

MARK SCHEME for the October/November 2013 series

0455 ECONOMICS

0455/31

Paper 3 (Analysis and Critical Evaluation),
maximum raw mark 40

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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|--------|-------------------------------|----------|-------|
| Page 2 | Mark Scheme | Syllabus | Paper |
| | IGCSE – October/November 2013 | 0455 | 31 |

1 Rising food prices

(a) (i) Define equilibrium price. [2]

1 mark for the price where demand and supply are equal/where demand and supply curves meet.

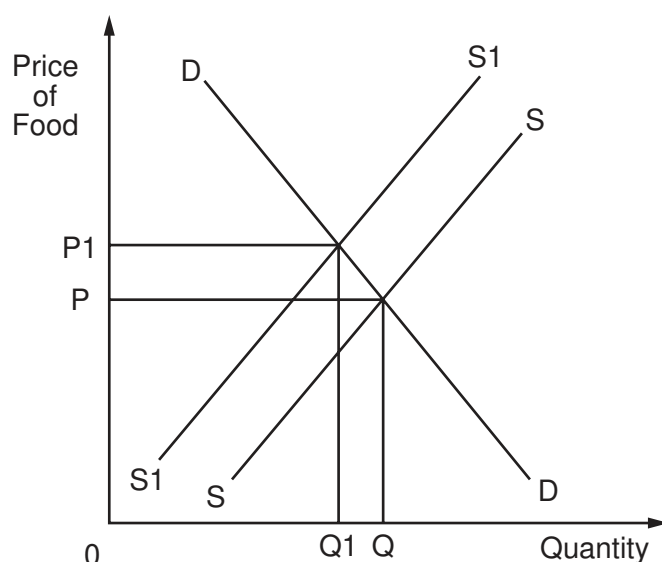
1 mark for the price where there are no surpluses or shortages/no upward or downward pressure on price.

(ii) Explain two possible reasons why the price of rice rose in some countries but fell in other countries. [4]

1 mark for each of two possible reasons – demand increased in some countries but decreased in others, supply decreased in some but rose in others.

1 mark for each of two possible explanations of why demand and supply may have changed in different directions e.g. differences in income changes, weather conditions, production costs and taxation.

(b) Using a demand and supply diagram, explain the effect of a rise in the price of oil on the market for food. [4]



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

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

1 mark for original and new equilibriums.

1 mark for explaining that quantity would fall and price would rise or that higher oil prices will increase costs of production.

Note: also accept a diagram showing the demand curve shifting to the left on the basis of food and oil being complementary goods.

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|---------------|--------------------------------------|-----------------|--------------|
| Page 3 | Mark Scheme | Syllabus | Paper |
| | IGCSE – October/November 2013 | 0455 | 31 |

(c) (i) Calculate the weighting of food in Uganda's Consumer Prices Index. [2]

2 marks for 27%.

1 mark for correct working i.e. $\text{US\$}324/\text{US\$}1200 \times 100$.

(ii) Why do rising food prices harm the poor more than the rich? [2]

2 marks for the poor spend a higher proportion of their total household spending on food.

1 mark for the idea of the poor having less money available to spend.

1 mark for poor may suffer from malnutrition/risk of starving to death.

(d) Discuss what information you would need to assess whether inflation will be harmful to an economy. [6]

Up to 3 marks for identifying relevant factors e.g.

- rate
- rate relative to other countries
- stability or otherwise
- cause
- government policies to tackle inflation
- impact on other government aims
- whether costs exceed benefits.

Up to 4 marks for discussing relevant factors e.g.

- hyperinflation can be very harmful as money may cease to be acceptable
- creeping inflation may not be as harmful
- inflation lower than rival countries may not be harmful to international competitiveness/if trade position is improving, it suggests that inflation is not that harmful
- stable inflation is less harmful than accelerating inflation as it makes it easier to plan
- government policies to reduce inflation may cause unemployment
- inflation may reduce the real burden of debt
- cost-push inflation is likely to be more harmful than demand-pull inflation
- if economic growth is rising/unemployment is falling, it suggests that inflation is not that harmful.

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|---------------|--------------------------------------|-----------------|--------------|
| Page 4 | Mark Scheme | Syllabus | Paper |
| | IGCSE – October/November 2013 | 0455 | 31 |

2 Youth unemployment

(a) Define monetary policy. [2]

2 marks for changes in two from interest rate, money supply and exchange rate.
 1 mark for reference to one from interest rate, money supply and exchange rate.
 1 mark for reference to any other one of interest rate, money supply and exchange rate.
 1 mark for demand-side policy/ designed to influence aggregate demand.

(b) (i) Using the data in Table 1, identify which country has the highest number of young unemployed. [1]

1 mark for the United States of America.

(ii) Using the data in Table 1, identify which country has the lowest number of young unemployed. [1]

1 mark for Germany.

(c) Using information from the extract, identify two reasons why the lifetime wages of workers who have experienced unemployment when young are likely to be below average. [2]

1 mark for identifying the young unemployed miss out on training.
 1 mark for identifying the young unemployed do not gain as much work experience.

(d) Explain why a cut in income tax may reduce unemployment. [5]

- a reduction in income tax will increase consumers' disposable income (1) higher consumer expenditure/spending is likely to rise (1) total demand is likely to increase (1) higher spending will encourage firms to expand their output (1) firms will employ more workers to expand output (1)
- a cut in income tax will increase the incentive to work (1) higher return from working (1).

(e) Using information from the extract, comment on whether Saudi Arabia experienced a recession in 2009. [3]

1 mark for concluding no.
 1 mark for a recession involves a fall in output.
 1 mark for Saudi Arabia's output rose.
 1 mark for rise was slower.
 2 marks for a recession involves a fall in output (real GDP/GDP) over two or more quarters and so more information is needed.

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|---------------|--------------------------------------|-----------------|--------------|
| Page 5 | Mark Scheme | Syllabus | Paper |
| | IGCSE – October/November 2013 | 0455 | 31 |

- (f) **Discuss what information you would need to decide whether economic growth would benefit a country's population.** [6]

Up to 3 marks for identifying relevant factors e.g.

- type of products produced
- distribution of income
- change in working hours
- change in working conditions
- pollution level
- effects on other government aims.

Up to 4 marks for discussing the factors e.g.

- living standards are more likely to increase if consumer goods are produced
- not everyone may experience higher living standards if income is unevenly distributed
- living standards may fall if working hours have increased
- working conditions have declined and there is more pollution
- economic growth caused by higher demand may be accompanied by inflation.