Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **March 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the March 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

Question	Answer	Marks	Guidance
1(a)	**Using information from the extract, identify (i) a substitute and (ii) a complement to air travel.** substitute: train travel/car travel (1) complement: taxi travel/foreign holidays (1).	**2**	
1(b)	**Explain two advantages that firms may gain from a horizontal merger.** **1 mark each for each of two advantages identified:** • able to take advantage of economies of scale • increased market share/market power • rationalisation • exchange ideas/technology **1 mark each for each of two explanations:** • larger firms may be able to reduce average costs/become more efficient/increase productivity • a direct competitor is eliminated • savings may be made by e.g. operating only one warehouse • increase innovation/better quality • higher profit	**4**	Not sufficient just to have higher demand on its own.
1(c)(i)	**Calculate the percentage of the new passenger aircraft that the USA are predicted to purchase between 2015 and 2030.** 22% (2) Correct working i.e. $6160/28\,000 \times 100$ (1).	**2**	1 mark if the final answer is different but 22% is given part way through the answer.
1(c)(ii)	**Calculate the percentage change in demand for air travel if the price of air travel falls by 15%.** 18%/18 (2) Correct working i.e. $-1.2 \times 15\%$ or 0.18 (%). Or 1.8 (%) (1).	**2**	

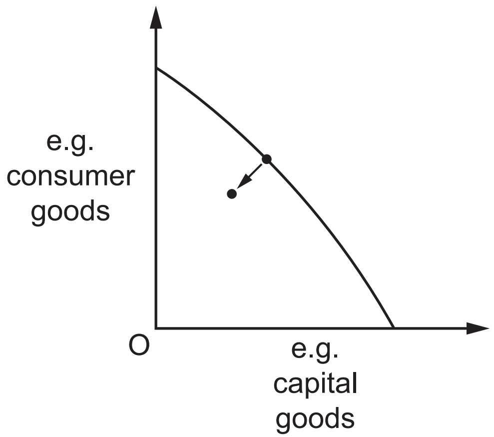
Question	Answer	Marks	Guidance
1(d)	**Analyse why demand for a luxury holiday may be price-elastic.** Price-elastic means a percentage change in price creates a greater percentage change in demand (1). A luxury holiday may have a substitute (1) in the form of another holiday (1) a rise in price will make substitutes relatively cheaper (1) demand will be more elastic the closer the substitute (1). Taking a luxury holiday can be postponed/does not have to be purchased (1) it is not a necessity (1). The purchase of a luxury holiday takes up a large proportion of people's income (1) this would make the change in price more noticeable/more significant (1) a fall in price may make it affordable to many more people (1).	**5**	
1(e)	**Discuss whether airlines should be state-owned or operated by the private sector.** **Up to 3 marks for why they should be state-owned:** The government will base decisions on social costs and benefits (1) may try to cut down on pollution (1) may be less chance of market failure occurring (1) may carry out a CBA (1). The government may act in the public interest/aim may be to promote welfare (1) may be safer (1). The government may keep prices low (1) to ensure access to flights (1). The government may have more funds available (1) may be able to operate them on a large scale (1) enjoy economies of scale (1). The government may employ more workers (1) to keep unemployment low (1). If profitable can provide funds for the government (1) increase ability of government to spend on e.g. education (1). **Up to 3 marks for why they should be operated by the private sector:** Profit motive (1) may make the firm/s more responsive to consumer demand (1) may provide better quality (1). Will not require tax revenue/allow government to concentrate on other areas (1) tax revenue can be used for other purposes/example of what revenue could be spent on (1). State-owned may be a monopoly/may be more competition in the private sector (1) competition may drive down price (1) may provide more choice (1).	**5**	

Question	Answer	Marks	Guidance
1(f)	**Using information from the extract including Fig. 1, explain what happened to the market for pilots in India in 2015.** The diagram shows demand increasing (1) inelastic demand (1) wages / prices rising (1) supply extending / more pilots (1) inelastic supply (1) due to countries wanting to recruit more pilots/increased demand for flights (1).	**4**	
1(g)	**Discuss whether a cut in taxation will reduce inflation.** **Up to 4 marks for why it might:** A cut in indirect taxes/corporation tax (1) will reduce firms' costs of production (1) reduce cost-push inflation (1). A cut in tariffs (1) will lower cost of imports (1) reduce price of products consumers buy (1). Lower taxes may increase incentives (1) increase supply (1) reduce costs (1) lower cost-push inflation (1). **Up to 4 marks for why it might not:** A cut in income tax (1) will increase disposable income/increase purchasing power (1) increase demand (1) firms raise prices to increase profits (1) increase demand-pull inflation (1). Lower indirect taxes (1) may not be passed on to consumers in lower prices (1).	**6**	Note: maximum of 2 if no link to inflation,

Question	Answer	Marks	Guidance
2(a)	**Identify two goals that business organisations may have.** **1 mark each for each of two goals:** • profit maximisation • growth • survival • sales revenue maximisation • profit satisficing • social responsibility • improving the environment	**2**	Accept higher profits for profit maximisation.
2(b)	**Explain two functions of a commercial bank.** **1 mark each for each of two functions identified e.g.:** • accepting deposits/allow people to save • lending • allowing customers to make payments • providing a range of other financial services e.g. insurance **1 mark each for each of two explanations given:** • customers can open current accounts or deposit accounts/earn interest on savings • customers may keep e.g. documents at the bank. • customers can borrow money to e.g. purchase a home/pay interest on loans. • customers can make payments through e.g. direct debits • customers may be able to get e.g. a guarantee of compensation for theft from a bank.	**4**	

Question	Answer	Marks	Guidance
2(c)	**Analyse how the price mechanism influences the allocation of resources in a market economy.** An increase in demand (1) will increase price (1) this will provide a financial incentive (1) profit motive (1) to supply more of the product (1) resources will move away from less popular products (1). An increase in supply (1) will reduce price (1) this will lead to a rise in demand (1) resulting in more resources being devoted to the product (1). Makes use of demand and supply (1) consumers make the decisions/consumer sovereignty (1). Will encourage firms to use the most cost efficient methods of production (1) e.g. will use labour intensive method of production (1) if ready supply of labour (1). Award up to 3 marks for a correctly labelled demand & supply diagram, showing 3 elements of the above e.g. shift (1) change in price (1) and new equilibrium quantity (1).	6	If a diagram is included, avoid double credit e.g. only 1 mark can be awarded for an increase in demand whether written or drawn.
2(d)	**Discuss whether an increase in output will increase the profits that firms receive.** **Up to 5 marks for why it might:** The higher output may be the response to higher demand (1) raise revenue (1) may widen the gap between revenue and cost (1). If to sell the higher output a firm has lowered price, revenue would increase if demand is elastic (1) fall in price will cause a greater percentage rise in demand (1). A higher output may enable a firm to take greater advantage of economies of scale (1) lower average costs (1) example (1). **Up to 5 marks for why it might not:** If demand is inelastic (1) a fall in price will cause a smaller percentage rise in demand (1) revenue will fall (1). May result in the firm experiencing diseconomies of scale (1) raise average costs (1) example (1). May occur when demand is falling (1) revenue will fall (1) may make a loss (1).	8	

Question	Answer	Marks	Guidance
3(a)	**What is the difference between capital and land?** Capital is human-made goods used to produce other products (1) whereas land is a natural resource (1). Capital receives interest as a payment (1) while land receives rent (1).	**2**	
3(b)	**Explain two reasons why a firm may decide to use more labour and less capital in producing its products.** **1 mark each for each of two reasons identified:** • may be cheaper • may be more available • may want to make hand-made products • may be subsidised to do so by the government • may be more mobile/less specific • may be less initial cost **1 mark each for each of two explanations given:** • costs of production may be lower using labour/labour may be more productive • there may be a shortage of capital goods/it may take time for capital goods to be produced • each product produced may be tailored to customer's requirements/not standardised • the government may subsidise firms to take on workers in order to reduce unemployment. • capital may not be able to switch to producing other products • example of labour-intensive industry • high cost of purchasing the capital equipment.	**4**	

Question	Answer	Marks	Guidance
3(c)	**Using a production possibility curve diagram, analyse the effect on an economy's output when there is a change from full employment to unemployment.**  **Up to 4 marks for diagram:** Axes correctly labelled (1) Curve/straight downward sloping line drawn to the axes (1) A production point on the one curve (1) A production point inside the one curve (1). **Up to 2 marks for written explanation:** Full employment would mean an economy making maximum use of resources (1) making as much output as possible/efficient use of resources (1) unemployment means output is below potential (1) inefficient use of resources/resources lying idle (1) output will fall (1).	6	

Question	Answer	Marks	Guidance
3(d)	**Discuss whether it is always possible for a country to have low unemployment and low inflation at the same time.** **Up to 5 marks for why it might:** If total supply is increasing (1) as total demand increases (1) output will be high (1) causing low unemployment without inflation (1). Advances in technology/improvements in education (1) raises productivity (1) can lower costs of production (1) reducing cost-push inflation (1) and increasing demand for labour (1). Low inflation may stimulate firms to raise output (1) take on more workers (1). **Up to 5 marks for why it might not:** Low unemployment may mean incomes are high (1) total demand may be high (1) causing demand-pull inflation (1). Low unemployment may result in increased competition for labour (1) this may raise wages (1) increasing firms' costs of production (1) causing cost-push inflation (1). Inflation may create a price/wage spiral (1) demand-pull inflation leading to cost-push inflation (1).	**8**	

Question	Answer	Marks	Guidance
4(a)	**Identify two wage factors that workers take into account when deciding on their occupation.** **1 mark each for each of two wage factors:** • wage rate/pay/income • bonuses • overtime payments • commission	**2**	
4(b)	**Explain two indicators of living standards.** **1 mark each for each of two indicators identified:** • GDP per head/average income • HDI • e.g. cars per household **1 mark each for each of two explanations given:** • total income divided by population • includes income per head, education and life expectancy • gives an indication of the goods and services households can enjoy.	**4**	No credit for GDP on its own. If real GDP per head is referred to, credit can be given for explanation of 'real'. Two of three components of HDI accepted.
4(c)	**Analyse how fiscal policy can produce a more even distribution of income.** An increase in a progressive tax (1) taking a larger percentage of the income of the rich (1). A decrease in a regressive tax (1) reducing the percentage of the income of the poor taken in tax (1). Government spending on benefits (1) e.g. benefits given to the unemployed / pensioners (1). Government spending on education / healthcare (1) may increase the earning potential of the poor (1). Government spending/cut in taxes can increase total (aggregate) demand (1) move people from unemployment to employment (1).	**6**	

Question	Answer	Marks	Guidance
4(d)	**Discuss whether a rise in the wages paid to low-paid workers would benefit an economy.** **Up to 5 marks for why it might:** May reduce poverty/increase living standards (1) giving access to basic necessities (1). May increase motivation of low-paid workers (1) raise productivity (1) increase output/raise GDP/cause economic growth (1) increase quality of output (1) reduce costs of production (1). May make income more evenly distributed (1). May increase total demand (1) raising employment (1). Greater tax revenue (1) may enable government to spend more on e.g. education/health care (1) greater literacy/longer life expectancy (1). May enable the poor to spend more on the education of their children (1) raise their productivity (1) **Up to 5 marks for why it might not:** May increase costs of production (1) may cause cost-push inflation (1). To reduce costs of production (1) firms may make workers redundant/increase unemployment (1). May increase total (aggregate) demand (1) cause demand-pull inflation (1). Low-paid workers may spend more on demerit goods (1) reduce health (1). Higher costs may make the country’s products less internationally competitive (1) worsen the current account position (1).	**8**	

Question	Answer	Marks	Guidance
5(a)	**Define 'balance of payments'.** Record of economic transactions (1) with other countries (1). Includes current account, capital account and financial account (2). Exports – imports (1).	**2**	
5(b)	**Explain two characteristics of a rapidly developing economy.** **1 mark each for each of two characteristics e.g.:** • high increase in real GDP per head • significant improvements in healthcare • significant improvements in education • high proportion of workers employed in the tertiary sector • low rates of population growth • high spending on luxury products • encouragement of MNCs to set up • more use of advanced technology **1 mark each for each of two explanations:** • a high increase in real GDP per head will increase living standards/be caused by e.g. higher investment • significant improvements in healthcare will increase life expectancy/be caused by e.g. higher spending on hospitals • significant improvements in education will raise workers' skills/be caused by increased spending on universities • as countries develop, workers tend to move from the primary and secondary sectors to the tertiary sector • as countries develop, the birth rate tends to fall faster than the death rate • as countries develop, people may be able to spend on more than necessities • the attraction of MNCs may reduce unemployment • advances in technology due to more research and development and investment/will raise productivity.	**4**	May be able to establish high population growth, if argued that death rate will fall before fall in birth rate.

Question	Answer	Marks	Guidance
5(c)	**Analyse how an increase in tourism can increase a country's inflation rate.** An increase in tourism will increase demand for a range of products (1) higher demand may encourage firms to raise prices (1) leading to demand-pull inflation (1) especially if economy operating close to full employment (1). An increase in tourism may increase the money supply (1) leading to monetary/demand-pull inflation (1). An increase in tourism may increase demand for workers (1) to work in the tourist and related industries (1) this could raise wages (1) causing cost-push inflation (1). An increase in tourism will increase demand for the currency (1) this may cause a rise in the exchange rate (1) if demand for exports is inelastic (1) export revenue could rise (1) increasing total (aggregate) demand (1).	**6**	Do not expect but reward idea of a multiplier effect.
5(d)	**Discuss whether the rich always save more than the poor.** **Up to 5 marks for why they might:** Rich have more income (1) greater ability to save (1) can purchase the products they want (1) and have money left to save (1). Rich may be able to save more and as a result may be paid a higher rate of interest (1) receive a higher reward from saving (1). **Up to 5 marks for why they might not:** Poor may have to save up to purchase products which the rich can buy from current income (1) e.g. a television (1). Poor may be less confident (1) may be anxious to save to cover e.g. health costs (1) may be concerned not to get into debt (1). Poor/unskilled may be concerned that they will lose their jobs (1) during an economic downturn may be the first to lose their jobs (1).	**8**	May approach the question from the perspective of whether the poor always save less than the rich.

Question	Answer	Marks	Guidance
6(a)	**Identify two aims of a trade union.** **1 mark each for each of two aims identified:** • higher wages • increased job security • better working conditions • provision of benefits • lobbying the government • reduction in discrimination	**2**	
6(b)	**Explain two reasons for a decline in trade union membership.** **1 mark each for each of two reasons identified**: • lower employment • increase in subscriptions • government legislation • firms' discouragement • change in pattern of employment • less efficient trade unions/decline in strength • greater reluctance to take industrial action • more satisfied with e.g. working hours and conditions. **1 mark each for each of two reasons explained:** • lower employment will mean that there will be fewer workers to join trade unions/may make those still in employment be concerned that joining a trade union may increase the risk of being made redundant • workers may be reluctant to pay increased subscriptions • government legislation may reduce the power of trade unions • firms may make it clear that they will not employ trade union members • fewer workers in the private sector tend to be union members • workers would expect less advantages from joining a trade union • do not want to be asked to e.g. strike as earnings could be lost • workers may have better relations with employers.	**4**	

Question	Answer	Marks	Guidance
6(c)	**Analyse why someone may switch from working in the public sector to working in the private sector.** Jobs in the public sector may be declining (1) so a public sector worker may fear being made redundant (1) so private sector may provide more job security (1). Wages in the private sector may be higher/increasing more than those in the public sector (1) higher wages will increase living standards (1) enabling workers to e.g. enjoy better healthcare (1). May want to work in a smaller organisation (1) may think labour relations will be better (1). Non-wage factors may be better in the private sector (1) examples e.g. pensions (1) greater promotion chances (1), Working hours may have been reduced/be shorter (1).	**6**	Note: maximum of 3 marks for a list-like approach.
6(d)	**Discuss whether a decrease in imports would increase a country's economic growth rate.** **Up to 5 marks for why it might:** Lower imports may be the result of an increase in the international competitiveness of domestic products (1). Imports may be replaced by domestic products (1) total demand would increase (1) this may increase output (1) infant industries may be able to expand (1) domestic employment may increase (1). **Up to 5 marks for why it might not:** Imports may decline due to consumers spending less in total (1) they may not be replaced by domestic products (1). If imports of raw materials or capital goods fall (1) there will be fewer resources available (1) to make domestic output (1). A decrease in imports will reduce incomes of other countries (1) may reduce demand for the country's exports (1). Lower imports may push up the exchange rate (1) raise the price of exports (1) if both imports and exports fall output may be unchanged or even lower (1). If lower imports are the result of the imposition of trade restrictions (1) there may be retaliation (1) reducing the country's exports (1).	**8**	

Question	Answer	Marks	Guidance
7(a)	**Define 'regulation'.** Rules/laws (1) set by a government or organisation (1) which place controls on the activities of economic agents/example such as price controls, ban on smoking (1).	**2**	
7(b)	**Explain two causes of market failure.** **1 mark each for each of two causes identified:** • failure to take into account all costs and benefits/external costs and benefits • abuse of market failure/exploitation of monopoly power **1 mark each for each of two explanations of the causes:** • not considering external costs and benefits will result in under-consumption/under-production and over-consumption/over-production. • Abuse of market power may result in higher price, restricted supply and lower quality.	**4**	Do not expect but reward references to merit goods, demerit goods, public goods and information failure.
7(c)	**Analyse the possible opportunity costs of an increase in government spending on higher education services.** Opportunity cost is the (next) best alternative forgone (1). An increase in government spending on higher education would leave less funds available to spend on alternatives (1) examples e.g. healthcare/defence (2) effect of a fall in government spending on e.g. healthcare/defence (2). Opportunity cost may be lower in the long run (1) increase in spending on education may raise productivity/output (1) increase government revenue (1) more to spend on alternatives (1). An increase in government spending on higher education may result in increased taxation (1) this would leave households and firms with less income (1) creating an opportunity cost for taxpayers (1) fall in disposable income (1) lower purchasing power (1).	**6**	

Question	Answer	Marks	Guidance
7(d)	**Discuss whether government policy measures can reduce unemployment.** **Up to 5 marks for why they might:** Cut income tax (1) increase disposable income (1) increase consumer spending (1) raise total demand (1) increase output (1) create job vacancies (1) reduce cyclical unemployment (1) raise reward from working (1) reduce voluntary unemployment (1). Cut interest rates (1) can increase borrowing (1) reduce saving (1) increase consumer spending (1) increase total demand (1) increase output (1) create job vacancies (1) reduce cyclical unemployment (1). Introduce supply-side policy measures (1) e.g. education (1) can raise productivity (1) increase labour productivity (1) reduce structural unemployment (1). Direct employment by the government (1). **Up to 5 marks for why they might not:** Consumers may lack confidence (1) so they will not spend more if income tax or interest rates are reduced (1). Firms may lack confidence (1) so will not expand output (1) and will not take on more workers (1). Firms may expand output without taking on more workers (1) due to employing more capital (1) getting existing workers to work overtime (1). Education may be in the wrong areas (1) privatisation may result in firms cutting employment to reduce costs (1). There may be external shocks (1) e.g. a global recession (1) which could offset government policy measures (1).	**8**	