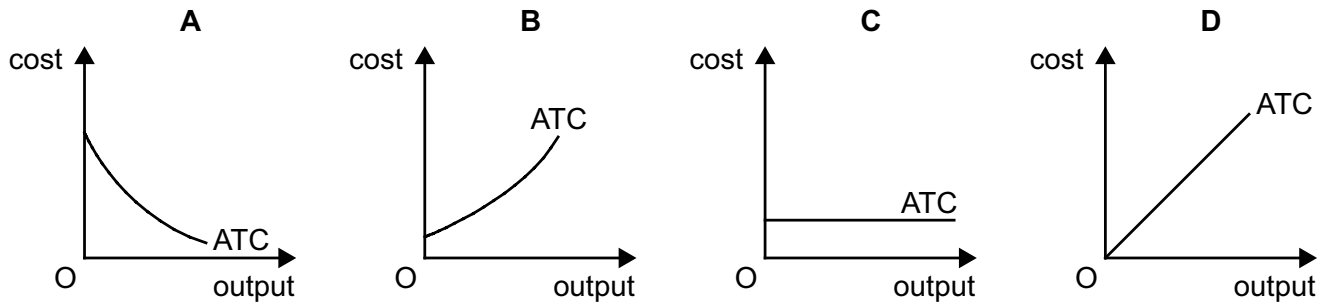
B For a consumer, there could be a lower cost of living.

C For an employee, job satisfaction will increase.

D For an employee, the nature of work is more varied.

13 The diagrams show the average total cost (ATC) curves of four firms and how they change as output increases.

Which firm has the highest fixed costs?



14 The table shows a firm's total revenue and total cost at different levels of output.

Which level of output gives maximum profit?

	output (units)	total revenue ($)	total cost ($)
A	10	15	15
B	20	20	18
C	30	25	20
D	40	30	21

15 A large pizza chain in the US decided to sell sandwiches as well to try to increase its revenue.

Which term describes this change?

A diversification

B externalities

C horizontal merger

D vertical merger

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16 Why might a government encourage a monopoly?

A It can compete against foreign firms.

B It can have high average costs.

C It can make excessive profits.

D It can prevent innovation.

17 What is the **most** likely result of an increase in interest rates?

A a fall in consumer spending

B a fall in productivity

C a rise in borrowing

D a rise in investment

18 The table shows a government's receipts from taxation.

	$m
tax on company profits	100
income tax	600
import duties	30
sales tax	250

What is the total amount of revenue raised by direct taxes?

A $280m **B** $700m **C** $730m **D** $950m

19 Which combination of government policies is **most** likely to increase the rate of growth of domestic production in an economy?

A an increase in expenditure on infrastructure and an increase in income tax

B an increase in interest rates and an increase in quotas on imported goods

C an increase in sales tax and an increase in education expenditure

D an increase in subsidies to domestic industry and an increase in tariffs

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20 The managers of a firm have to discuss the following topics.

Which topic is **least** likely to be directly affected by the government's influence on the firm?

A health and safety laws

B replacing one of its managers

C the interest it pays on borrowed money

D the minimum wage it must pay its workers

21 In the construction of a consumer prices index (CPI), a total weight of 1000 is used.

If a weight of 300 is given to food and a weight of 150 is given to transport, then

A consumers are spending half as much on transport as they do on food.

B consumers must be spending more on necessities than on luxury goods.

C food prices must be rising twice as fast as transport prices.

D the weights cannot be changed until the index reaches 1000.

22 The table shows unemployment and inflation statistics for the US, Japan and Sweden for year 1 and year 2.

country	unemployment (%)		inflation (% pa)	
	year 1	year 2	year 1	year 2
US	4.8	4.4	5.6	3.4
Japan	2.7	2.7	1.7	0.7
Sweden	2.7	3.2	8.3	6.6

Which conclusion can be made from the table?

A In year 1, the cost of living rose in the US.

B In year 1, the same number of people were unemployed in Sweden and Japan.

C The number of unemployed people decreased in all three countries.

D Unemployment and inflation moved in the same direction in Japan.

23 Why is the Human Development Index (HDI) a better indicator of comparative living standards than Gross Domestic Product (GDP) per head?

A It includes international trade.

B It includes more measures of living standards.

C It is measured in money terms.

D It is more directly linked to economic growth.

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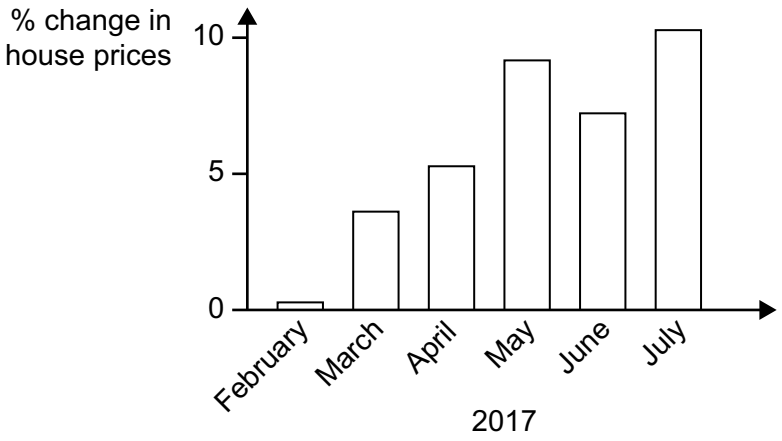
24 The diagram shows percentage changes in house prices in an economically developed country.



What might have caused these changes in prices?

A an increase in government subsidies to house builders

B an increase in income

C an increase in the supply of houses

D an increase in unemployment

25 What is meant by an optimum population for a country?

A a population that balances its birth rate and its death rate

B a population that maximises output per head

C a population that results in fewest negative externalities

D a population that uses all resources available

26 What does a population pyramid of a country show?

A its age and sex distribution

B its employment pattern

C its income distribution

D its migration pattern

27 What is usually found in a developed country?

A a high GDP per head with a low level of employment

B a high level of labour skills with a low level of car ownership

C a high rate of adult literacy with a low level of poverty

D a high rate of population growth with a low level of labour productivity

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28 What is the **least** likely feature of globalisation?

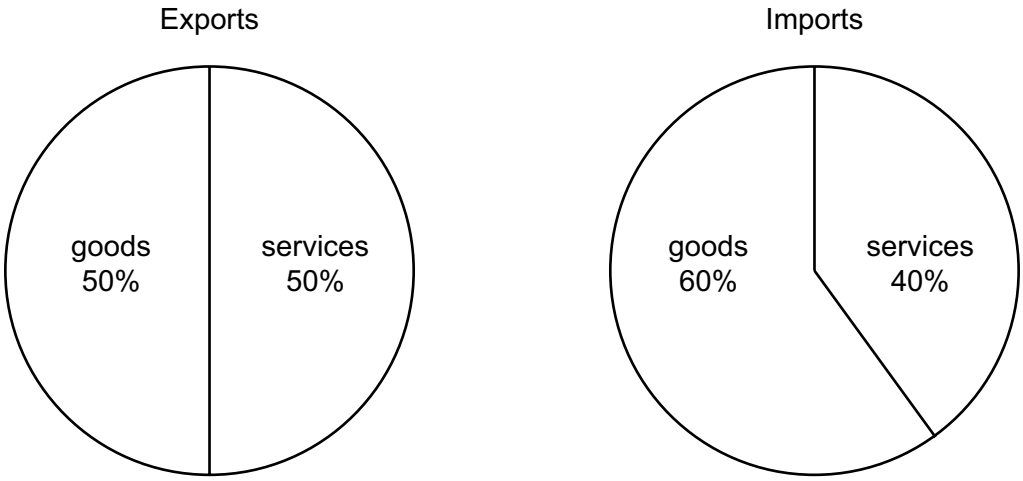
A integration of trade

B international capital flows

C the spread of multinational companies

D unrestricted movement of labour

29 The diagrams show the composition of exports and imports of a country.



total exports $120 million

total imports $100 million

What is true for this country?

A There is a deficit in the balance of trade in goods.

B There is a deficit in the balance of trade in services.

C There is a surplus in the balance of trade in goods.

D There is a surplus in the balance of trade in services.

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30 Countries in Europe were in a recession in 2012. World oil prices were expected to fall. In fact in 2012, oil prices rose.

Which international events might explain this?

	possible causes of the expected fall in oil prices	possible causes of the oil price rise in 2012
A	European industrial production declined	China increased its car production
B	India invested huge amounts in road building	Japan's economy had negative growth
C	Middle East conflicts made oil supplies uncertain	Saudi Arabia increased oil production
D	new oil exploration in Poland was successful	demand for alternative fuels increased

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ECONOMICS **0455/02**

Paper 2 Structured Questions **For examination from 2020**

SPECIMEN PAPER **2 hours 15 minutes**

You must answer on the enclosed answer booklet.

You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **four** questions in total:
  - Section A: answer **Question 1**.
  - Section B: answer **three** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **6** pages. Blank pages are indicated.

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Section A

Read the source material carefully before answering Question 1.

Source material: Kenya's flower industry

Kenya fact file	**2015**
population	47 million
labour force	18 million
unemployment rate	10%
GDP per head	$3200

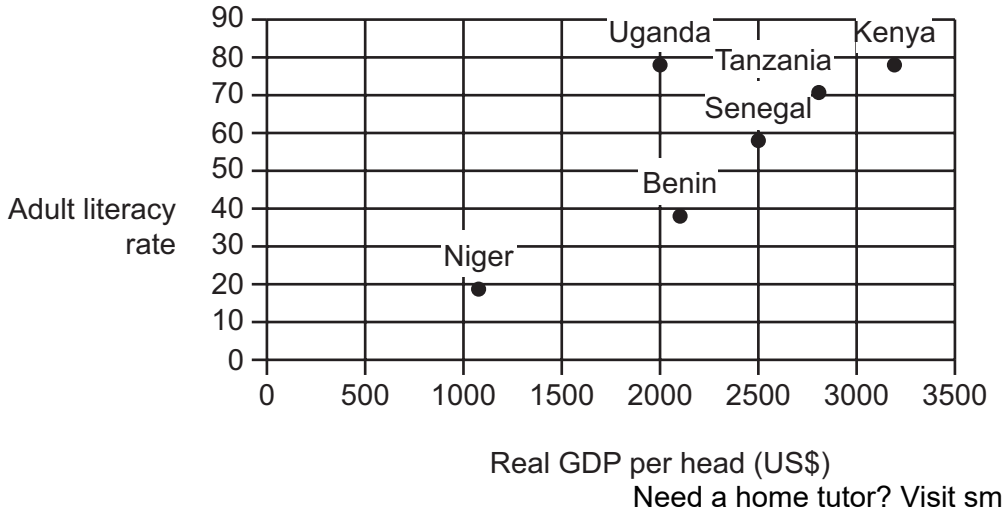
Kenya has a growing global reputation for high quality flowers and is the world's third largest producer of flowers. Production of flowers contributes to employment and to Kenya's gross domestic product (GDP) which increased in 2015. Most of the flowers are grown in an area that has the right conditions for growing flowers. It has a ready supply of water, fertile soil, warm days and cool nights, and is close to the capital's airport in Nairobi. Kenya's exports of flowers increased significantly between 1990 and 2015, and flowers are now the country's second biggest export earner after tea. Many of Kenya's flowers are sold to the UK, US and Russia for special occasions including Mother's Day, Thanksgiving and Women's Day. On these days, demand not only increases but also becomes more price-inelastic.

Kenya's flower industry faces a number of challenges. A change in temperature can slow down production so that producers can fail to deliver their flowers on time, for example to Russia in time for Women's Day. This can result in demand exceeding supply and shortages occurring. At other times there is a surplus of supply with some flowers remaining unsold. Kenyan producers are also affected by changes in the foreign exchange rate and the country's interest rate.

In 2015, the value of the Kenyan shilling (KES) depreciated from KES88 to KES98 = US$1. The country's interest rate rose to 16.5% in the same year. The country faces fierce competition in the flower industry from several countries.

As well as challenges, the industry also has a number of strengths. Many people would like to work in the industry as the wages are higher than in most other Kenyan agricultural jobs. Productivity has increased each year since 2000, in part, because of improved educational standards. Fig. 1 shows the relationship between real GDP per head and the adult literacy rate in a number of African countries.

Fig. 1 The relationship between real GDP per head and the adult literacy rate in selected African countries



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Answer all parts of Question 1. Refer to the source material in your answers.

1 **(a)** Calculate the number of people unemployed in Kenya in 2015. [1]

(b) Identify **two** reasons why the total amount saved in Kenya is likely to have increased in 2015. [2]

(c) Explain the effect that a rise in the price of flowers on Women's Day in Russia would be likely to have on flower producers' revenue. [2]

(d) Analyse the evidence that shows the market for flowers is sometimes in disequilibrium. [4]

(e) Explain **two** reasons why the price of Kenyan flowers may have fallen in the US in 2015. [4]

(f) Analyse the relationship between real GDP per head and the adult literacy rate. [5]

(g) Discuss whether or not an increase in wages will always attract more people to work in Kenya's flower industry. [6]

(h) Discuss whether or not Kenya should continue to specialise in producing flowers. [6]

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Section B

Answer any **three** questions.

Each question is introduced by stimulus material. In your answer you may refer to this material and/or to other examples that you have studied.

2 Since 1990, the population of Lithuania has fallen by one fifth because of net emigration. People usually leave in search of better living standards. In 2015, there were signs of improved macroeconomic performance as real GDP per head rose and unemployment fell. People expected that the decline in unemployment would affect the country's inflation rate and might also turn the government's budget deficit into a budget surplus.

(a) Define *budget deficit*. [2]

(b) Explain **two** reasons why a country may experience a decline in living standards at the same time as an increase in real GDP per head. [4]

(c) Analyse how a fall in unemployment may increase a country's inflation rate. [6]

(d) Discuss whether or not a country will gain from the emigration of some of its people. [8]

3 India and Ecuador are two major producers of bananas. India is the world's largest producer of bananas while Ecuador is the world's largest exporter. Multinational companies (MNCs) produce some of the bananas in both countries. The World Health Organization (WHO) recommends that each person should eat 400 grams of fruit and vegetables a day. To encourage people to eat more fruit and vegetables governments may use policy measures such as maximum prices and subsidies.

(a) Define *maximum price*. [2]

(b) Explain **two** reasons why the supply of bananas may decrease. [4]

(c) Analyse the factors which lead an MNC to produce in particular countries. [6]

(d) Discuss whether or not a government subsidy given to fruit producers will benefit consumers. [8]

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4 Tanzania is a low-income country with relatively high import tariffs. Between 2012 and 2015, Tanzania experienced a high economic growth rate. This allowed the government to provide more public goods. The government also increased its investment in the merit goods of education and healthcare. Tanzania's central bank influenced household borrowing and spending with the aim of achieving price stability. As a result the country's inflation rate fell, with money losing less of its value.

(a) Identify **two** characteristics of money. [2]

(b) Explain why governments provide public goods. [4]

(c) Analyse how a central bank might reduce household borrowing. [6]

(d) Discuss whether or not a government should impose tariffs on its country's imports. [8]

5 There is a range of factors that influence the supply of economic goods, including natural disasters. Recently a series of earthquakes in one country destroyed buildings, including factories and offices. One factory that survived has since increased its scale of production. This firm has employed more factors of production and has experienced a fall in its average cost of production.

(a) Define *economic good*. [2]

(b) Explain **two** influences on what factors of production a firm uses. [4]

(c) Analyse, using a production possibility curve diagram (PPC), the effect of the destruction of some of its resources on an economy. [6]

(d) Discuss whether or not the average cost of production always falls when a firm increases its scale of production. [8]

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ECONOMICS **0455/01**

Paper 1 Multiple Choice **For examination from 2020**

MARK SCHEME

Maximum Mark: 30

Specimen

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

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ECONOMICS **0455/02**

Paper 2 Structured Questions **For examination from 2020**

MARK SCHEME

Maximum Mark: 90

Specimen

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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).

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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.

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Question	Answer	Marks
Section A		
1(a)	**Calculate the number of people unemployed in Kenya in 2015.** 1.8 million (1).	**1**
1(b)	**Identify <u>two</u> reasons why the total amount saved in Kenya is likely to have increased in 2015.** Higher income/real GDP per head (1) a higher interest rate (1).	**2**
1(c)	**Explain the effect that a rise in the price of flowers on Women's Day in Russia would be likely to have on flower producers' revenue.** Increase (1) as demand is price-inelastic (1).	**2**
1(d)	**Analyse the evidence that shows the market for flowers is sometimes in disequilibrium.** Coherent analysis which might include: Demand exceeding supply/shortages occurring (1) price being too low (1) the market not clearing (1). Supply exceeding demand/surplus occurring (1) price being too high (1) the market not clearing (1).	**4**
1(e)	**Explain <u>two</u> reasons why the price of Kenyan flowers may have fallen in the US in 2015.** Logical explanation which might include: Rise in productivity (1) this could have reduced costs of production (1). Depreciation of the exchange rate (1) would have lowered price of Kenyan exports (1).	**4**

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Question	Answer	Marks
1(f)	**Analyse the relationship between real GDP per head and the adult literacy rate.** Coherent analysis which might include: The relationship shown is largely a positive one (1) as real GDP per head rises so does adult literacy (1) example that supports the relationship (1) Uganda is an exception (1). Countries with a higher adult literacy rate are likely to have more skilled workers (1) capable of producing a higher output (1). Countries with a higher real GDP per head are likely to have more funds to spend on education (1) more and higher quality education is likely to increase adult literacy (1).	**5**
1(g)	**Discuss whether or not an increase in wages will always attract more people to work in Kenya's flower industry.** 6 marks maximum for the question. Award up to 4 marks for logical reasons why they might, which might include: • Unemployment may remain high (1) resulting in people searching for jobs (1). • Wages are a key influencing factor in the jobs that people select to do (1) increases in wages can raise living standards (1) enabling people to consume more goods and services (1). • Higher wages may enable some people to escape poverty (1) allowing them to afford basic essentials (1). • Population is increasing (1) more people are likely to be entering the labour force (1). Award up to 4 marks for logical reasons why they might not, which might include: • Wages may rise more in other industries (1) reducing the relative pay in the cut flower industry (1). • Wages may rise by less than inflation (1) reducing real wages (1). • Workers do not base their decisions just on wages/non-wage factors may be better in other industries (1) examples e.g. better promotion opportunities, better working conditions, longer holidays (up to 2 marks).	**6**

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Question	Answer	Marks
1(h)	**Discuss whether or not Kenya should continue to specialise in producing flowers.** 6 marks maximum for the question. Award up to 4 marks for logical reasons why it should, which might include: • Kenya has suitable factors of production (1) e.g. a ready supply of labour (1). • Productivity has been increasing (1) if this continues Kenya may have a cost advantage (1). • The country has a good reputation in producing good quality cut flowers (1) this may increase demand for its cut flowers (1). • Cut flowers tend to be a luxury good (1) as income rises, demand may increase (1). Award up to 4 marks for logical reasons why it should not, which might include: • Supply is affected by weather conditions (1) this can lead to instability of income (1). • The exchange rate could rise (1) making exports more expensive (1) which could reduce earnings from selling flowers (1). • Competition from other countries may increase (1) reducing Kenya's share of the market (1).	6

Question	Answer	Marks
Section B		
2(a)	**Define *budget deficit*.** Government spending exceeding (1) government (tax) revenue (1).	2
2(b)	**Explain <u>two</u> reasons why a country may experience a decline in living standards at the same time as an increase in real GDP per head.** Explanations which might include: • Income may become more unevenly distributed (1) resulting in most people's living standards falling (1). • Higher output may increase pollution (1) this may cause health care problems (1). • The shadow economy may have shrunk (1) reducing output per head (1). • Working hours may have increased (1) reducing leisure time (1). • Working conditions may have declined (1) reducing the health of workers (1). • More resources may have been devoted to producing capital goods (1) which may reduce the availability of consumer goods in the short run (1).	4

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Question	Answer	Marks
2(c)	**Analyse how a fall in unemployment may increase a country's inflation rate.** Coherent analysis which might include: • A fall in unemployment may increase incomes (1) this may increase consumer spending (1) increasing total (aggregate) demand (1) causing demand-pull inflation (1). • A fall in unemployment may result in a shortage of workers (1) this may raise wages (1) increasing firms' costs of production (1) causing cost-push inflation (1).	**6**

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Question	Answer	Marks
2(d)	**Discuss whether or not a country will gain from the emigration of some of its people.**	8

In assessing each answer, use the table below.

Level	Description	Marks
3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8
2	A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	3–5
1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	1–2
0	A mark of zero should be awarded for no creditable content.	0

Why it might gain:
- Emigration of dependents, would reduce the burden on the working population, would reduce government spending on benefits/pensions, which means government spending on other items can increase.
- If there is overpopulation/population above the optimum level, output per head should rise/more efficient use can be made of resources.
- Workers who emigrate may send money back to relatives; this may increase living standards.
- Emigrants may later return to the country bringing new skills with them; this may raise the productivity of the labour force in their country of origin.

Why it might not gain:
- Skilled workers may emigrate. This will reduce the quality of the labour force, lower productivity, and discourage MNCs from setting up.
- If people of working age emigrate, the dependency ratio will increase.
- If there is under-population/population below the optimum level, output per head would fall/less efficient use can be made of resources.
- With lower output less advantage can be taken of economies of scale.

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Question	Answer	Marks
3(a)	**Define *maximum price*.** A price that producers cannot charge above a price ceiling (1) set by the government (1).	**2**
3(b)	**Explain <u>two</u> reasons why the supply of bananas may decrease.** Logical explanations which might include: • a period of bad weather/natural disaster (1) this would decrease the crop (1) • a rise in costs of production (1) e.g. higher wages paid to farm workers would make it more expensive to produce the product (1) • a government tax (1) this acts as a disincentive/is an extra cost (1) • the removal of a subsidy (1) would reduce the incentive to produce the product (1) • a change in the price of other crops (1) may encourage a shift of resources (1) • change in the availability of land (1) e.g. flooding may reduce the supply of land (1).	**4**
3(c)	**Analyse the factors which lead an MNC to produce in particular countries.** Coherent analysis which might include: • Size of market (1) if demand for the product/s produced is high in the country (1) higher revenue may be earned (1). • Costs of production (1) e.g. low wages/low raw material costs may attract multinational companies (MNCs) (1). • Availability of raw materials (1) certain raw materials e.g. copper may be found in a small number of countries (1). • Trade protection (1) MNCs may set up in a country to get round tariffs (1). • Government subsidies (1) financial help may be given to companies setting up in some countries (1). • Fewer government regulations (1) MNCs may set up in countries with fewer rules and laws (1). • Skills of workers (1) highly skilled workers will produce products of a good quality (1).	**6**

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Question	Answer	Marks
3(d)	**Discuss whether or not a government subsidy given to fruit producers will benefit consumers.**	**8**

In assessing each answer, use the table below.

Level	Description	Marks
3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	**6–8**
2	A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	**3–5**
1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	**1–2**
0	A mark of zero should be awarded for no creditable content.	**0**

Why it might benefit:
- It may provide a financial incentive to producers; effectively lowers costs of production; likely to increase supply; lower prices; enabling consumers to buy more/raising purchasing power.
- It may improve the quality of fruit; farmers will have more money to invest.
- Fruit is a merit good; consumers underestimating the private benefit to themselves of consuming fruit; they may gain health benefits from eating more fruit.

Why it might not benefit:
- The subsidy may not be passed on to consumers in the form of lower prices.
- Price will fall by a smaller amount if demand is elastic; poorer consumers may still not be able to afford to buy fruit.
- The subsidy may make producers complacent; may lower quality in the long run.
- Providing a subsidy involves an opportunity cost; consumers might benefit more from other products being subsidised.

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Question	Answer	Marks
4(a)	**Identify <u>two</u> characteristics of money.** One mark each for any two from: • general acceptability/limited in supply • portable • divisible • recognisable • homogeneous	**2**
4(b)	**Explain why governments provide public goods.** Explanations which might include: The private sector/market forces would not provide public goods (1). Public goods are non-excludable (1) it is not possible to exclude non-payers (1) so people can act as free riders (1). This means that private sector firms would have no financial incentive to provide public goods (1) such as defence (1).	**4**
4(c)	**Analyse how a central bank might reduce household borrowing.** Coherent analysis which might include: It might increase the rate of interest (1) this would increase the cost of borrowing (1) this may discourage households from buying items/encourage saving (1) that would require them to take out a loan (1). It might impose restrictions on the amount that banks can lend (1) these may limit the size of a loan a household can get (1) or increase the conditions that have to be met before a loan is given (1). It might reduce the money supply (1) which may reduce spending (1) and so may reduce demand for loans (1).	**6**

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Question	Answer	Marks
4(d)	**Discuss whether or not a government should impose tariffs on its country's imports.**	8

In assessing each answer, use the table below.

Level	Description	Marks
3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8
2	A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	3–5
1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	1–2
0	A mark of zero should be awarded for no creditable content.	0

Why they might impose tariffs:
- This will raise revenue for the government; this could be spent on e.g. healthcare/education.
- This may reduce demand for imports; improve the trade in goods position; and so improve the current account position.
- This may protect infant industries; these may grow and take advantage of economies of scale; become internationally competitive; so create output and employment.
- This may protect declining industries; preventing unemployment.
- This may prevent dumping; foreign firms selling at below cost price; domestic firms being driven out of business.
- This may protect consumers from harmful products.

Why they might not impose tariffs:
- This may raise prices to consumers; consumers may not have domestic products to switch to; any domestic substitutes may be of a lower quality; so reduces variety for consumers.
- This may raise costs of imported raw materials; raise costs of production; cause cost-push inflation.
- This may lead to reduction in competitive pressure on domestic firms; so to inefficiency.
- There may be retaliation; with other countries imposing tariffs on the country's exports.
- There may not be domestic substitutes for imports; consumers may not stop buying imports; because of inelastic demand.

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Question	Answer	Marks
5(a)	**Define *economic good*.** There is an opportunity cost involved in producing the good (1) as it takes resources to produce it (1).	**2**
5(b)	**Explain <u>two</u> influences on what factors of production a firm uses.** Explanations which might include: • the type of product produced/size of the firm (1) for instance, producing nuclear power is capital-intensive (1) • the productivity of factors of production (1) if, for instance, labour becomes more skilled, a firm might become more labour-intensive (1) • the availability of factors of production (1) in some countries there may be shortage of oil or people of working age (1) • the relative cost of factors of production (1) if capital is relatively expensive, labour-intensive methods of production may be used (1)	**4**

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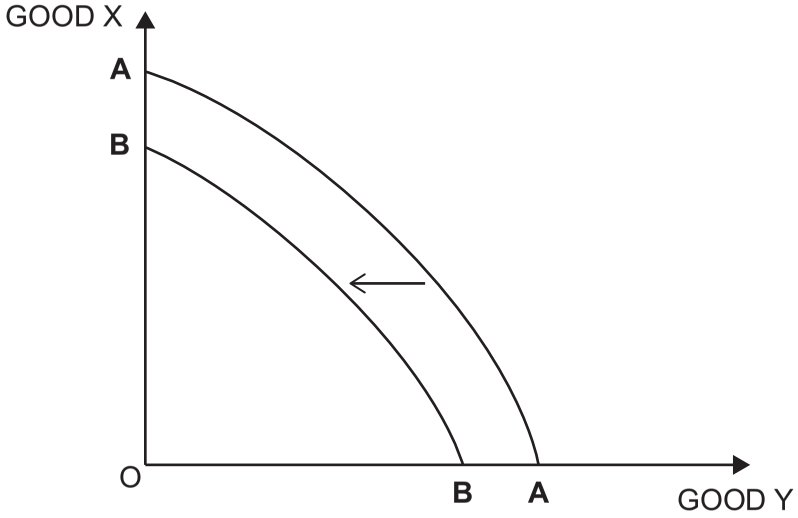
Question	Answer	Marks
5(c)	**Analyse, using a production possibility curve diagram (PPC), the effect of the destruction of some of its resources on an economy.** Up to 4 marks for the diagram.  • axes correctly labelled (1) • original curve/downward sloping line to axes (1) • new curve present (1) • shift to the left clearly indicated either by an arrow or by labelling (1) Up to 2 marks for coherent analysis which might include: • the destruction of resources will reduce the maximum output a country can produce (1) • this will move the production possibility curve to the left/closer to the origin (1)	6

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Question	Answer	Marks
5(d)	**Discuss whether or not the average cost of production always falls when a firm increases its scale of production.**	8

In assessing each answer, use the table below.

Level	Description	Marks
3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8
2	A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	3–5
1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	1–2
0	A mark of zero should be awarded for no creditable content.	0

Why it might fall:

- The firm may experience economies of scale; total cost will rise by less than total output (long run average cost may fall as output increases).
- The firm may experience buying/purchasing economies of scale; may be offered a discount price when buying raw materials in bulk.
- The firm may experience technical economies of scale; larger, more cost efficient technological equipment may be purchased to produce a higher output.
- The firm may experience managerial economies of scale; specialist staff may be employed when output is high.
- The firm may experience financial economies of scale; as output increases, it may be able to borrow more cheaply/or sell its shares at a lower price.
- The firm may experience R & D economies of scale; the R & D expenditure can be spread over a higher output.
- The industry may also be growing in size; enabling advantage to be taken of external economies of scale.

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Question	Answer	Marks
5(d)	Why it might not fall: • The firm may experience diseconomies of scale; total cost may rise by more than total output (long run average cost may increase as output increases). • The firm may experience diseconomies of scale; this may make the firm slower to respond to changing market conditions/more difficult to keep costs down. • The firm may experience communication problems; ideas may not be communicated or may be misunderstood. • The firm may experience poor industrial relations; e.g. pushing up the costs of production. • External diseconomies of scale may occur; e.g. pushing up the costs of production. Allow up to 2 marks for a correctly labelled average cost diagram which shows economies and diseconomies of scale as an alternative to describing average costs rising/falling as output increases.	

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