



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

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**ECONOMICS**

**0455/02**

Paper 2 Structured Questions

**For Examination from 2014**

SPECIMEN MARK SCHEME

**2 hours 15 minutes**

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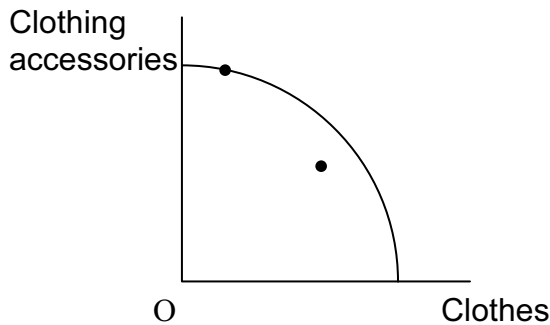
**MAXIMUM MARK: 90**

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This document consists of **8** printed pages.

1 (a) Definition: A cost that does not change (1) with output/production in the short run (1). [2]

(b) Up to 3 marks for diagram:



1 mark for correct labelling of axes ie clothes and clothing accessories (either way around).  
 1 mark for curve included. Note: it is acceptable to draw it as a straight, downward sloping line.  
 1 mark for possible production point identified on (or inside) curve.

Up to 2 marks for explanation:

Brandix Lanka may use its resources to concentrate on either clothes or accessories (1); may produce a combination of both products (1); outcome will be influenced by relative profitability (1); outcome will be influenced by skills of resources (1).

Note: maximum of 2 marks for explanation. [5]

(c) Comment: Largely yes (1) as for most of the period income and the amount saved move in the same direction (1). 2008 is an exception to this relationship (1). Other factors apart from income may have influenced the amount saved (1).

Note: maximum of 3 marks. [3]

(d) Reasons: The person may not be skilled (1), bonuses (1), good medical facilities (1), large amount of overtime (1).

Note: maximum of 3 marks. [3]

(e) 2 marks for 6.25%.

1 mark for correct working i.e.  $0.5m/8m \times 100$ . [2]

(f) Possible reasons why they might:

- may raise wage costs for employers
- higher wage costs may encourage firms to use more capital intensive methods
- may cause firms to lose revenue through industrial action (lost production/sales).

Possible reasons why they might not:

- may raise labour productivity through promoting training
- may reduce labour costs through collective bargaining and reducing conflicts
- may put pressure on the government to keep unemployment low.

A maximum of 3 marks if the answer is one sided.

[5]

(g) 1 mark for each of two reasons identified. Reasons:

- differences in skills
- bankers, on average, are older
- many garment workers are women.

1 mark for each of two explanations:

- skilled workers are in shorter supply and higher demand than unskilled workers
- older workers have more experience/more likely to have been promoted
- there may be gender discrimination against female workers.

[4]

(h) Reasons why it might:

- increase costs of production and so encourage firms to raise prices
- clothing industry is a significant part of the economy so a rise in clothing prices may have a noticeable impact (cost-push)
- may encourage other workers to press for wage rises
- higher wages will be likely to lead to increased spending
- which may lead to inflation (demand-pull).

Reasons why it might not/extent might be limited:

- higher wages may not raise costs of production if output rises by more/labour productivity rises
- other workers may not receive wage rises
- other factors may offset the rise in wages e.g. fall in raw material costs
- higher clothing prices may affect export markets more than the home market.

Up to 4 marks for a one sided approach.

[6]

- 2 (a) Equilibrium price is where demand and supply are equal (1). There are no surpluses or shortages/no pressure for price to change (1).  
Disequilibrium price is where demand and supply are not equal (1). There is a surplus or a shortage/pressure for price to change (1). [4]

(b) Reasons include:

- rise in income in one country and fall in income in another country
- differences in price/quality of substitute new media/technology
- advertising campaigns in one country and lack of advertising campaigns in another country
- rise in population size in one country and fall in population size in another
- social factors/political factors.

[6]

(c) Reasons why it might:

- may encourage more people to buy the paper – shifting the demand curve to the right
- higher demand will raise revenue
- if revenue rises by more than costs, profit will increase
- may enable the firm to expand and experience / benefit from economies of scale.

Reasons why it might not:

- the campaign may not be successful
- the costs of the campaign may exceed any extra revenue earned
- the firm may not have the capacity to meet higher demand – inelastic supply
- rival firms may also carry out advertising campaigns leaving the firm's share of the market unchanged
- may result in the firm growing in size and experiencing / suffering from diseconomies of scale.

Up to 6 marks for a one sided approach.

[10]

3 (a) Description:

- Consumers determine resource allocation.
- Producers respond to consumer demand.
- Resources are allocated via the price mechanism/preferences signalled via the price mechanism.
- If demand for a product rises, more resources will be allocated to it.

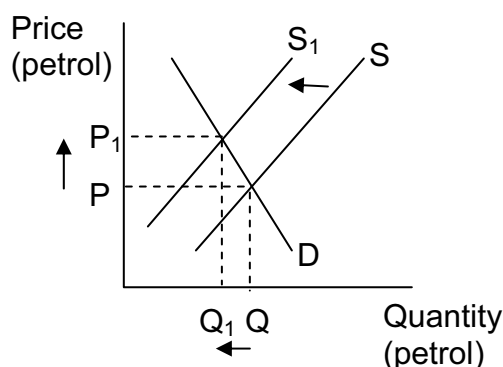
[3]

(b) Explanation:

- Car use generates external costs.
- Examples of external costs include congestion, pollution and accidents.
- Social costs include both external and private costs.
- Therefore social costs > private costs.

[4]

(c) Up to 3 marks for diagram:



1 mark for correct labels – P, Q, D and S

1 mark for shift of supply curve to the left

1 mark for original and new equilibriums

Up to 2 marks for analysis:

1 mark for a tax will raise price.

1 mark for a tax will reduce the quantity bought and sold.

[5]

**(d)** Arguments for subsidising bus travel:

- will reduce price of bus travel and raise demand
- will reduce car use – bus travel and car travel are substitutes
- increased bus travel will reduce the external costs generated by bus travel
- will help the poor, who will use bus travel more than the average.

## Arguments against subsidising bus travel:

- opportunity cost – funds could be used for other purposes e.g. education or health care
- may not significantly increase bus travel if demand is inelastic
- bus companies may not pass on much of the subsidy to passengers
- it is difficult to decide on the amount of the subsidy as it is difficult to measure external costs and benefits.

Up to 5 marks for a one sided approach.

[8]

**4 (a)** Differences:

- A public corporation is state owned/in the public sector whereas a public limited company is owned by individuals/in the private sector.
- A public limited company has shareholders whereas a public corporation does not.
- A public corporation seeks to provide a service/work in the public interest whereas a public limited company aims to maximise profit.

[3]

**(b)** 1 mark each for each of two factors mentioned e.g.:

- size of the market
- availability of capital
- type of business organisation
- preference of entrepreneur.

1 mark each for each of two explanations e.g.:

- if demand is low, the size of the firm is likely to be small.
- a small firm may want to expand but may not be able to obtain a loan
- a public limited company is likely to be larger than a sole trader as it has more sources of finance
- an entrepreneur may choose to keep the firm small in order to keep control/reduce stress.

[4]

**(c)** 1 mark for definition of PED.

1 mark for: if demand is elastic, a fall in price will raise revenue.

1 mark for: if demand is inelastic, a fall in price will reduce revenue.

Up to 2 marks for additional development, recognising that the situation is more complex e.g. different flights have different PED; effect on profit will also depend on costs.

[5]

**(d) Reasons why it might:**

- may be more efficient e.g. faster turnaround
- may lower prices of flights
- may raise quality of flights
- may provide more choice e.g. of destination, timing of flights, in-flight entertainment.

## Reasons why it might not:

- less advantage may be taken of economies of scale – leading to higher costs and prices
- less profit may be available to reinvest in the industry/spend on research and development
- may be congestion at airports
- may be spare capacity on some airlines if the same number of passengers are spread among more airlines
- social/environmental costs of increased air traffic.

Up to 5 marks for a one sided approach.

[8]

**5 (a) Description:**

- Absolute poverty involves a lack of basic necessities including food, housing and clothing.
- Relative poverty occurs when people have less income than other people in the country/unable to participate fully in the normal activities of their society. [4]

**(b) 1 mark each for each of two advantages identified e.g.:**

- higher output
- reduced poverty
- increase in tax revenue
- reduced government spending on benefits.

## 1 mark each for each of two explanations e.g.:

- more people in work will enable more products to be produced – might include a PPC with a movement from inside to on the curve
- more people in work will reduce those without an earned income and will raise tax revenue that might be spent on measures to reduce poverty
- extra tax revenue might be spent on a range of items including infrastructure and may reduce a budget deficit
- less government spending on benefits might enable a government to cut tax rates or raise spending on another area. [4]

**(c) Analysis:**

- A cut in taxes may increase consumer spending/investment and so increase demand for labour.
- A rise in government spending will increase total (aggregate) demand which will increase demand for labour.
- Government spending may create jobs directly in the public sector.

Up to 3 marks for an answer which focuses on either just a cut in taxes or just on an increase in government spending. [5]

- (d) Consideration of factors linked to growth influencing living standards e.g.:
- how extra income is distributed
  - what type of products are being produced
  - whether working hours are increasing
  - whether working conditions are improving
  - whether higher output is leading to pollution and other environmental damage
  - what is happening to the size of the informal sector
  - whether additional income is spent or saved.

Up to 4 marks if only three influencing factors are considered. [7]

- 6 (a) Percentage (1) sustained (1) rise (1) in the price level/general price level (1) over a given period of time (1)

Note: maximum of 3 marks. [3]

- (b) Factors include:

- average age of the population
- proportion of women who work/enter higher education
- age at which women marry
- social status of women
- cost of bringing up children
- availability of family planning services
- infant mortality rates
- government encouragement or discouragement of large families
- level of education
- existence or absence of government support for sick and elderly
- rate of unemployment.

[7]

- (c) Reasons why it might:

- would increase the size of the labour force
- in the short run would increase output
- in the short run may reduce inflation
- would reduce government spending on education which would free up funds for e.g. spending on health care
- would reduce costs as younger workers are generally paid lower wages.

Reasons why it might not:

- would reduce the quality of the labour force/labour productivity
- in the long run may decrease output
- may discourage MNCs from setting up in the country
- in the long run may reduce tax revenue
- may reduce international competitiveness
- may increase unemployment in older workers.

Up to 6 marks for a one sided approach. [10]

7 (a) 1 mark each for each of two aims identified i.e.:

- full employment
- price stability
- economic growth
- redistribution of income

1 mark for each of two descriptions e.g.:

- a government will seek to achieve as low unemployment as possible to ensure it is making best use of resources
- price stability can create certainty and encourage investment
- economic growth has the potential to raise living standards
- a redistribution of income from the rich to the poor may reduce poverty. [4]

(b) Explanation:

- Another component/components of the current account must have a surplus.
- The surplus must be greater than the deficit on the trade in goods balance.
- Reference to another component/components i.e. trade in services (invisible balance), income and current transfers. [4]

(c) Analysis:

- Fall in the exchange rate will reduce export prices.
- Lower export prices may increase exports which may raise export revenue.
- Fall in exchange rate will raise import prices.
- Higher import prices may reduce imports which may reduce import expenditure.
- Higher export revenue and lower import expenditure will improve the trade position. [5]

(d) Arguments for:

- protect infant/sunrise industries
- protect declining/sunset industries
- protect strategic industries
- improve current account position
- protect employment
- protect industries against unfair competition.

Arguments against:

- reduce competition and so efficiency
- reduce choice for consumers
- may raise prices
- may provoke retaliation.

Up to 4 marks for a one sided approach.

[7]