Cambridge IGCSE

Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/23**

Paper 2 Structured Questions **May/June 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.

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Cambridge Assessment International Education

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	Mark	Guidance
1(a)	**Identify, using information from the extract, two causes of low life expectancy in developing countries.** • Poor healthcare facilities • lack of access to safe water • lack of basic sanitation • not enough food production • absolute poverty	**2**	
1(b)(i)	**Explain, using information from the extract, how the water shortage is an example of the economic problem.** The economic problem consists of the allocation of scarce resources amongst competing ends (1). Water supply is at critically low levels (1) showing resources are scarce / limited (1). Rising demand from growth of cities (1) and rising agricultural production (1) wants are unlimited (1).	**4**	
1(b)(ii)	**Explain, using information from the extract, why the problem of water shortages is likely to become even worse in the future.** Water is being undervalued (1) this has led to it being wasted (1) and the prices do not reflect scarcity that will arise in the future (1) this means that as demand continues to rise (1) the gap between wants and the amount of the resource will increase (1). Climate change (1) will cause water supplies to become increasingly scarce (1). Population will continue to rise / cities will expand (1) increasing demand (1) and exceeding the ability of supply to match demand (1).	**4**	

Question	Answer	Mark	Guidance
1(c)	**Analyse, using Table 1, the extent to which a high risk of water shortage in a country / region causes low GDP per head.** The data indicates a link (1) the greater the degree of water scarcity (i.e. the higher the water risk score) the lower the GDP per capita. (1) Canada / Germany have the lowest water risk scores and the highest GDP per capita (1). Pakistan / Western Sahara have high water risk scores and low GDP per capita (1). Saudi Arabia illustrates that this relationship is not perfect (1) and demonstrates that other factors contribute towards GDP per capita (1)	**5**	
1(d)	**Calculate, using the information in the extract, the price elasticity of demand for water.** PED = (–) 0.07 (2) Correct working –0.7% / 10% or –0.07% or 0.7 (1)	**2**	

Question	Answer	Mark	Guidance
1(e)	**Discuss whether or not private firms supplying water should increase their prices.** **Up to 3 marks for why they should:** An increase in price will increase total revenue (1) as demand is price inelastic (1) meaning an increase in price causes a less than proportional decrease in quantity demanded (1) some of the extra funds could be used to increase the supply of water (1) reducing its shortage (1) and improve the quality of water (1). Higher prices may reduce demand (1) helping to eliminate the shortage / achieve market equilibrium (1). As population is increasing (1) rising prices are needed to ration extra demand (1). Current prices do not take account of the long run costs of failing to conserve supplies (1) higher prices will encourage more efficient use of water / less waste (1). **Up to 3 marks for why they should not:** Water is a necessity / has very inelastic demand (1) raising prices will harm consumers (1) and will fall more heavily on the poor / the poor will be unable to afford water (1) increase absolute poverty (1) increase inequality (1). Higher water prices can reduce health (1) reduce life expectancy (1) as less people will have access to safe water / basic sanitation (1). Higher water prices reduce income available to spend on other necessities e.g. education (1).	**5**	
1(f)	**Explain what is meant by *absolute poverty*.** Individuals cannot afford the necessities essential for survival (1) such as food, water, shelter, warmth and clothing (1) individuals living on less than a certain amount per day, e.g. $1.	**2**	

Question	Answer	Mark	Guidance
1(g)	**Discuss whether or not a country's economic growth rate depends mostly on the availability of its natural resources.** **Up to 4 marks for why they might:** Natural resources are an important factor of production (1) Countries endowed with natural resources have a good productive capacity as a result (1), boosting the growth that they can enjoy (1). A lack of natural resources such as water can cause poverty / ill health (1). This can harm productivity (1). Countries with insufficient natural resources are reliant on other countries to provide them (1) worsening the current account and reducing the economic growth rate (1) and if a country does not have enough other resources to trade it must rely upon its own natural resources (1). Natural resources are important in agriculture (1) countries with a lack of natural resources may not produce enough food (1) leading to poorer nutrition (1) poorer health and lower productivity (1). Natural resources are essential for the construction of infrastructure e.g. roads and schools (1) Other economic sectors (secondary and tertiary) depend upon natural resources (primary) (1). **Up to 4 marks for why they might not:** Other factors of production are equally / more important e.g. capital investment or education for skills (1). Through trade (1) a country can obtain from other countries the natural resources it lacks (1) It depends upon what countries specialise in (1) and whether they face trade restrictions (1) if they can import raw materials from other countries their growth will not be limited (1). Finding natural resources can take a long time (1) slowing down economic growth (1). There are many countries in the world with significant natural resources but poor economic growth rates / standard of living (1) and many countries with limited resources but high growth rates, such as Singapore (1).	**6**	

Question	Answer	Mark	Guidance
2(a)	**Identify <u>two</u> influences on the strength of a trade union's collective bargaining power.** • size of membership • financial position • level of employment • government legislation • willingness to take industrial action	**2**	If more than 3 answers given only consider the first three.
2(b)	**Explain the likely impact of trade unions on the welfare of their members.** Increase or maintain wages of members (1) increase or maintain material standard of living (1). Improve or maintain working conditions (1) e.g. improved safety / less stress (1). Protect workers' rights (1) e.g. working hours / sick pay / paternity leave (1). Protect jobs (1) reduce risk of unemployment (1). Provide training (1) helping employees find better jobs / better paid jobs (1).	**4**	
2(c)	**Analyse the impact of a reduction in government expenditure on healthcare on a country's unemployment rate.** Less spending on healthcare may result in less employment of doctors and nurses (1) causing structural unemployment (1) but may mean less skilled (cheaper) doctors and nurses employed (1) leaving unemployment rate the same (1). Lower government spending is contractionary fiscal policy (1) this will reduce total (aggregate) demand (1) firms' output will fall (1) causing demand for labour to fall (1) as derived demand (1) causing cyclical unemployment (1). Quantity / quality of healthcare may decline (1) this may reduce labour productivity (1) international competitiveness (1) reducing demand for the country's products and labour (1).	**6**	

Question	Answer	Mark	Guidance
2(d)	**Discuss whether or not a decrease in the number of doctors will reduce living standards.** **Up to 5 marks for why it might:** If there are less doctors patients may receive worse quality healthcare (1) reducing life expectancy (1). The productive capacity of the economy could fall in the long run (1) as a result of life expectancy falling / more sick days as a result of a worse quality health service (1). Worse healthcare can decrease productivity (1) causing wages to fall (1). A shortage of doctors would cause their wages to rise (1) making health care less affordable / less available / poor patients can't afford it (1). **Up to 5 marks for why it might not:** Technological advancement (1) could mean the quality of healthcare is improving even though the number of doctors is falling (1) I increased expenditure on facilities / equipment (1) could offset the impact of fewer doctors (1) Access to healthcare is more important in determining living standards in the country (1) – there may be less doctors but if healthcare is now more affordable living standards on the whole may be rising (1). If population is increasing (1) less need for doctors / number of doctors per head may not change (1)	**8**	

Question	Answer	Mark	Guidance
3(a)	**Define *import quota*.** Limit (1) on quantity of good or service allowed in to a country / bought from abroad / imported (1).	**2**	
3(b)	**Explain <u>two</u> advantages to a country of specialisation.** Generates economies of scale (1) enabling a country to be more internationally price competitive (1) Improves productivity / efficiency (1) by producing what the country is best at (1) Increases GDP (1) by making better use of scarce resources (1) allowing country to export more (1) Increases purchasing power of consumers (1) who through trade can purchase goods and services from the most efficient producers (1)	**4**	
3(c)	**Analyse the impact on an economy of the removal of import quotas imposed by other countries.** Likely to increase exports (1) improving the current account of the balance of payments (1). Extra revenue earned could be spent on imports (1) increasing variety / choice (1). Allows country to specialise more (1) making better use of resources (1). Rising total (aggregate) demand (1) could increase the demand for labour (1) reducing unemployment (1) and causing economic growth (1). Higher demand could cause inflation (1) demand-pull (1) reducing purchasing power (1).	**6**	

Question	Answer	Mark	Guidance
3(d)	**Discuss whether or not an increase in the role of the private sector will benefit an economy.** **Up to 5 marks for the benefits:** The profit incentive (1) will result in countries taking advantage of specialisation (1), making better use of scarce resources (1) and in doing so increasing total output (1). May be an increase in competition (1) lowering price (1) raising quality (1). More efficient allocation of resources (1) lower production costs (1) the price mechanism means there are no shortages or surpluses (1) with high consumer sovereignty (1). **Up to 5 marks for the drawbacks:** Poverty could increase (1) as a result of rising inequality (1) and some individuals being unable to access the gains of the market economic system because they are out of work / on low incomes (1) Higher prices (1) private companies could exploit market power e.g. monopoly (1) Goods with external benefits (merit goods) e.g. healthcare may be under-provided (1) goods with external costs (demerit goods) may be over-provided e.g. tobacco. Market failure occurs (1) as externalities are not considered by the market mechanism (1) example (1)	**8**	Accept, but do not expect, reference to public goods

Question	Answer	Mark	Guidance
4(a)	**Identify <u>two</u> functions of a central bank.** • Control money supply • Issue notes • Set interest rates • Maintain price stability / low inflation • Act as a lender of last resort / lend money to government / lends to commercial banks • Ensure stability of financial system • Manage foreign exchange reserves	**2**	
4(b)	**Explain how the Consumer Prices Index (CPI) is calculated.** A representative basket of most commonly purchased goods and services is constructed (1) the price of these goods and services is monitored over time (1) the goods and services are 'weighted' (1) according to the proportion of disposable income they account for (1) annual price changes are measured (1) and multiplied by weights (1) weighted price changes are measured against a base year (1).	**4**	Up to 2 marks for correct numerical examples.
4(c)	**Analyse the impact of a cut in interest rates on saving and investment.** Saving is expected to fall (1) as the return from saving falls (1), reducing opportunity cost of spending (1), causing individuals to spend more (1) and borrow more (1). Investment will rise (1) as it becomes cheaper for firms to borrow (1), reducing the cost of investment (1) and making investment more profitable (1).	**6**	

<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>4(d)</td><td>Discuss the impact of supply-side policy measures on government expenditure and on government revenue.

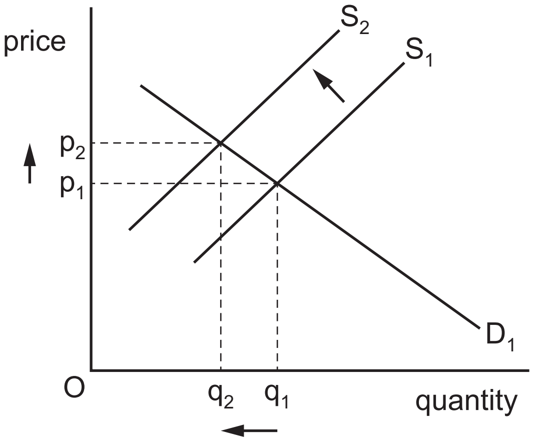
Up to 5 marks for why it might increase government expenditure and decrease tax revenue:

Policies such as subsidies may be expensive (1) if funded through borrowing government spending on interest payments will increase (1) gains from supply side policies take a long time to materialise (1) meaning in the short run there may be no increase in tax revenue (1).
Cut in income tax (1) may decrease income tax revenue in short run (1).
Cut in corporation tax (1) may decrease corporation tax revenue in short run (1).
Privatisation in the long run may reduce government revenue (1) if privatised firms have been profitable (1)

Up to 5 marks for why it might decrease government expenditure and increase tax revenue:

Supply side policies will increase the productive capacity of the economy (1) which will enable long run growth to be achieved (1) and more tax revenue from sales of goods and services (1) and from higher income (1).
Income tax receipts may increase in the long run if more people are working (1) and corporation tax receipts may increase is firms are making bigger profits (1).
Spending on education and training (1) is likely to increase employment (1) reducing spending on welfare benefits (1) increasing income tax revenue (1).
Deregulation may not alter government spending and tax revenue in the short run (1) but may increase tax revenue in the long run if efficiency increases (1).
Privatisation in the short run may increase government revenue (1) from the sale of shares (1).</td><td>8</td><td></td></tr>
</table>

Question	Answer	Mark	Guidance
5(a)	**Define *progressive tax*.** A tax that takes a higher percentage of income of the rich / lower percentage of income of the poor (2). Falls more heavily on the rich / imposes a higher burden on the rich (1). A tax which is used to reduce income inequality (1).	**2**	
5(b)	**Explain <u>two</u> reasons why a government may want to reduce poverty.** Reduce income inequality (1) raise living standards (1). To increase tax revenue (1) as average incomes / GDP will rise (1). To improve the country's HDI / develop the country (1). Reduce healthcare expenditure (1) as the poor will be fitter (1). Increase labour productivity (1) leading to more output / lower unemployment (1).	**4**	

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

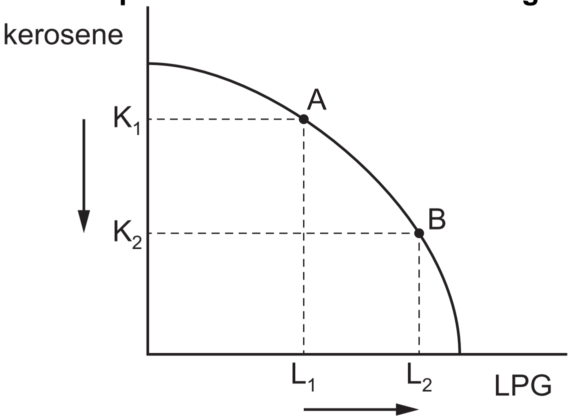
Question	Answer	Mark	Guidance
5(d)	**Discuss whether a government should increase indirect taxes and whether it should reduce direct taxes.** **Up to 5 marks for why the government should do this:** Incentives to work may increase (1) if low income then the extra income from work (1) could reduce poverty (1) if high income then the individuals could work harder (1) generating economic growth (1). Raising indirect taxes on goods with external costs (demerit goods) e.g. cigarettes (1) can help to reduce market failure (1) e.g. health of the country improves (1). **Up to 5 marks for why the government shouldn't do this:** Indirect taxes tend to be regressive (1) whilst direct taxes are progressive (1) so this will worsen inequality / poverty in a country (1). Both policies may lead to inflation (1) indirect tax increases push up prices of goods and services (1) direct tax cuts increase total (aggregate) demand (1). Individuals may save any cuts in direct tax (1) minimising the economic impact (1). It could cause individuals to spend more on imports (1) worsening the balance of payments (1). Tax take could fall (1) as indirect taxes can be avoided whereas direct taxes cannot (1).	**8**	

Question	Answer	Mark	Guidance
6(a)	**Identify two features of a capital-intensive production process.** Process which relies heavily on capital goods e.g. machines (1) does not use much labour (1) relies less on other factors of production e.g. land (1).	**2**	
6(b)	**Explain how market failure might occur in the oil industry.** Market failure is when there is an inefficient allocation of resources (1). There is over-consumption / over-production of oil (1) because the external costs (1) are ignored by the market mechanism (1), such as pollution / global warming / harm to the environment (1). There are cases of monopoly power (1) restricting output (1) pushing up price (1).	**4**	

<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>6(c)</td><td>

Analyse, using a production possibility curve (PPC) diagram, the effect of reallocating resources from kerosene to LPG.

Award up to 4 marks for a correct diagram:



- Axes labels LPG and kerosene (1)
- Curve / downward sloping line drawn to axes (1)
- Two production points illustrating increased production of LPG (1)
- New production point indicated (1)

Award up to 2 marks for associated explanation:

Reallocating resources will involve a movement along the PPC (1) this will involve an opportunity cost (1).

</td><td>6</td><td>Accept points on the curve with arrow from A to B.</td></tr>
</table>

Question	Answer	Mark	Guidance
6(d)	**Discuss whether or not removing a firm's monopoly power will benefit consumers.** **Up to 5 marks for why it might:** More choice for consumers (1) improved competition (1) will causes prices to fall (1) which will increase consumers' real disposable income (1). The monopoly may be experiencing diseconomies of scale (1) with high (average) costs of production (1) Quality is likely to improve (1) as firms will innovate in order to win customers (1). Competition will force firms to be more efficient in order to survive (1). They will look to reduce costs in order to remain competitive (1) and will invest in research and development to maintain market share (1). **Up to 5 marks for why it might not:** A monopoly firm can take advantage of economies of scale (1) reducing (average) costs of production (1) example (1) the removal of monopoly power may increase prices for consumers, reducing their welfare (1) Consumers may rely upon the reputation of a monopoly (1) for quality / customer service (1) too much choice can lead to confusion / inconvenience for consumers (1). The firm may be state owned (1) may take into account the full social costs and benefits (1) may have charged low prices (1) to make products affordable (1).	**8**	

Question	Answer	Mark	Guidance
7(a)	**Define *recession*.** A fall in GDP / negative economic growth (1) for two successive quarters / 6 months or more (1)	**2**	
7(b)	**Explain why a recession is likely to reduce consumer spending.** Rise in unemployment (1) reduced income (1) reduced ability to spend (1). Consumers save more (1) for fear of future / increased pessimism (1). Likely to be associated with lower prices (1) consumers delay purchases (1).	**4**	
7(c)	**Analyse the consequences of rising unemployment on a government's spending and tax revenue.** Pressure on the government budget will increase (1) as tax revenue will fall (1) from both direct (income) taxes (1) and indirect (spending) taxes (1). Expenditure on unemployment benefits will increase (1) spending in other areas will increase (1) e.g. healthcare (1) higher spending on benefits involves an opportunity cost (1) e.g. education (1). A government may increase spending and reduce taxes to increase total demand (1) to reduce cyclical unemployment (1). Taxes may have to rise (1) creating a disincentive to work and enterprise (1).	**6**	

Question	Answer	Mark	Guidance
7(d)	**Discuss whether or not an exchange rate depreciation will prevent an economy from experiencing a recession.** **Up to 5 marks for why it might:** Depreciation means foreign consumers have to exchange less units of their currency for one unit of domestic currency (1), making exports cheaper (1) raising export demand (1) and imports more expensive (1) reducing demand for imports (1) as domestic consumers will find domestic goods and services relatively cheaper (1). Firms have more domestic and foreign demand (1) and will increase output to meet this demand (1) preventing a recession (1). Net exports will increase (1) increasing aggregate demand (1). **Up to 5 marks for why it might not:** Demand for imports may be inelastic (1) and a depreciation will not have a great effect (1). Demand for exports may be inelastic (1) so export demand will not boost output (1). If there is a recession in main export markets then demand for exports may still fall (1) even if they are now relatively cheaper (1). It may cause cost-push inflation (1) as domestic firms have to pay more for imported inputs (1). Depreciation may worsen investor confidence (1) reducing investment and causing a recession (1).	**8**	