Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

Paper 2 Structured Questions **March 2018**

MARK SCHEME

Maximum Mark: 90

Published

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

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

Cambridge International will not enter into discussions about these mark schemes.

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

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1: Marks must be awarded in line with: • the specific content of the mark scheme or the generic level descriptors for the question • the specific skills defined in the mark scheme or in the generic level descriptors for the question • the standard of response required by a candidate as exemplified by the standardisation scripts.
GENERIC MARKING PRINCIPLE 2: Marks awarded are always **whole marks** (not half marks, or other fractions).
GENERIC MARKING PRINCIPLE 3: Marks must be awarded **positively**: • marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate • marks are awarded when candidates clearly demonstrate what they know and can do • marks are not deducted for errors • marks are not deducted for omissions • answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.
GENERIC MARKING PRINCIPLE 4: Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.
GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6: Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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

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

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

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

2(d)	**Discuss whether or not a government should be worried about an increase in the proportion of its population aged over 65.** **Up to 5 marks for why it should:** May mean more people are retired (1) increase the cost of pensions (1) may have to raise taxes (1) increase dependency ratio (1) may mean less people in the labour force (1) may lose some skills (1). May increase the cost of healthcare (1) the elderly tend to place a greater burden on the health services (1). May reduce the mobility of the labour force (1) older workers tend to be less mobile (1). Older workers may be less familiar with new technology (1) less productive (1). **Up to 5 marks for why it should not:** Longer life expectancy (1) is a feature of economic development (1) raises HDI (1). Government could raise retirement age (1) encourage rise in birth rate (1) encourage immigration (1) increasing the labour force (1) older workers have more experience (1) and so may have higher productivity (1). Improvements in health care (1) may mean people are healthier at older ages (1).	**8**	

Question	Answer	Marks	Guidance
3(a)	**Define a *fixed cost*.** A cost that does not change with output/has to be paid even if no output produced (1) in the short run/example (1).	**2**	
3(b)	**Explain why traffic congestion is an external cost.** An external cost is a harmful effect imposed on a third party/those not involved in the decision making process/social cost minus private cost (1). Traffic congestion causes journeys to take longer than they should (1) opportunity cost of lost time (1) higher costs for transport firms (1) cause pollution (1) cause health problems (1).	**4**	
3(c)	**Analyse how a taxi firm could make use of information about the price elasticity of demand for its service.** Information on PED can influence a taxi firm's pricing strategy (1) could be used to determine whether demand is elastic or inelastic (1). If demand is elastic, a change in price will cause a greater percentage change in quantity demanded (1) a reduction in price would raise revenue (and vice versa) (1) elastic demand would suggest there are close substitutes/competitive market (1). If demand is inelastic, a change in price will cause a smaller percentage change in quantity demanded (1) a rise in price would raise revenue (and vice versa) (1) inelastic demand would suggest lack of substitutes/high market power (1).	**6**	

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

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

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

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

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

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

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

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

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