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Example Candidate Responses (Standards Booklet)

Cambridge IGCSE®

Economics

0455

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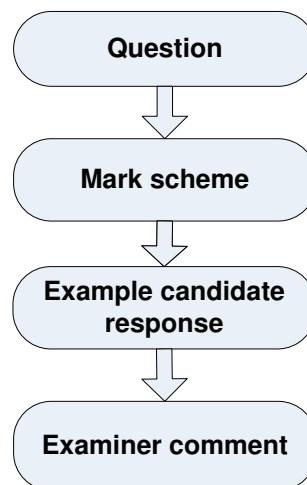
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Introduction

The main aim of this booklet is to exemplify standards for those teaching Cambridge IGCSE Economics (0455) and to show how different levels of candidates' performance relate to the subject's curriculum and assessment objectives.

In this booklet a range of candidate responses has been chosen as far as possible to exemplify grades A, C and E. Each response is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

For ease of reference the following format has been adopted:



Each question is followed by an extract of the mark scheme used by examiners. This, in turn, is followed by examples of marked candidate responses, each with an examiner comment on performance. Comments are given to indicate where and why marks were awarded, and how additional marks could have been obtained. In this way, it is possible to understand what candidates have done to gain their marks and what they still have to do to improve their grades.

Past papers, Examiner Reports and other teacher support materials are available on Teacher Support at <http://teachers.cie.org.uk>

Assessment at a glance

Cambridge IGCSE Economics Syllabus code 0455

Candidates take three papers.

Paper 1 Multiple choice	45 minutes
Candidates answer thirty multiple choice questions. 20% of total marks	
Paper 2 Structured questions	2 hours
Candidates answer one compulsory question and three questions from a choice of six. 50% of total marks	
Paper 3 Analysis and critical evaluation	1 hour 30 minutes
Candidates answer two compulsory questions and are required to interpret and analyse previously unseen data relevant to a real economic situation. 30% of total marks	

Teachers are reminded that a full syllabus is available on www.cie.org.uk

Paper 2 – Structured questions

Question 1

1 The struggles of the Ivory Coast's cocoa farmers

Cocoa prices have hit a 30-year high due to demand exceeding supply.

Production of cocoa in the Ivory Coast, which provides about a third of the world's cocoa beans, has fallen as a result of poor weather and under-investment in the industry. The 2009 harvest was badly affected by dry weather, pests and disease.

A spokesperson at the International Cocoa Organisation commented, "We have now had three consecutive years of supply declining. With current production methods, the Ivory Coast has reached maximum output. Farmers don't use many chemicals and pesticides. They need to invest more in chemicals and other farming techniques to increase their yields."

The demand for cocoa has continued to grow. The fashion for more expensive, high-quality chocolate has helped to increase demand as it typically has a higher cocoa content.

A spokesperson from the Fair Trade Association commented, "The large, unpredictable fluctuations in the cocoa market make life extremely difficult for farmers."

The Government of the Ivory Coast is planning to create greater stability in the cocoa market by regulating the industry. It is thinking of selling the cocoa itself and also fixing the price. If the government fixed the price for cocoa, the farmers would be less vulnerable to fluctuations in prices due to changes in demand and supply factors.

- (a) (i) State **one** reason for the increase in demand for cocoa. [1]
- (ii) State **two** reasons for the decrease in supply of cocoa. [2]
- (b) Explain, using a demand and supply diagram, how the changes in the demand for and the supply of cocoa have affected the equilibrium price and equilibrium quantity in the cocoa market. [6]
- (c) Explain why the large, unpredictable fluctuations in the cocoa market make life difficult for cocoa farmers. [3]
- (d) Discuss whether an economy would benefit from its government intervening to regulate an industry. [8]

Mark scheme

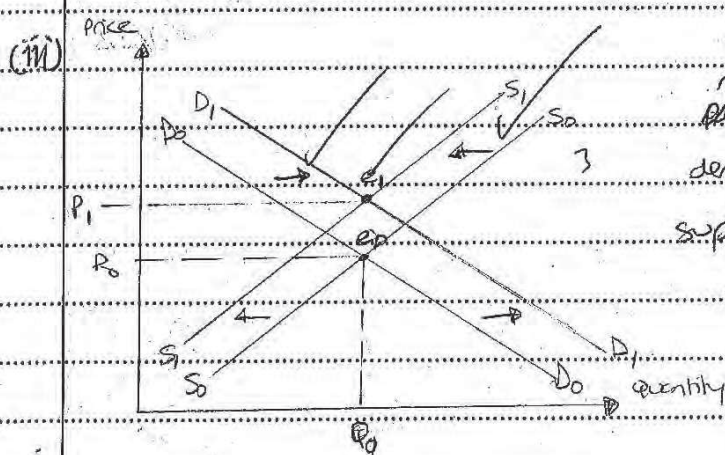
- 1 (a) (i) One influence on the increase in demand for cocoa:
- the fashion for more 'upmarket' chocolate. [1]
- (ii) Two influences on the decrease in supply of cocoa:
- poor weather (dry weather)
 - under-investment in the industry
 - producers don't use many chemicals or pesticides
 - they need to invest in other farming techniques
 - pests
 - disease. [2]
- (b) Diagram:
- correctly labelled and drawn axes (P and Q) and curves (D and S) (1)
 - correctly labelled and drawn shift of the demand curve to the right and supply curve to the left (1)
 - change in equilibrium price and equilibrium quantity clearly shown (1).
- Explanation of diagram:
- shifts of demand and supply curves (1)
 - higher price (1)
 - change in quantity uncertain (1). [6]
- (c) Effects of fluctuations in the cocoa market:
- wild fluctuations in relation to changes in demand and supply conditions, especially in relation to supply
 - these fluctuations likely to lead to volatile prices
 - this will be extremely unstable for farmers – this instability can be very unsettling, making planning uncertain. Variations in prices will lead to variations in incomes – this will affect the standard of living of the farmers. [3]
- (d) In favour:
- establish fixed (minimum or maximum) prices to support an industry
 - may be able to maintain employment levels.
- Against:
- goes against free market forces
 - could mean that a government is supporting an inefficient industry.
- A one-sided answer can gain no more than 5 marks. [8]

Example candidate response – grade A

(i) There is a fashion for more expensive, high quality chocolate.

(ii) firstly, due to the ~~weather~~ ^{recent} dry weather ~~and pests~~ ^{and pests}, the supply of the cocoa beans has dropped.

In addition, there is noted to be ~~additional~~ more costs taken into insecticides, ~~diminishing~~ ^{diminishing} the supply due to the ~~lack~~ ^{shift} of fundings ~~for~~ ^{from} the cocoa plant to the chemicals.



originally, ~~equilibrium~~ ^{equilibrium}, there is market equilibrium at P_0Q_0 denoted by e_0 , where the supply ~~curve is~~ ^{curve is} S_0 and the demand curve is D_0 ~~due to~~ ^{due to} ~~the~~ ^{the} ~~change~~ ^{change} in fashion.

Although, the recent pest infestation and dry weather has caused an ~~inward~~ inward shift in the supply curve from ~~the~~ S_0 to ~~the~~ S_1 , where there is less supply at each and every value.

Consequently, the demand curve shifts outwards from D_0 to D_1 , due to the change in fashion to ~~more~~ ^{more} ~~luxurious~~ ^{luxurious} chocolate.

Thus, we see that the new equilibrium price ~~will arise~~ ^{will arise} at e_1 , where the price has ~~risen~~ ^{risen} all the way to P_1 , at the quantity remains unidentified (it is dependent ~~on~~ on the intensity of the shifts in demand and supply).

c. The large fluctuations in the markets hints that the cocoa business is not too ~~stable~~ successful at keeping its current factors of production, and any losses may result to the hiring of a few inefficient workers. Hence, some farmers end up unemployed. ~~Therefore~~ Although, they may seek re-employment when the ~~business~~ ^{sector} becomes more ~~obvious~~ ~~the production~~ successful, leading to the farmers having to re-employ for jobs.

In addition, such fluctuations will lead to extreme changes in the ^{wages in the} ~~market~~ ~~business~~ ~~sector~~.

Furthermore, fluctuations - -

d. Government intervention in to regulate industries basically means that the government would grant aid and ~~financial~~ subsidies to ~~the~~ ~~affected~~ ~~firms~~ ~~aiding~~ ~~to~~ ~~recuperate~~ ~~any~~ ~~losses~~.

This is rather a positive outlook onto the topic, and such aid will help for the firm to purchase capital goods, ~~such as~~ ~~in~~ ~~sectors~~ ~~like~~ ~~factories~~, ~~which~~ ~~the~~ ~~firm~~ ~~is~~ ~~operating~~ ~~in~~ ~~order~~ ~~to~~ ~~expand~~ ~~and~~ ~~produce~~ ~~a~~ ~~larger~~ ~~output~~ ~~of~~ ~~goods~~ ~~and~~ ~~services~~. For example, factory equipment or ~~in~~ ~~sectors~~ ~~like~~ ~~factories~~ may be ~~given~~ ~~donated~~. Indeed, this will aid in reducing unemployment, as it offers countless ~~of~~ jobs for extra workers. Absolute poverty will decrease as a result, and more goods can be ~~available~~ ~~to~~ ~~buy~~ ~~in~~ the economy. GDP would increase, as well as the productivity of the economy.

Nevertheless, such ~~interference~~ ~~will~~ ~~lead~~ ~~to~~ ~~a~~ ~~higher~~ ~~rate~~ ~~of~~ ~~competition~~ ~~for~~ ~~the~~ ~~particular~~ ~~industry~~.

Nonetheless, such benefits come with a price. As the firms ~~tend~~ ~~to~~ ~~grow~~ ~~well~~ ~~economically~~, ~~the~~ ~~market~~ ~~will~~ ~~become~~ ~~more~~ ~~competitive~~.

Examiner comment – grade A

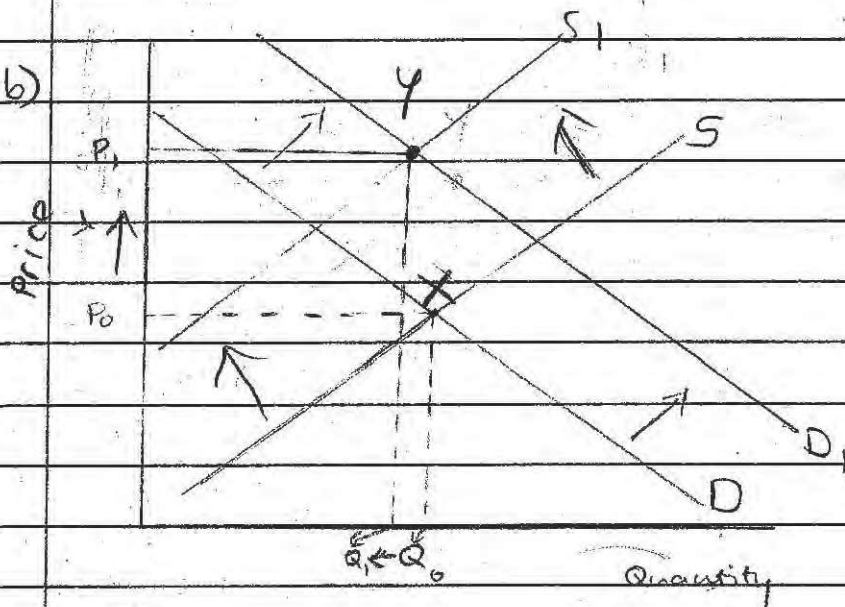
- (a) (i)** The candidate correctly stated one reason for the increase in the demand for cocoa, namely the fashion for more expensive, high quality chocolate. One mark was awarded.
- (ii)** The candidate correctly stated two reasons for the decrease in the supply of cocoa, namely the effects of the dry weather and pests. Both marks were awarded. Note that for a 'state' question, the first sentence was sufficient to earn both marks. No explanation or development was required.
- (b)** The diagram was correctly labelled and showed clearly the shift of the demand curve to the right and the shift of the supply curve to the left. The change in the equilibrium price was shown and the equilibrium quantity remained unchanged. All three marks were given for the diagram. The explanation of how changes in the demand for and the supply of cocoa had affected the equilibrium price and equilibrium quantity in the cocoa market was very clear and was closely linked to the diagram. All three marks were awarded for the explanation, producing a maximum mark of six in this part of the question.
- (c)** The answer to this part of the question was, unfortunately, rather limited. The candidate was required to explain why the large unpredictable fluctuations in the cocoa market made life difficult for cocoa farmers, but the only response was a rather vague comment in relation to employment. Only one mark was awarded.
- (d)** In this final part of the question, the candidate was required to discuss whether an economy would benefit from its government intervening to regulate an industry. As with any 'discuss' question, the candidate needed look at both points of view. In this case, the candidate argued the case for government intervention, such as through subsidies, the money from which could be used to buy capital goods. The candidate also referred to the fact that financial support could be provided to purchase insecticides. There was an attempt to start looking at the other side, when the candidate referred to the fact that 'such benefits come with a price', but this was undeveloped. The maximum mark for a one-sided answer was five and this candidate was awarded four marks.

Mark awarded = 14 out of 20

Example candidate response – grade C

i) One reason for the increase in demand for cocoa is the increase in demand for high quality chocolate

ii) Two reasons for the decrease in supply of cocoa are poor weather and underinvestment in the industry



The normal equilibrium as shown above, X has shifted upwards and to left. This is due to the ~~decrease~~ ⁱⁿ decrease in demand from D to D₁.

The demand curve shifts to the right showing an ~~decrease~~ increase in the quantity demanded. The supply curve shifts to the left as illustrated above therefore increasing the equilibrium price as well as shifting the price from P₀ (original) to P₁ (new price). The new equilibrium is set by the increase in equilibrium price and decrease in equilibrium quantity.

c)	The large unpredictable fluctuations in the cocoa market make life difficult for cocoa farmers because they can grow the cocoa and due to the high prices they can lose demand locally and will have to export and this may be costly to them.
d)	An economy would benefit from its government intervention to regulate its industry or may not. This is because it depends with the type of economy that is present, for example, planned economy already has more than 50% run by the state and intervening would not change much. Cost may even increase therefore leading to losses. If it is a mixed economy, it is likely to sustain from the government's net recommendations. However some economies would benefit because financially if subsidies are produced, then they will be able to produce and sell their products at low prices and also incur any profits. The intervention may result in negative or positive impact.

Examiner comment – grade C

- (a) (i) The candidate correctly stated one reason for the increase in the demand for cocoa, namely the increase in demand for high quality chocolate. One mark was awarded.
- (ii) The candidate correctly stated two reasons for the decrease in the supply of cocoa, namely poor weather and under-investment in the industry. Both marks were awarded.
- (b) The diagram was correctly labelled and clearly showed the shift of the demand curve to the right and the shift of the supply curve to the left. The changes in the equilibrium price and equilibrium quantity were clearly shown and all three marks were awarded for the diagram. The explanation of

how the changes in the demand for and the supply of cocoa had affected the equilibrium price and the equilibrium quantity in the cocoa market, however, did not go as far as it might have done and so two marks were awarded for the explanation. The overall mark was therefore five out of six.

- (c) The candidate, unfortunately, did not seem to grasp what was required in this part of the question and no marks could be awarded.
- (d) The candidate, for much of this answer, seemed to be answering a different question on the contrast between a planned economy and a mixed economy. It is only in the last six lines that the candidate really attempts to focus on the question. The last sentence suggested that the candidate understood that there were two sides to the argument, but this is not supported. The answer was rather limited and poorly focused on the question and only two marks could be awarded.

Mark awarded = 10 out of 20

Example candidate response – grade E

a (i) The fashion for more expensive, high quality chocolate has help demand for cocoa to increase

(ii) Supply of cocoa have decrease because of poor weather and under-investment in the industry. And also badly affected by dry weather, pests and diseases

b) 200

c) Because unpredictable fluctuations means that I don't know what will happen next year for the cocoa market because of increase in demand and decrease in supply of resources

d) It could be a benefit for cocoa market because might give a great surplus in the income and could also to try to sell a high amount of resources and fixing the price of cocoa and these could help industry to invest more in chemicals and other farming to increase their yield

Examiner comment – grade E

- (a) (i)** The candidate correctly stated one reason for the increase in the demand for cocoa, namely the fashion for more expensive, high quality chocolate. One mark was awarded.
- (ii)** The candidate correctly stated two reasons for the decrease in the supply of cocoa, namely poor weather and under-investment in the industry. The candidate added additional reasons, but only two reasons were required in the question. Both marks were awarded.
- (b)** The candidate correctly labelled P, Q, D and S and showed the shift of the demand curve to the right and the shift of the supply curve to the left. The changes in equilibrium price and equilibrium quantity, however, were not shown and so the diagram could only be awarded two marks. The candidate completely failed to provide an explanation of how the changes in the demand for and the supply of cocoa had affected the equilibrium price and equilibrium quantity in the cocoa market and so no marks could be awarded. The total mark for this part of the question was therefore two out of a possible six marks.
- (c)** The candidate did not appreciate what was required in this part of the question and so it was not possible to award any marks.
- (d)** In the final part of the question, the candidate attempted to suggest two areas where the industry might benefit from government intervention, but it was a very brief and superficial response and only two marks were awarded.

Mark awarded = 7 out of 20

Question 2

- 2** All countries face the basic economic problem in relation to the factors of production. One country might allocate more resources to education and health care than another, but there will always be an opportunity cost involved in such decisions.
- (a)** Why do all countries face the basic economic problem? [4]
- (b)** State and explain the factors of production. [4]
- (c)** Define opportunity cost and explain why it is an important concept for economists. [4]
- (d)** Discuss whether a government should allocate more resources to education and health care rather than other forms of expenditure. [8]

Mark scheme

2 (a) Explanation:

- there are finite/limited resources
- so there is a basic situation of scarcity
- there are unlimited wants
- so there is a need to exercise choice.

[4]

(b) Explanation of factors of production:

2 marks for identifying four factors, but no explanation.

1 mark for identifying three factors, but no explanation.

Candidates should state and explain all four factors to gain full marks.

[4]

(c) Opportunity cost:

- it is the next best alternative that is foregone (2 marks for definition)
- it represents cost in terms of what could have been had as an alternative to the item actually chosen
- the idea of opportunity cost may be applied in any situation where choices are being made
- the need for choice is due to the existence of scarce resources which have alternative uses; this is why it is an important concept for economists (2 marks for development that goes beyond a definition).

If opportunity cost is not clearly defined, but an example is used which indicates a basic understanding, give 1 mark.

Alternatively, an example might be used to aid the explanation and this could be given 1 mark.

There are no marks, however, for simply giving an example.

[4]

(d) Possible benefits:

- a better-educated workforce is likely to be more productive
- this could lead to greater output/higher GDP
- a healthier workforce is likely to miss fewer days of work
- and so again productivity could increase.

Possible disadvantages:

- there might not be sufficient demand for workers
- there could be a high rate of unemployment
- improved health care is likely to lead to a lower death rate/higher birth rate
- this would lead to an increase in population which could put pressure on resources.

Other types of expenditure:

- idea of opportunity cost involved
- other types of expenditure might also have a significant impact on economy, e.g. spending on transport infrastructure or housing.

A one-sided answer can gain no more than 5 marks.

[8]

Example candidate response – grade A

- 2) a) All countries in the world would be faced with the same economic problem. The main problem is that there are unlimited wants but limited resources to satisfy these wants. Therefore economies have to choose decide how to use these resources most effectively in order to benefit the society. The basic questions all economies have is what to produce, as in which products would satisfy consumers the most. How to produce the product, as in which factors of production should be used. For whom to produce, would the product be targeted to consumers, or will it be for other firms and organisations?
- b) Factors of production are all the resources that are used in producing goods and services. There are four main types of factors of production they include:
- LAND: This refers to the free land that is used to build factories, industries, etc.
 - LABOUR: These are the people that are willing to work hard to provide a service.
 - CAPITAL: This refers to the money that is invested into the business and all the capital goods that aid production.
 - ENTERPRISE: This is the risk-taking ability of a person, and the ability to combine all the factors of production.
- c) Opportunity cost is the next best alternative given up by choosing something else. Economists need to consider the opportunity cost in all their decisions to ensure that they are making the right decision. Since opportunity cost also includes external costs, economists can use this to determine whether a firm is benefiting the society as a whole or neglecting external costs. If a firm only takes its private costs into consideration then in an economist's point of view the whole economy is better off not having the economy.

d) The provision of merit goods such as education and healthcare would benefit the economy as a whole. Firms would benefit from a more educated labour force. This increases the productivity of firms since the workers are more flexible and require little training. It would also lower the costs of firms since they won't have to spend so much on educating their labour force and re-training them. The people would also have a higher chance of promotion, or it would make finding a job or occupation easier. Furthermore, the whole economy benefits from a healthier workforce. They may take fewer hours of work due to illness. This would also decrease the amount of money a government has to pay for sick pay, thus leaving them with a higher revenue to spend on public goods and services. Since the more people would be employed in industries due to their higher education, the government won't have to pay a lot to the unemployed. On the other hand, if the government allocates too much to education and healthcare then it might have little revenue to spend on other things such as public goods and services. Public goods include street lighting and other services like bus transportation and other services that benefit the whole economy as well. The government may also not have enough finance to invest in the infrastructure and provide subsidies to its industries. All these other forms of expenditure also are also very important so they can't simply be ignored.

Examiner comment – grade A

- (a)** The candidate provided a very useful explanation of why all countries face the basic economic problem, recognising the significance of the existence of limited resources to satisfy unlimited wants, giving rise to the need for decisions to be taken. All four marks were awarded.
- (b)** The candidate stated the four factors of production and provided a useful explanation of three of them. There was some confusion, however, in relation to the meaning of capital and so only three of the marks available were awarded.
- (c)** The candidate provided a precise definition of the term opportunity cost and then went on to provide an explanation of why it was such an important concept for economists. The explanation, however, might have been better focused on the concept of opportunity cost and so two marks were given for the definition and one mark for the explanation, making three in total for this part of the question.
- (d)** In the final part of the question, the candidate was required to discuss whether a government should allocate more resources to education and health care rather than other forms of expenditure. Arguments were put forward in favour of the idea, such as in terms of a more educated workforce increasing productivity and a healthier workforce taking fewer days off work because of illness. The candidate then considered the other point of view, suggesting that other areas of the economy might suffer, such as transportation. A one-sided answer could gain no more than five marks, but this candidate did make a genuine attempt to offer a balanced response which looked at both sides of the argument. A mark of seven was therefore awarded to the response.

Mark awarded = 17 out of 20

Example candidate response – grade C

a) The basic economic problem faced by the countries are that there are unlimited wants and limited resources which cannot fulfill the needs of the people and thus this creates scarcity in the country.

b) Factors of productions are the resources which are used by the people to produce goods and also to provide service to the people. There are 4 different types of Factor of production.

- | | | | |
|----|--------------|-------------------------------|--------------|
| 1) | land. | The wages paid to them are :- | Rent |
| 2) | labour | | :- wages |
| 3) | capital. | | :- Interest. |
| 4) | entrepreneur | | :- profit. |

land :- This is a place where you set up your base of producing a good or a service. The wages paid to it is rent and it is geographically immobile.

labour :- These are the people working for you to produce goods and services to the people. The wage paid to them is known as wages.

capital :- This is the factor through which you can buy the machinery and labour & land to produce a good of a service. The wage paid to it is interest.

Entrepreneurs are the people who risk the capital and set up ~~the~~ a business. He is the owner of the company and is taking all decisions according to him which he things through which his company would prosper. The wage paid to them is profit.

c) Opportunity cost is the next best alternative forgone. In this the person choose an appropriate things which he things that he would be benefited ahead in the long run. for eg.: You need to read the economics textbook or go for a party tonight even you have a exam the next day. So you might choose that you need to read the economics textbook and so ~~the~~ going to the party makes becomes your opportunity cost in this case.

d) The government should allocate the resources accordingly to the things needed by the people first. In this case the government should allocate more resources to education & health care rather to different forms of expenditure because if more educated people in the society the better the As through which the country could prosper by these ideas. If better health care then the more people would be staying

for long years. and the population might become huge. This would benefit the country to prosper accordingly. The payments to the skilled workers would be more and so the standard of living would increase.

Examiner comment – grade C

- (a) The candidate recognised that the basic economic problem was concerned with unlimited wants and limited resources, giving rise to a situation of scarcity, but did not go on to make the point that this would require a choice to be made concerning the allocation of these scarce resources. A mark of three was therefore awarded.
- (b) The candidate correctly stated the four factors of production and then went on to clearly explain each of them. All four marks could therefore be awarded to the response.
- (c) The candidate correctly defined the term opportunity cost, gaining two marks, and then went on to explain why it was an important concept for economists. The explanation, however, was rather limited and could have been developed more fully. One mark was given for the explanation, making a total of three marks for the whole question.
- (d) The candidate was required to discuss whether a government should allocate more resources to education and health care rather than other forms of expenditure, but the response was very limited and only considered the possible advantages of such a decision. There was no attempt to offer a balanced response, considering both points of view, and consequently only two marks could be awarded for the answer.

Mark awarded = 12 out of 20

Example candidate response – grade E

- 2 a) Countries face the basic economic problem because the fundamental economic problem asserts that there is a scarcity, or that the finite resources are insufficient to satisfy all human wants. The problem then become to determine what to produce or ~~the~~ how the factor of production such Land, Labour and capital are to be allocated
- b) Factors of production are the main resources for firms all countries to produce goods and service which are Land a place where countries use it to build, Labour a manmade resource which help to ~~prod~~ produce goods and services, and capital is the amount of money ~~country~~ countries used ~~to~~ it to start an business or organization 1+0
- c) Opportunity cost is the next best alternative foregone for using another item, and it is important concept for economists because it show them what they can produce ~~instead if~~ with factor of production ^{resources} to build an ~~item~~ ^{resources} instead of another ~~it~~ resources
- d) In some ^{case} yes they should allocates more resources to education and healthcare ~~because~~ to increase employment, and ~~the~~ also increase high skills and knowledge workers, And try to decrease death by increasing the resources of medicine. But the other form of expenditure could also include investment which without it will ~~to~~ reduce ~~the~~ national income, and force the government to increase taxes, and made firm to increase prices and exploit workers which will cause to an decrease

Examiner comment – grade E

- (a) The candidate made an attempt to explain why all countries face the basic economic problem in relation to the problem of scarcity, but the answer needed to be developed more fully, especially in terms of the need ultimately to make a choice between alternative possible uses of the scarce resources. Two marks were awarded.
- (b) The candidate was only able to state three of the four factors of production (there is no reference to enterprise), for which one mark could be awarded. The explanations, however, were rather poor. Labour is explained as a ‘manmade resource which help to produce goods and services’, while capital is incorrectly explained as ‘the amount of money countries used it to start an business or organisation’. The explanation of land is very superficial. No marks could be awarded to the explanations and so the mark for this part of the question was just one.
- (c) The candidate correctly defined the concept of opportunity cost, gaining two marks, but the explanation of why it is an important concept for economists was very limited and really needed to be developed more fully. No marks could be awarded for the explanation, so the mark remained at two out of four.
- (d) The candidate did attempt to put forward a case for expenditure on education and health care and then went on to balance this with a comment on other forms of expenditure, such as investment, but the answer was rather superficial and limited in scope and so only three marks could be awarded.

Mark awarded = 8 out of 20

Question 5

- 5 The Government of Nigeria has a number of economic aims. One of these is to increase the rate of economic growth in the country. It recognises, however, that this aim could conflict with some of its other aims.
- (a) Describe what is meant by economic growth. [2]
- (b) State **four** economic aims a government may have, other than economic growth. [4]
- (c) Describe the policies that a government might adopt to increase the rate of economic growth in its country. [6]
- (d) Discuss whether economic growth conflicts with the achievement of the other government economic aims. [8]

Mark scheme

5 (a) Economic growth:

- an increase in the total output of goods and services in an economy over a period of time
- an increase in national income
- an increase in real Gross Domestic Product (GDP)
- an increase in the productive capacity/potential of an economy.

Give 1 mark for a basic description and the second mark for development, e.g. reference to GDP or increase in productive capacity. [2]

(b) Possible economic aims:

- full employment
- price stability
- redistribution of income
- balance of payments stability.

Allow relevant environmental aims.
Allow exchange rate.

[4]

(c) Possible policies:

- increase in quantity of factors, e.g. encourage immigration, discover/exploit natural resources
- increase in quality of factors, e.g. improved education/training facilities, encourage research and development
- reallocating resources out of sunset and into sunrise industries
- tax holidays to encourage firms to spend more on investment
- improve information about employment opportunities
- encourage geographical mobility of workers
- encourage inward investment
- monetary and/or fiscal policy (effect on the demand side).

A maximum of 3 marks for one policy only.

[6]

(d) Possible conflict:

- price stability, if increase in demand is greater than increase in supply
- redistribution of income, if most of the gains from economic growth go to the richer people in the society
- balance of payments stability, if increase in incomes resulting from economic growth leads to a large increase in the demand for imports relative to that for exports.

Conflict less likely:

- full employment, as economic growth is likely to lead to an increase in the demand for labour.

A one-sided answer can gain no more than 5 marks.

[8]

Example candidate response – grade A

Question 5

(a) Economic growth refers to an increase in the total and aggregate output of a particular country and particular year. It is often referred to as an increase in the Gross Domestic Product which is an increase in the total value of goods and services produced within the boundaries of a country.

(b) A government may want to achieve low unemployment rate
 A government may want to achieve low inflation rate
 A government may want to achieve a stable exchange rate.
 A government may want to achieve a positive balance of payment

(c) The government may adopt the use of capital intensive methods of production in order to increase the rate of economic growth. This refers to the use of machines rather than labour to produce goods and services. This ensures that goods and services are at a higher rate thus achieving an increase in the rate of economic growth. The government may also adopt the use of fiscal policy in order to achieve an increase in the rate of economic growth. This refers to the use of government expenditure and taxation to achieve total an increase in total aggregate demand. The government can increase expenditure to stimulate demand and cut taxes to enable consumers to have more disposable income. Thus causing an increase in demand which will inspire suppliers to supply more thus causing employment and an increase in the rate of economic growth.

* The government might also adopt the use of money monetary policy to increase the rate of economic growth. This however refer to the use actions taken by government to control money supply or interest rates. The government can increase ~~money~~ total demand by selling treasury bills and bonds thus allowing people to possess cash and demand more goods and services

In addition, the government can also reduce interest rates to make borrowing cheaper which will inspire consumers to borrow money from banks and increase total aggregate demand which will inspire suppliers to supply more (GDP) thus creating employment and achieving an increase in the rate of economic growth.

(D) To some extent economic growth does not conflict with the achievement of other economic aims. Economic growth brings about low levels of unemployment due to the fact that the economy would have nearly reached optimum production capacity and everyone would be employed. Economic growth also brings about a positive balance of payments as the economy would be producing so many goods that it would export to other countries and achieve a surplus which is a positive balance of payments. Economic growth also brings about a stable exchange rate to the economy as more goods will be exported and demand for the local currency would increase causing it to appreciate and allowing the government to purchase other currencies at lower costs.

On the other hand economic growth may conflict with one or more of the government economic aims. (Now since the country would be experiencing economic growth, there would be high production and everyone would be employed thus total aggregate demand would be at its peak thus resulting in too much money chasing too few goods which is known as demand pull inflation. This is the constant increase in prices of goods and services which contradicts what the government wants to achieve which is low rates of inflation. This inflation would cause employees to demand for higher wages which would be an extra cost to firms thus causing cost-push inflation. This would persistently increase and resulting in a serious situation such as hyperinflation. This would affect the economy badly and so the government might have a serious problem.)

Examiner comment – grade A

- (a) In this part of the question, the candidate was required to describe what was meant by economic growth. In this script, there is a very clear and precise description of the term and both marks were awarded.
- (b) The candidate successfully stated four economic aims that a government might have, other than economic growth, and four marks were awarded.
- (c) The candidate offered, in this part of the question, a very detailed description of the policies that a government might adopt to increase the rate of economic growth in its country, including the adoption of more capital intensive methods of production, the use of fiscal policy to influence aggregate demand (and therefore the level of employment) and the use of monetary policy, such as through a reduction in interest rates. It was felt that this response was very thorough and well focused on the question. It was awarded all six marks.
- (d) In this final part of the question, the candidate was asked to discuss whether economic growth might conflict with the achievement of other government economic aims. There was a good attempt to offer a balanced response. The first paragraph focuses on the idea that it would not conflict with other aims, such as the lowering of unemployment, bringing about a positive balance of payments and helping to establish a stable exchange rate. The second paragraph then goes on to consider the point that economic growth might conflict with other aims, especially in relation to the rate of inflation in the economy. It was felt that the candidate made a genuine attempt to consider both points of view and the response was awarded seven marks.

Mark awarded = 19 out of 20

There are no suitable example candidate responses available for grade C.

Example candidate response – grade E

- ⑤
- (a) Economic growth is the development of your economy in different areas like employment rate which causes change in the economy.
- (b) Raising interest rates
 Reducing inflation ✓
 Imposing taxes
 Reducing unemployment rate. ✓
- (c) Monetary policy might be adopted so the rate of inflation would reduce and this puts them in a state of economic growth. Trade allows goods to be exported and other countries pay for them which adds up to the GDP. If interest rates are increased people from other countries will want to save in your country. If taxation is progressive it will reduce inequality and give the government more money which will make the GDP greater. Fiscal policy could also be used to make good value of money so inflation won't take place. When you exchange rate increases for goods to be bought from you more money has to be paid.
- (d) Economic growth conflicts with the other economic aims because most of them can only be achieved with a good economy. For you to achieve a high GDP money has to be gotten from taxes and exports and this can only be done with economic growth. If your economy is not at least stable the tax system in the economy won't be able to work well. Other countries will only buy goods from you if you are a developed or developing country for a good price. Multinationals will only come to locate in your country if it has an advantage, most especially a good interest rate and you can only have that if your central bank is doing well. Your economy has to be developed for inflation not to occur at any point in time. With good education economies can grow in the labour force so there are not always conflicts but in most cases they exist.

Examiner comment – grade E

- (a)** In the first part of the question, the candidate did not offer a very convincing description of what was meant by economic growth. There were vague references to ‘development of your economy in different areas’ and ‘change in the economy’, but it was not felt that the candidate really understood what was meant by the term and so no mark was awarded.
- (b)** The candidate was required to state four economic aims that a government might have, other than economic growth. Two aims were correctly stated in relation to reducing inflation and reducing the unemployment rate, but the other two responses were not actually economic aims. Only two marks could therefore be given.
- (c)** There was an attempt by the candidate to describe the policies that a government might take to increase the rate of economic growth in its country, in relation to monetary policy and fiscal policy, but the descriptions were rather limited and were not linked closely enough to the possible impact on the rate of economic growth. Three marks were awarded to the response.
- (d)** The candidate offered a very limited response to this final part of the question. It did not seem clear that the candidate had fully grasped what was required in the question and, although there were vague references to conflicts, there was a very weak link to the question. Only one mark was awarded.

Mark awarded = 6 out of 20

Question 6

- 6** There are over 200 countries in the world and they vary enormously in terms of their level of development and extent of poverty. Many of the developing countries have high rates of population growth.
- (a)** Describe what an economist would need to know to decide whether a country should be classified as developed or not. [6]
- (b)** Explain what influences a country’s birth rate. [6]
- (c)** Discuss whether encouraging multi-national companies to set up in a country would reduce that country’s level of poverty. [8]

Mark scheme

- 6 (a)** Data include:
- real GDP per capita
 - Human Development Index
 - occupational distribution of labour
 - birth rate/death rate
 - life expectancy
 - rate of population growth
 - quality of infrastructure
 - housing/sanitation
 - proportion of exports from the primary sector
 - quality of water
 - literacy rate.

A list-like approach can gain no more than 3 marks.

[6]

(b) Possible influences:

- the average age of the population
- the gender balance of the population
- the women's fertility rate
- the age at which women decide to have children
- the participation rate of women in the labour force
- the socio-economic status of women
- the availability of/knowledge about family planning
- the standard of living
- education
- medical/health facilities
- cultural issues.

[6]

(c) Possible benefits:

- companies would provide jobs leading to a reduction in unemployment
- incomes would rise
- standards of living/quality of life could increase
- government revenue from taxation would increase, providing money to finance poverty reduction programmes for those not at work.

Possible problems:

- some of the jobs might not be very well paid
- there is no guarantee that the company will remain in the country for long
- some of the jobs might be reserved for workers from country of company
- much of the profit will be sent home to original country.

A one-sided answer can gain no more than 5 marks.

[8]

Example candidate response – grade A

Section B : Number 6

a) To classify a country as developed or not - By looking at the standards of living of people. Usually developed countries have high standards of living than low economically developed countries.

- Death rate in the country. Death rates are high in LEDCs & low in developed countries.

- Birth rate in the economy. Birth rates are also high in LEDCs than in developed countries where they are high.

- Life expectancy from birth. Life expectancy is high in more developed countries than in less developed countries.

- Number of people employed in the primary sector and tertiary sector. Usually in less developed countries, more than 50% of the population is employed in the primary sector while in developed countries more than 60% of the population is employed in the tertiary sector.

- Processing and producing industries?

- Type of government. LEDCs government are usually corrupt?

b) A country's birth rate is influenced by the following: availability of contraceptives. Contraceptives help reduce the birth rate with the use of contraceptives. Religion and culture. Some religions are against the use of contraceptives and this increases birth rate while some forbid sex before marriage and this may reduce birth rate. Number. Proportion of school leavers for higher education, this reduces ^{early} marriages and results in low birth rates. The availability of women to go to work. Working women usually have a few children and this reduces birth rate. Social attitude. The government policy. The government may pay incentives to people with only a few children as the population size is too much and if too little it may also pay benefits to ^{couple} people with large families.

c) Multi-national companies may reduce poverty. This is because they employ so many people in the region that they are and this helps the working people to have an income which they can use to buy goods and services thereby reducing absolute poverty. Some multi-national companies may send children to school who later on become skilled and be employed in the firms. This - The multi-national pay a large sum of amount in their taxes since their profits are high and this may cause the government to spend this money on the poor by giving them benefits. Multi-nationals increase the GDP of a country and, this means that people may gain higher standards of living.

On the other hand, multi-national companies may exploit workers by giving them low wages which afford only a few goods and services. Governments may allow these companies to pay little tax because they want them to stay in their country and poverty is not reduced.

Examiner comment – grade A

- (a) The candidate's answer to the first part of the question was of a good standard. The question required candidates to describe what an economist would need to know to decide whether a country should be classified as developed or not. The candidate made reference to a number of relevant factors, including the death rate, the birth rate, life expectancy and the division of employment in terms of the primary and tertiary sectors. The answer was awarded five marks.
- (b) In the second part of the question, the candidate was required to explain what could influence a country's birth rate and there was good coverage of a number of factors, including the availability of contraceptives, religious and cultural factors, the age of marriage, the proportion of people in higher education, the participation rate of women in the labour force and the possible impact of government policy. This was a sound explanation and five marks were awarded.
- (c) In the final part of the question, the candidate was required to discuss whether encouraging multi-national companies to set up in a country would be likely to reduce that country's level of poverty. There was a consideration of the possible advantages of multi-national companies in this respect, such as in relation to employment, income, skills and taxation on profits. The candidate then went on to consider the other point of view, pointing out that multi-national companies might exploit workers by paying them low wages and also that they might not be required to pay the full amount of tax. A one-sided answer could gain no more than five marks, but this candidate did make an attempt to offer a balanced discussion, although more could have been written on the potential disadvantages. The answer was therefore awarded six marks.

Mark awarded = 16 out of 20

Example candidate response – grade C

(c) There are several development indicators which the economist should take into consideration, they include, the real GDP per capita of the country this is the real income a person earns, or the real income per head and is calculated by dividing real GDP with the population. Number of people earning less than one dollar a day. The adult literacy rate which is a measure of what proportion of the adult population can read and write. Life expectancy at birth which is an estimate of how long a person would live. Settled College and school enrollment rates. The amount of people who can afford to purchase consumer goods and the proportion of people in agriculture as compared to industry and services.

W3K like

b) There are many factors which influence the birth rate in a country they include, Contraception, many people in less developed countries do not have access to methods of contraception or do not know about it. Female employment, many women are going to work now instead of staying home to raise families. Late marriages, many people are marrying later in life and having fewer children. Other increase in the population may increase birth rates since some people are moving into the country and raising children. Other factors such as war, famine and disease can increase death rates in a country and lower birth rates.

W3K like

c) A multi-national company can bring a variety of benefits to a country. Firstly, a multinational is a company that produces goods in more than one country. It can boost government revenue by paying taxes. A multinational can bring new technology into a country. It can provide jobs for many people who are unemployed. It can help bring money into the country by selling goods overseas. However a multinational

does not always bring benefits into a country but it can also increase poverty in the following ways. A multi-national can avoid paying taxes since many countries have a poor tax collection system. It can shift its profits from one country to another therefore might not benefit the country it's located in. It can interfere in government decisions in order to protect their own interests. It can exploit employees by paying them low wages for the same work. A multinational can also put other firms out of competition since it can exert a large influence on prices. To conclude a multi-national would not really reduce the level of poverty in an economy in fact it may actually increase the poverty.

Examiner comment – grade C

- (a) The candidate was required to describe what an economist would need to know to decide whether a country should be classified as developed or not. There is reference to such factors as real GDP per capita, levels of income, the adult literacy rate, life expectancy, school enrolment and the proportion of people employed in the primary, secondary and tertiary sectors. However, although a number of factors are identified, the answer is rather list-like and the points really needed to be described more fully. The response was awarded three marks.
- (b) In this part of the question, the candidate was asked to explain what influences a country's birth rate and there is reference to contraception, levels of female employment and age of marriage. The answer, however, is rather list-like in approach; the command or directive word in the question is 'explain' and it was felt that the candidate really needed to develop the explanations of these points more fully. Three marks were awarded.
- (c) The candidate did attempt to offer a balanced discussion of the role of multi-national companies in reducing poverty. On one side, various benefits were considered, such as the payment of taxes to the government, the introduction of technology and the provision of employment. On the other side, possible disadvantages were considered, such as tax avoidance, repatriation of profits to the home country and possible exploitation of workers. Although the candidate did make an attempt to consider both points of view, it was felt that there needed to be more of a focus on the reduction of a country's level of poverty. Five marks were awarded.

Mark awarded = 11 out of 20

Example candidate response – grade E

- a. Firstly the economist should know about the economy of a country. He/She should know about the standard of living, unemployment rate. Also economist should know about if inflation has or not in country because it shows that prices of product, people living, people are happy or not. Sometime economists look to the economic growth. How is GDP. it is increasing or decreasing. Economist may look all aims of economy.
- b. First reason could be unemployment rate is high in country. Because of they don't have money, they can't survive they are not making baby and it decrease the birth rate. Because of this in developing countries birth rate is high because employment rate is high there. May be in country standard of living is low. When they make a baby. They should pay for their education and health care.
- c. Multi-national company means you open this business in another countries. Of course it will reduce the level of poverty. Because when company open a part in another company they will need workers. Then in the country unemployment rate will be lower and people ~~poor~~ will not be very poor. Because of this country negotiate with multi-national companies

that open a part in our country and pay less tax. The government do this because to decrease the level of poverty in country. When every body has work in country. Then their birth rate is increases, economic growth increases. it is very good for poor countries that companies are opening there.

Examiner comment – grade E

- (a)** There is a brief consideration of some of the factors that an economist would need to know to decide whether a country should be classified as developed or not, including the rate of unemployment, the rate of inflation, economic growth and GDP. The response, however, is very limited and these factors are not really described in sufficient detail. Two marks were awarded.
- (b)** The candidate provides a very superficial answer. There is no real explanation of what influences a country's birth rate, just a few comments in relation to the rate of unemployment and the money available for education and health care. It is a very limited response and was given just one mark.
- (c)** The answer to the final part of the question is a one-sided response which only deals with the possible advantages of a multi-national company setting up in a country. There are references to the creation of employment and the possible effect on economic growth, but it is a very limited response. There is no attempt to look at the other point of view, i.e. that the setting up of multi-national companies in a country might not contribute to the reduction of that country's level of poverty. Three marks were awarded to the response.

Mark awarded = 6 out of 20

Paper 3 – Analysis and critical evaluation

Question 1

The extract '**Diamond mining in Sierra Leone**' will be needed for this question.

- 1 (a) (i) Calculate Sierra Leone's Human Development Index (HDI) value in 2008.

.....
..... [1]

- (ii) Identify **two** components of the HDI.

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.....
.....
.....
..... [2]

- (b) (i) What is the formula for calculating price elasticity of demand?

.....
.....
.....
..... [2]

- (ii) Explain whether the extract suggests that the demand for diamonds is price elastic or price inelastic.

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.....
.....
.....
.....
.....
..... [2]

(c) Using a demand and supply diagram, analyse the effect of the change in the number of diamond mines in 2008 on the market for diamonds.

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..... [4]

(d) Identify from the extract **two** examples of factors of production changing their use.

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.....
.....
..... [2]

Extract for question 1

Diamond mining in Sierra Leone

Sierra Leone is a very poor African country which regularly comes bottom of the United Nations' Human Development Index (HDI). In 2008 its Gross Domestic Product (GDP) per head was only 1.5% of that of the United States (US). The average income in the US was US\$46 000. In the same year, Sierra Leone had an HDI value of one-third of the US's HDI value of 0.96.

Sierra Leone's government has often hoped that its diamond mining industry will reduce poverty in the country. The country's exports of diamonds rose in value by more than five times between 2000 and 2007. Tax revenue from the industry also rose significantly over this period. Multi-national companies (MNCs) have been encouraged to mine for diamonds in the country. If more MNCs come into the country, the government may raise more corporation tax and income tax revenue, and reduce its budget deficit (the excess of its spending over its tax revenue).

The diamond industry, however, is subject to significant changes in demand and supply and, as a result, this leads to significant change in the price. In 2008 diamond prices fell. World demand decreased as incomes in a number of countries declined. The demand for diamonds is very sensitive to changes in both income and price. With consumers cutting back on their purchases of diamonds, a number of mines were closed throughout the world. More than 100 000 workers lost their jobs in India, which has the world's largest diamond cutting and polishing industry.

Demand for diamonds continued to decrease in 2009. As a result, some of Sierra Leone's diamond miners switched to working in agriculture. A number of diamond mining firms started to search for other minerals, including gold. Some government ministers welcomed the search as, if successful, the economy would become more diversified.

Mark scheme

1 (a) (i) Human Development Index (HDI) value in 2008 = 0.32. [1]

(ii) 1 mark each for identifying two components of HDI from:

- GDP (GNI) (per capita)
- life expectancy
- adult literacy (mean years of schooling)
- school enrolment (expected years of schooling).

Note: if adult literacy (mean years of schooling) and school enrolment (expected years of schooling) are not given, can accept education for 1 mark. [2]

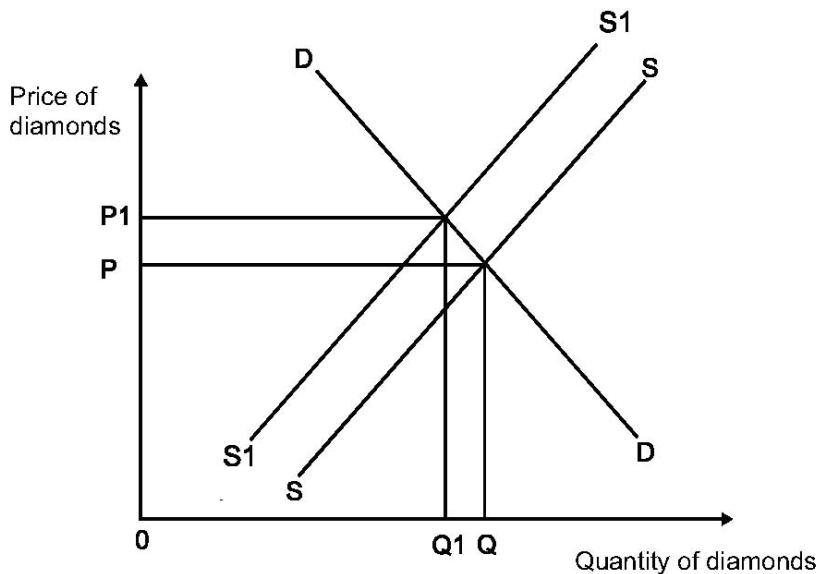
(b) (i) Formula for price elasticity of demand (PED):

$PED = \% \text{ change in quantity demanded} / \% \text{ change in price}$ (2).

$PED = \text{change in quantity demanded} / \text{change in price}$ (1). [2]

(ii) Price elastic (1) as it states demand for diamonds is very sensitive to price (1). [2]

(c)



1 mark for correct labels.

1 mark for shift of the supply curve to the left.

1 mark for correct equilibriums.

1 mark for mentioning the quantity traded would have fallen.

1 mark for mentioning that a decrease in supply would increase price.

Note: maximum mark of 4. [4]

(d) 1 mark for workers changing jobs – mining to agriculture (1).

1 mark for firms changing the products they produce – diamonds to gold/other minerals/capital. Enterprise or land if the change is identified (1). [2]

(e) Reasons why it might:

- generate employment
- earn foreign currency
- improve the current account position
- contribute to economic growth
- increase tax revenue.

Reasons why it might not:

- may push up the exchange rate and make other products less internationally competitive
- may damage areas of natural beauty
- lower demand for diamonds in the future
- risk of overspecialisation.

Up to 4 marks for a one-sided approach or a list-like approach.

[7]

Example candidate response – grade A

1 (a) (i) Calculate Sierra Leone's Human Development Index (HDI) value in 2008.

$$\frac{1}{3} \times 0.96 = 0.32 \quad [1]$$

(ii) Identify two components of the HDI.

- the basket
- a base year
- GDP per head

[2]

(b) (i) What is the formula for calculating price elasticity of demand?

$$PED = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

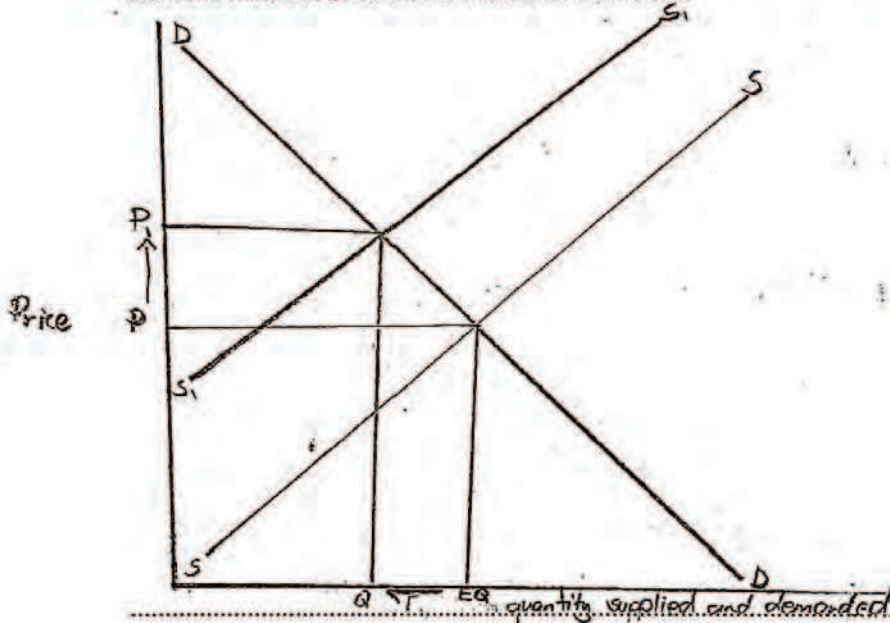
[2]

- (ii) Explain whether the extract suggests that the demand for diamonds is price elastic or price inelastic.

It suggests that it is price elastic because the demand for the diamonds was affected by changes in income and price. As in 2008 the decrease in incomes in many countries reduced the demand for diamonds and as a result the price of diamonds fell to try and boost demand.

[2]

- (c) Using a demand and supply diagram, analyse the effect of the change in the number of diamond mines in 2008 on the market for diamonds.



In 2008, the number of diamond mines decreased which means fewer diamonds were supplied pushing ^{the} supply curve to the left from S to S_1 . This reduced the quantity supplied ^{sawing} from EQ to Q . This pushed the equilibrium price for diamonds higher from P to P_1 .

[4]

- (d) Identify from the extract **two** examples of factors of production changing their use.

Workers in mines switched from their specialised diamond mining to working in the agricultural sector.

Diamond mining firms moved from searching for diamonds ^{only} to searching for other minerals too like gold, (increasing risk).

[2]

- (e) Discuss whether a successful, domestic diamond industry would benefit the economy of Sierra Leone.

A successful domestic diamond industry would benefit the economy of Sierra Leone because it would mean that there will be a rise in the GDP of the country. High GDP means that productivity would have increased, and for that to happen more people were employed hence unemployment in the country has decreased. If more people are employed there are increased standards of living and there is more tax revenue available for the government. It could use this tax revenue on improving infrastructure etc thus leading to economic growth. If their diamond industry is successful, then the exports are increased which brings in foreign currency to the country and improves its balance of payment account. It also makes the country more competitive and boosts the exchange rate. This could attract investments from other countries still boosting the economy higher. However if it concentrates too much on diamonds it ~~relies~~ relies on other countries for other goods such as food, clothing. This could make it depend on these countries and these countries could end up determining the price of the diamonds ~~by~~ making them less than they are worth. Even with these disadvantages, all in all, a successful domestic diamond industry would benefit the economy of Sierra Leone.

Examiner comment – grade A

- (a) (i)** The candidate accurately calculates the Human Development Index (HDI) value.
- (ii)** Only one relevant component of the HDI is identified. The reference to ‘the basket’ might have reflected some confusion with a consumer price index. The identification of ‘a base year’ refers to how an index is constructed rather than what is in the HDI.
- (b) (i)** The correct formula is given and is sufficient to gain the full two marks.
- (ii)** The candidate correctly identifies that the extract suggests that demand for diamonds is price elastic. However, the explanation provided is confused. Demand would still be affected by changes in price even if it was price inelastic. The last sentence draws on the extract but concentrates on why demand had fallen and not on the extent to which demand responds to a change in price. To gain the second mark, the candidate needed to provide relevant evidence from the extract.
- (c)** A clear, well labelled and accurate diagram is produced. The equilibrium points are indicated and the changes in supply, price and quantity are shown on the diagram. The explanation is lucid and well structured.
- (d)** The candidate identifies how workers have changed their use. The second paragraph focuses on firms changing their use. Reference to capital might have been made here but it was decided that firms would be acceptable in this case.
- (e)** The candidate reveals the common confusion between production and productivity near the start of the answer. Nevertheless, the answer provides a good discussion on the benefits of a successful domestic diamond industry. It discusses how it would raise GDP and so would increase employment and living standards. It also explains how tax revenue and exports would increase. The answer then considers the possible disadvantages of overspecialisation. Full marks would have been awarded if there had been more on the disadvantages or a stronger conclusion.

Mark awarded = 17 out of 20

Example candidate response – grade C

1 (a) (i) Calculate Sierra Leone's Human Development Index (HDI) value in 2008.

$0.96 \div 3 = 0.32$
.....[1]

(ii) Identify two components of the HDI.

Living standard and people's income is
components of the H.D.I.
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.....
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.....
.....[2]

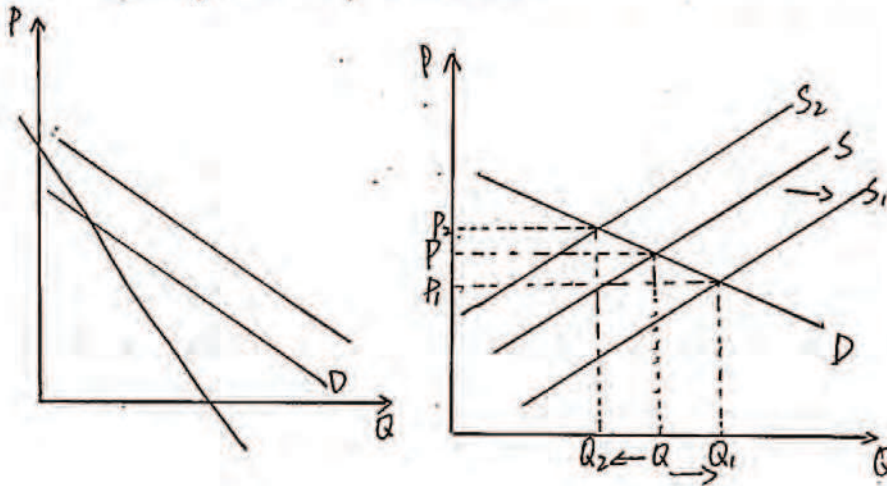
(b) (i) What is the formula for calculating price elasticity of demand?

PED = $\frac{\% \text{ of Price change in the price}}{\% \text{ change in the price}}$
.....
.....[2]

- (ii) Explain whether the extract suggests that the demand for diamonds is price elastic or price inelastic.

The demand for diamonds is price elastic. Because in 2008 diamond prices fell. World demand decreased as income in a number of countries declined. The demand for diamond is very sensitive to changes in both income and price. If price of diamond increase, people will not afford to buy it. ~~It is~~ And also diamond is not ~~very~~ necessary for people's life. When price changed, demand also change.

- (c) Using a demand and supply diagram, analyse the effect of the change in the number of diamond mines in 2008 on the market for diamonds.



If the number of diamond mines increase, S to S_1 . The price will decrease and demand of quantity is increase. If the number of diamond mines decrease, S to S_2 , the price will increase and ~~the demand~~ ^{less people} can afford to buy diamond. So the quantity of ~~demand~~ demand will decrease. [4]

- (d) Identify from the extract two examples of factors of production changing their use.

Firstly, the use land to mining diamond. Due to demand for diamonds continued to decrease. Some diamond miners switched to working a agriculture. They might change land to for their farming. Secondly, it's changing capital. Mining diamond equipment is different ^{from} agriculture. And also some mining firm started to search for other minerals, they also need change different equipment and tools. [2]

- (e) Discuss whether a successful, domestic diamond industry would benefit the economy of Sierra Leone.

Normally, the diamond value of diamond is very high. Sierra Leone set up diamond industry can sell these expensive diamond. It's will benefit the economy. If people ^{really} ~~very~~ like their diamond, the value of diamond will increase, they might make more money. And also diamond is their resources, they can always search and sell. People in the world if they increase income, they might think about buying ~~the~~ luxury things such as diamond. It's will increase diamond demand, also increase benefit ~~to~~ in economy. If diamond demand of diamond is increase, the firm might employed more labour to work for mining. People will ~~It's~~ will decrease unemployment rate. People have income and also increase government tax revenue. It's also benefit for their economy. Government can use these tax to improve education and healthcare. People might have good education and health care. they will find a good job and have active for their job. It's also benefit for economy.

Examiner comment – grade C

- (a) (i)** A correct calculation.
- (ii)** The references to ‘living standard’ and ‘people’s income’ are too vague.
- (b) (i)** A confused understanding of price elasticity of demand (PED) is revealed. There is no recognition that PED measures the responsiveness of demand (to a change in price).
- (ii)** A clear answer which recognises that demand for diamonds is elastic and provides the relevant evidence drawn from the extract.
- (c)** The candidate correctly labelled the demand and supply curves. Confusion is, however, shown over what happened to the supply of diamonds. The answer is also uncertain about what would happen to price and demand.
- (d)** The candidate correctly identifies the change in the use of land and the change in the use of capital. Good awareness is shown of the nature of capital goods.
- (e)** After a rather uncertain start, this becomes a clear answer on the benefits of a successful, domestic diamond industry. Unfortunately, the candidate does not consider why such an industry might not benefit the economy of Sierra Leone.

Mark awarded = 10 out of 20

Example candidate response – grade E

- 1 (a) (i) Calculate Sierra Leone's Human Development Index (HDI) value in 2008.

$$\begin{aligned} \text{HDI} &= 0.96 \times 1/3 \\ &= 0.32 \end{aligned} \quad [1]$$

- (ii) Identify two components of the HDI.

The two components of HDI are the country's export. Here the country exports diamond which had increased 5 times from the year 2000 to 2007 and the second component is the Tax Revenue. As exports increased so the tax revenue had increased from the year 2000 to 2007. [2]

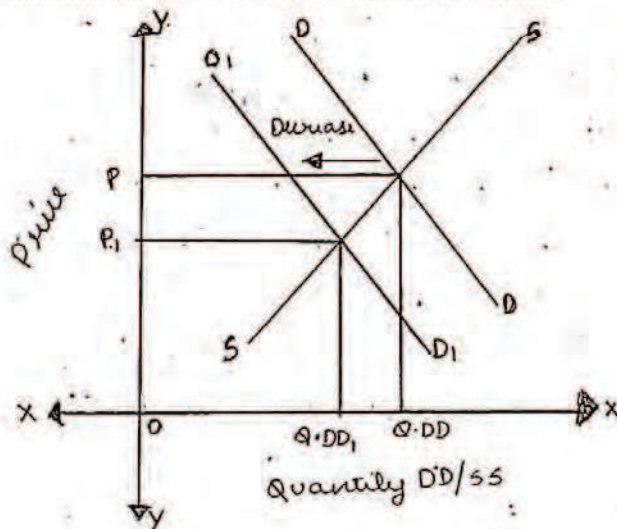
- (b) (i) What is the formula for calculating price elasticity of demand?

It means the degree of responsiveness with the change in price in demand. Formula is the percentage change in Price divided by the percentage change in demand. [2]

- (ii) Explain whether the extract suggests that the demand for diamonds is price elastic or price inelastic.

The demand for the diamonds price is elastic as the price demand and supply was changing and when demand and supply changes the price also changes. And from the year 2000 to 2007 the price was constant but it had changed in the 2003 which tells us that the price was elastic. [2]

- (c) Using a demand and supply diagram, analyse the effect of the change in the number of diamond mines in 2008 on the market for diamonds.



In 2008 the price of diamond and world demand for diamonds as income in many countries decreased. So when the demand for diamond decreased the price for the diamond also decreased in 2008. So in 2008 demand and price both increased. [4]

- (d) Identify from the extract two examples of factors of production changing their use.

Factor of production means the factors which help in the production of goods. In this extract the two examples are the labour, many mines switched to working in agriculture. Many diamond mining firms started to search for other minerals, such as gold.

[2]

- (e) Discuss whether a successful, domestic diamond industry would benefit the economy of Sierra Leone.

A successful domestic diamond industry may benefit the economy of Sierra Leone. Sierra Leone is a poor country which means it is a developing or underdeveloped country, which means that it has a low economy and low rate of GDP. If there is a successful domestic industry, it will help the country to increase its economy and GDP as people will be employed in mining industry which will also increase employment. It will also help the country to develop and will also increase the standard of living people, but a successful domestic diamond industry may not benefit the economy of Sierra Leone as the prices of the diamond may be too high for the country as they are developing and poor country and people there may find difficult to buy diamonds so even if the prices are less, people there may find it difficult to buy a. but only some people may face this problem so many people can also buy diamond and help in developing. So a domestic industry would benefit the economy of Sierra Leone.

Examiner comment – grade E

- (a) (i)** An accurate calculation.
- (ii)** There is confusion about the nature of the HDI and relevant components are not identified.
- (b) (i)** Confusion is shown with the formula for calculating price elasticity of demand reversed.
- (ii)** The candidate recognises that demand for diamonds is price elastic. To gain the second mark, a clear explanation of why the extract suggests that demand is price elastic is necessary. The candidate writes about what happened to price but does not focus on the responsiveness of demand to a change in price.
- (c)** The diagram drawn is correctly labelled but a shift to the left of the demand curve is shown rather than a shift to the left of the supply curve. The written analysis does not pick up on the significance of the closure of some of the diamond mines in 2008.
- (d)** The candidate recognises that labour has changed in its use with some miners switching to working in agriculture and firms searching for other minerals.
- (e)** The answer does seek to examine both sides. It is stronger on the possible benefits than on the possible costs. More width of discussion is required for more marks. For instance, the candidate might have explained the impact on Sierra Leone's exports and might have considered the environmental impact of more mining.

Mark awarded = 9 out of 20

Question 2

The extract ‘**The changing fate of the Philippines**’ will be needed for this question.

2 (a) Define labour productivity.

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.....

..... [1]

(b) (i) What has happened to a country’s real GDP if its economic growth rate has fallen from 7.3% to 4.6%?

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..... [2]

(ii) Using information from the extract, explain why the Philippines’ economy was **not** seriously affected by the global recession (economic downturn) in 2008.

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..... [2]

Extract for question 2

The changing fate of the Philippines

Three decades ago the Philippines was one of the richest Asian economies. Its slower growth rate, however, caused it to fall behind its neighbours. Its position may now be changing. In 2007 its annual economic growth rate rose to 7.3%, its highest rate for 31 years. Its annual economic growth rate fell to 4.6% in 2008 but, nevertheless, it experienced positive economic growth during a period of global recession (economic downturn).

One of the reasons why the economy of the Philippines performed better than many other economies was its government's increased spending on infrastructure and social services. Investment still needs to increase to improve the country's relatively low labour productivity, and more effective government policy measures are needed to reduce poverty. Indeed, the number of people in the Philippines living below the poverty line has risen to nearly 4 million in recent years. The government is aiming to raise its country's income relative to its Asian neighbours (see Table 1). It has considered subsidising house-building to reduce poverty.

The country benefits from remittances (money sent home by workers) from the 11 million people from the Philippines who work abroad. The Philippines is the fourth largest recipient of remittances in the world and these remittances have helped to protect it from the effects of the global recession.

In 2009 the government was still trying to reduce the country's budget deficit. In 2005 it expanded the coverage of its value added tax (VAT) and raised its rate from 10% to 12%. Tax revenues, however, remain relatively low, in part, because of tax evasion.

Table 1: Gross Domestic Product (GDP) and population in selected Asian economies in 2007

Country	GDP (US\$ billion)	Population (million)
China	3330	1332
Indonesia	456	228
Thailand	260	65
Malaysia	182	26
Philippines	170	85

Mark scheme

- 2 (a)** 1 mark for output per worker/output per time period/output per worker hour. [1]
- (b) (i)** It has risen (1) more slowly (1). [2]
- (ii)** Increased government spending (on infrastructure and social services) (1) and remittances (1).
2 marks if two reasons are identified or one reason is identified and explained. [2]
- (c)** A subsidy is a payment to firms/reduces costs of production (1).
A subsidy would be expected to increase the supply of housing (1), higher supply would lower price (1) making it more accessible to the poor (1) and raise living standards (1).
A rise in house-building may create jobs (1), some of which may be undertaken by the previously unemployed (1) higher employment may generate other jobs/have a multiplier effect (1) and so raise living standards (1).
Note: credit multiplier approach but not required.
Note: maximum mark of 4. [4]
- (d) (i)** Malaysia (1), \$7000/relevant workings (1).
- (ii)** 1 mark for its population falls further than its GDP/fall in population size. [3]
- (e)** Up to 4 marks for identification of factors, for example:
- changes in rates
 - coverage
 - tax evasion
 - GDP
 - price elasticity of demand
 - rise in population
 - level of imports.
- Up to 5 marks for commenting on factors, for example:
- tax revenue may rise if rates increase/decrease,
 - if the tax base is increased,
 - if tax evasion is reduced and GDP increases.
- Note a maximum of 8 marks. [8]

Example candidate response – grade A

2 (a) Define labour productivity.

Labour productivity is output ~~at~~ produced by workers.

It is the output produced per worker.

.....[1]

(b) (i) What has happened to a country's real GDP if its economic growth rate has fallen from 7.3% to 4.6%?

The country's real GDP has also dropped or

declined.

- (ii) Using information from the extract, explain why the Philippines' economy was **not** seriously affected by the global recession (economic downturn) in 2008.

It has a high rate of benefit from remittances hence this helped them, as most of the people in the country are supported by those working in other countries.

[2]

- (c) Explain how a government subsidising house-building may reduce poverty.

This makes building houses cheaper hence the firms will increase their supply. Because of increased supply, it means more people will be hired for labour reducing the number of unemployed people. Hence if a lot of people now earn income, their standards of living are improved as they no longer depend on the government. Tax revenues are increased too hence this revenue can be used to better off infrastructure, can be used for measures to help the poor etc. Also, houses are a basic need, hence if more people in the country are sheltered it reduces the level of people vulnerable to disease reducing poverty.

- (d) (i) Using Table 1, calculate which country had the highest GDP per head in 2007. Show your workings.

China	Indonesia	Thailand	Malaysia	Philippines
3330	456	260	182	170
1332	228	65	26	85
= 2.5	= 2	= 4	= <u>7</u>	2

Malaysia had the highest GDP per head ^{of 7} ~~of 7~~ per head.

[2]

- (ii) Why might GDP per head in a country rise at a time when its GDP is falling?

The population will be declining.

Exa

[1]

- (e) Discuss the factors which may influence whether tax revenue will increase in the Philippines in the future.

Employment → If employment is likely to increase in the Philippines in the future then tax revenue will increase as the government can charge income tax from their salaries. The participation rate can also help determine that. If in the future there are more people who are going to be within the working age range and willing and able to do jobs then more people will be employed which increase tax revenue from income. The spending rate in the future can also influence tax revenue. If people's spending is going to increase in the future then the government will acquire tax from the goods and services ^{bought through} Value Added Tax. But because spending would have increased, businesses are going to get more profit which the government will earn tax revenue through corporation tax. But if it is not likely to increase then less tax revenue will be earned. If production is likely to increase or decrease in the future. If it is going to increase then the government's tax revenue will increase. If it will decrease, the tax revenue will decrease. ~~but on the other hand,~~ if people are likely to import more or not. If people are going to import more, then through charging tariffs.

The government's tax revenue is likely to increase. It could also estimate the number of people likely to travel, if more people are likely to travel to a particular area in the future, the government could obtain more tax revenue by the tax charged on crossing a particular bridge or using a particular road. If there are less people likely to travel, then less will be earned. Also if investments are likely to increase in the future or not or there can provide the government with capital corporation tax and income tax. All the above can influence whether tax revenue is likely to increase or not. [8]

Examiner comment – grade A

- (a) A clear and accurate definition.
- (b) (i) The candidate does not recognise that a fall in the economic growth rate from 7.3% to 4.6% means that real GDP has still grown but more slowly.
- (ii) One reason is identified. This needed to be explained in more detail or the other should have been identified to gain full marks.
- (c) This is a good answer which provides clear links between a government providing a subsidy and poverty being reduced. The candidate recognises the effect of a subsidy on the price of housing, the quantity of housing, employment and living standards.
- (d) (i) The candidate recognises that Malaysia had the highest GDP per head. The correct method of calculation is used even though the figure given is 7 rather than \$7,000.
- (ii) A brief and perceptive answer that recognises that GDP per head might rise even if GDP is falling if population is also declining.
- (e) The candidate reveals a good awareness of the factors that influence the amount of tax revenue a government receives. There is some good discussion on the impact of changes in employment, spending, profit, investment, tariffs and road tolls. The answer would have been strengthened even further by less repetition towards the end of page nine and rather more depth of discussion.

Mark awarded = 16 out of 20

Example candidate response – grade C

- 2 (a) Define labour productivity.

labour productivity is output produce by per workers. The formula is

$$\text{Labour productivity} = \frac{\text{total output}}{\text{number of labour}}$$

[1]

- (b) (i) What has happened to a country's real GDP if its economic growth rate has fallen from 7.3% to 4.6%?

Economic growth is increase in real GDP. GDP is the sum of total income, total expenditure and total output. If economic growth rate has fallen from 7.3% to 4.6%, a country's real GDP also will decrease 2.7%. These will influence total income, total expenditure and total output.

- (ii) Using information from the extract, explain why the Philippines' economy was not seriously affected by the global recession (economic downturn) in 2008.

The Philippines is the fourth largest recipient of remittances in the world and these remittances have helped to protect it from the effects of the global recession.

[2]

- (c) Explain how a government subsidising house-building may reduce poverty.

Government give a subsidy to house-building. It's will help producer to reduce cost of production (building). They will have money to produce and these subsidy might pass to consumers, the house will cheaper than before. And also the firms can use these subsidies to employed more labour. These will reduce unemployment, people have job to do, they will get income for their life, less poverty in their life.

- (d) (i) Using Table 1, calculate which country had the highest GDP per head in 2007. Show your workings.

China: $3330 \div 1332 = 2.5$ (GDP per head)
 Indonesia: $456 \div 228 = 2$ (GDP per head)
 Thailand: $260 \div 65 = 4$ (GDP per head)
 Malaysia: $182 \div 26 = 7$ (GDP per head)
 Philippines: $170 \div 85 = 2$ (GDP per head)

Malaysia had the highest GDP per head, which is 7. [2]

- (ii) Why might GDP per head in a country rise at a time when its GDP is falling?

It experienced positive economic growth during a period of global recession.

[1]

- (e) Discuss the factors which may influence whether tax revenue will increase in the Philippines in the future.

There are some factors which may influence whether tax revenue will increase in the Philippines in the future. If government want to increase tax revenue, they the most important is people's income. So the unemployment rate will influence tax revenue. Philippines government should make sure unemployment rate is decrease, people will have job and income, they will have ability to pay tax for government. It's might increase tax revenue. The second ~~see~~ second one is economic growth. There may have new technology for production. New technology will increase productivity of labour. The total output will increase, labour total income will follow to increase. The more income they get, the more tax they paid. So it's will increase tax revenue. The third one is ~~increase~~ ^{reduce} ~~decrease~~ interest rate. If reduce interest rate, ~~it~~ people might borrow money more ~~cheaper~~ cheaper and save money just can get few money. People might don't save and spending more. This will increase consumption tax. It's also increase tax revenue.

Examiner comment – grade C

- (a) A relevant definition is provided.
- (b) (i) The candidate recognises that economic growth is an increase in real GDP but does not appreciate that if economic growth falls from 7.3% to 4.6%, real GDP is rising.
- (ii) The candidate identifies the importance of remittances but greater depth of explanation is required for full marks.
- (c) A good answer. The candidate explains how a subsidy could reduce the cost of building houses, making them cheaper and how more building would reduce unemployment and raise income. Good links are provided from the start to a reduction in poverty.
- (d) (i) The candidate follows the correct method of calculation, although not recognising the difference in denominations, and comes to the correct answer.

(ii) This answer does not address the question. The candidate does not identify why GDP per head might rise at a time when GDP is falling.

(e) The answer starts quite well in terms of the reference to the effects of changes in unemployment on tax revenue. It then becomes rather repetitive. Towards the end of the answer the candidate refers to the influence of spending on tax revenue. This combined with a brief development linking a fall in unemployment to income and then tax at the start pushed the mark up to three.

Mark awarded = 11 out of 20

Example candidate response – grade E

2 (a) Define labour productivity.

labour productivity means that more of the work is done by the labour rather than using technology. eg: machinery to pack or produce goods. [1]

(b) (i) What has happened to a country's real GDP if its economic growth rate has fallen from 7.3% to 4.6%?

Real GDP means the GDP which is accurate and calculated per head. If the economic growth rate fell the Real GDP may have also fallen as if the economic growth falls the income for people may also fall, which will affect the real GDP as it will be calculated the income of a person. The real GDP will fall. [2]

- (ii) Using information from the extract, explain why the Philippines' economy was not seriously affected by the global recession (economic downturn) in 2008.

The Philippines was one of the richest Asian economies and before had high annual economic growth, which helped its economy not to be affected by the global recession. It was fully economically developed from before and was had high rate of GDP which helped them from the global recession. [2]

- (c) Explain how a government subsidising house-building may reduce poverty.

Poverty means when people do not have basic necessities or basic facilities like food, house shelter, clothing and education. There are two types of poverty, absolute poverty and relative poverty. Government subsidising house building may reduce poverty as it will provide shelter for people and shelter is basic necessities for people. Government providing subsidy to local builders to build houses for poor people or for the people who do not have house. This will help in developing for the country and also increase the GDP of country which will help the country to reduce poverty and decrease the list of poverty. [4]

- (d) (i) Using Table 1, calculate which country had the highest GDP per head in 2007. Show your workings.

Malaysia has the highest GDP per head as its GDP is 132 billion which is high and population is 26 million which is very low. So GDP per head is GDP divided by population $132 \text{ billion} / 26 \text{ million}$ which is equal to 5, which is highest from all other countries. [2]

- (ii) Why might GDP per head in a country rise at a time when its GDP is falling?

GDP per head in a country may rise as GDP per head means GDP of one person and it may increase when the income of people is increasing or savings increase. [1]

- (e) Discuss the factors which may influence whether tax revenue will increase in the Philippines in the future.

Factors which may influence tax revenue to increase in the future may be employment. As if the employment increased more people will be working and if more people will be working then more tax will be paid to government ✓ which will increase the revenue. If more people work there would be high employment. If high employment the GDP will increase. If the GDP increases the economy of the country will also increase and if the economy increase the standard of living of people will increase and if that increase the literacy rate will also increase so there will be more ideas people which would benefit the economy as they all will be employed and they will also have to pay the tax which will help increase the tax revenue in the Philippines in the future, but if there many people available for

work which are highly educated so there will be opportunity cost and then other labours may be unemployed or may have low wage rate and if the wage rate is low they will not be able to pay high tax and may not help in increasing tax revenue.

Examiner comment – grade E

- (a)** The candidate is describing labour-intensive methods rather than labour productivity.
- (b) (i)** The answer confuses a fall in the growth of real GDP with an actual decline in real GDP.
 - (ii)** The candidate recognises that the Philippines experienced economic growth but does not explain why it was able to do this at a time of global recession.
- (c)** This is a somewhat vague approach. The candidate recognises that the poor might have greater access to housing but does not adequately explain why this would occur.
- (d) (i)** The candidate correctly calculates that Malaysia had the highest GDP and provides supporting workings even though 7 is given rather than \$7,000.
 - (ii)** A confused answer which requires a stronger understanding of GDP per head.
- (e)** The answer starts well but is narrowly focused. The second half of the answer essentially repeats how changes in employment would alter the amount of tax revenue the government receives. A wider perspective is needed with more distinctive influences on tax revenue discussed.

Mark awarded = 6 out of 20

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