

**MARK SCHEME for the October/November 2011 question paper
for the guidance of teachers**

0455 ECONOMICS

0455/22

Paper 2 (Structured Questions), maximum raw mark 80

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.

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- 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]
- 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]

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(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]

3 (a) (i) Private cost: the costs of production that are borne by the business which produces the product or by the consumer who purchases the product (1).

(ii) Private benefit: the benefits which accrue to the individual buyer or seller of a product (1).

(iii) External cost: the costs which occur that are paid by a third party, rather than the producer (1).

(iv) External benefit: the benefits which result from a firm's operations, but which give benefits to a third party (1). [4]

(b) Possible examples:

(i) Private cost: the construction cost (1).

(ii) Private benefit: the profit made by the private company (1).

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(iii) External cost: the noise pollution resulting from the noise of vehicles on the motorway (1).

(iv) External benefit: the savings in time from people driving their vehicles along the motorway (1). [4]

(c) Reasons for involvement of private companies:

- they could contribute some of the finance
- would be less of a burden on the government/taxpayer
- they would have the expertise/experience from having built other roads
- they would have the necessary equipment/machinery
- government free to concentrate on other things, e.g. defence.

A candidate can get full marks if they answer on just one of these. [4]

(d) Benefits:

- jobs will be created
- bring in more business (idea of multiplier effect, but don't need that term)
- journey times will be reduced.

Disadvantages:

- some business may be lost as towns/villages are by-passed
- noise pollution
- some people may have to be moved if their land is on the motorway route.

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

Don't award marks where the answer is simply repeating what was in (b). [8]

4 (a) Functions of a trade union:

- they exist to protect the interests of their members
- gain appropriate wage/salary increases; idea of collective bargaining
- job security
- working conditions/health and safety
- dismissal/redundancy
- possible influence on government at national level.

A list-like approach can gain no more than 2 marks. [4]

(b) Reasons include:

- union doesn't exist in a particular line of work
- person is self-employed
- cost of annual fee/subscription is expensive
- worker doesn't agree with views/actions of union
- employees are satisfied with their pay and working conditions
- they are illegal in some countries.

[4]

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(c) Reasons include:

- entrepreneurs want to work for themselves
- the market is too small (e.g. niche market)
- greater flexibility
- costs may be lower (e.g. non-unionised labour may be cheaper)
- provision of personal services
- may be able to benefit from external economies of scale (e.g. advertising)
- government support (e.g. subsidies)
- lack of capital.

[4]

(d) Possible benefits:

- internal economies of scale, e.g. risk-bearing, administrative or managerial, technical, marketing, financial, increased dimensions
- as the size of the firm increases, average long-run cost goes down
- external economies of scale, e.g. a pool of skilled labour, infrastructure, suppliers
- larger market share/control of market.

Possible disadvantages:

- diseconomies of scale, i.e. as the size of a firm increases, average long-run cost goes up
- lack of personal service.

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

Also, an answer which contains no explicit reference to costs of production can gain no more than 5 marks.

[8]

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]

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(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]

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]

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(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]

7 (a) Reasons for specialisation:

- the idea that countries concentrate on producing those products that their resources are best at making
- this comes about because of the different factor endowments all over the world
- specialisation will involve a better use of resources internationally
- this will lead to greater efficiency of production; this should lower the costs of production
- idea of absolute advantage (don't need to use that term) – a country will produce a product if it can produce it using fewer resources than other countries (candidates may also have an idea of comparative advantage, but don't need to use that term)
- countries will tend to focus on labour-intensive production if they have an abundance of labour, e.g. China, and capital-intensive production if there is a shortage of labour, e.g. Singapore.

[4]

(b) Possible methods of trade protection:

- tariffs
- quotas
- subsidies
- exchange controls
- administrative restrictions
- embargo.

1 mark for the identification of each (2 x 1) and 2 marks for the description of each (2 x 2). [6]

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- (c) The advantages of free trade:
- an increase in world output
 - an increase in consumer choice
 - an increase in living standards
 - an increase in competition.

The disadvantages of free trade:

- inefficient declining industries may collapse, increasing unemployment
- infant industries will not be able to get themselves established
- strategic industries, e.g. related to defence, may be threatened
- current account imbalance.

A one-sided answer can gain no more than 6 marks.

[10]