Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

ECONOMICS **0455/22**

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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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 <u>two</u> fixed costs of production in Fig.1.** One mark each for any 2 from: insurance, security, rent, lighting and wages.	**2**	If more than two examples are given, consider only the first three.
1(b)	**Explain, using information from the extract, <u>two</u> reasons why a rise in the price of vanilla might <u>not</u> cause an increase in the price of ice cream.** Ice cream is a luxury product (1) likely to have elastic demand / producers will be concerned that a rise in price could cause a fall in revenue/profit/demand (1). Ice cream has substitutes (1) likely to have elastic demand / producers will be concerned that a rise in price could cause a fall in revenue / loss of customers / loss of demand (1). Rise in productivity of workers (1) fall in labour costs / lower costs may offset a rise in the price of vanilla (1). Fall in another cost identified in the pie chart (1) may offset a rise in the price of vanilla (1),	**4**	

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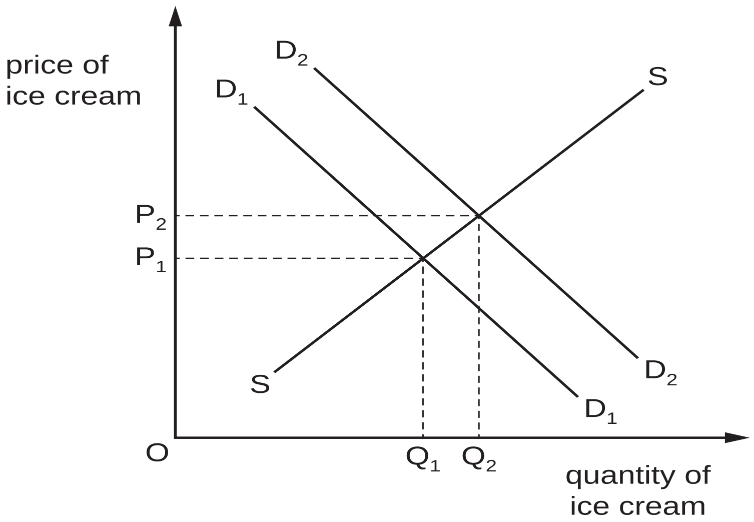
Analyse, using a demand and supply diagram, the effect of an increase in income on the market for ice cream.

Up to 4 marks for a diagram:

- axes correctly labelled – price and quantity or P and Q (1)
- demand and supply curves correctly labelled, S (1)
- demand curve D_1 shifted to the right D_2 (1)
- correct equilibriums identified either by lines drawn to both axes or equilibrium prices clearly identified e.g. E_1 and E_2 (1)



1 mark for written analysis:

- an increase in income increases purchasing power (1)
- people buy more ice cream when they have more money/income (1)
- demand will increase as ice cream is a luxury good
- price will rise

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Question	Answer	Marks	Guidance
1(d)	**Analyse the extent to which the relationship shown in Table 1 between countries' GDP per head and their HDI value is the expected one.** Generally, in the same order / positively related / countries with highest GDP per head have the highest HDI (1) countries with high incomes generally spend more on education and healthcare (1) supporting evidence e.g. Argentina has highest GDP per head and highest HDI (1). Egypt higher in terms of GDP per head but lower in terms of HDI than Cuba (1). Cuba may have a high life expectancy (1) indicating good healthcare (1). Cuba may have a high number of mean and expected years of schooling (1) indicating a strong education system / more educated population (1).	**4**	Reward 1 mark for a supported conclusion that it is generally the expected relationship. Marks may be gained in relation to Cuba by mentioning Egypt may have less good healthcare and education.
1(e)	**Discuss whether or not a government should encourage people to save more.** **Up to 3 marks for why it should:** More savings can fund investment / enable people to set up a business (1) higher investment can increase economic growth (1) higher economic growth can increase living standards (1). A government may make use of money in government-run saving schemes (1) e.g. to fund infrastructure projects (1). More savings can reduce consumer spending (1) which will lower total (aggregate) demand (1) which can reduce inflation (1). More savings can reduce demand for imports (1) improve the current account position (1). More savings can help people cope with emergencies / increase wealth / for future use (1) prepare for retirement (1) in case of unemployment (1) spend on education (1) reduce need for government expenditure e.g. pensions/education (1) enabling the government to spend on other *named* area (1). **Up to 3 marks for why it should not:** More saving may reduce output / cause recession (1) increase unemployment (1) cause deflation (1). More saving will increase deposits at banks (1) this may encourage them to lend to un-creditworthy customers (1) causing banks to collapse (1).	**5**	Accept response from the perspective of why it should not, by discussing why it would be better for the government to encourage spending, Reward change in consumer spending and total demand in either why it should, or why it should not, but not in both.

Question	Answer	Marks	Guidance
1(f)	**Explain, using information from the extract, how cash benefits given to the poor can reduce poverty.** May enable them to send their children to school for longer (1) this may increase their children's skills (1) qualifications (1) increase their job opportunities / start a business (1) increase their earning potential / living standards (1) enable them to purchase more goods and services (1) including basic necessities (1).	**4**	Maximum of 1 mark for a way cash benefits may reduce poverty, if not linked to education. Reward but do not expect reference to an implied multiplier effect resulting from the higher spending creating more jobs.
1(g)	**Discuss whether or not a market system benefits consumers**. **Up to 4 marks for why it might:** In theory there will be consumer sovereignty (1) with firms being responsive to consumer demand (1). The price mechanism allocates resources automatically / profit motive provides an incentive to respond to consumer demand (1) avoiding delays in responding to changes in demand (1). There may be a high level of competition (1) keeping price low (1) increasing efficiency (1) keeping quality high (1) providing choice (1). **Up to 4 marks for why it might not:** Those with low incomes will lack purchasing power (1) the market will not produce what they want (1). Monopolies may develop (1) driving up price (1) reducing quality (1). Consumers may not always be fully informed (1) e.g. cigarettes (harmful / demerit goods) may be overconsumed (1) e.g. healthcare (beneficial / merit goods) under consumed (1) there may be external costs (1) market failure may occur (1). Some consumers may find too much choice confusing (1) advertising can distort consumer choice (1).	**6**	Reward but do not expect reference to public goods.

Question	Answer	Marks	Guidance
2(a)	**What may be the opportunity cost of building an airport?** Opportunity cost is the (next) best alternative foregone (1). Relevant example e.g. building a hospital (1).	**2**	
2(b)	**Explain <u>two</u> reasons why a government would want to turn its country from a developing into a developed country.** Developed countries tend to have higher GDP/output/economic growth (1) reduces poverty (1) Developed countries tend to have higher living standards (1) due to earning higher incomes / higher GDP per head (1) Developed countries may have better education (1) e.g. resulting in more skilled workers (1) so improving productivity (1). Developed countries tend to have better healthcare (1) resulting in longer life expectancy / lower death rate (1). Developed countries tend to have more economic power (1) stronger in international negotiations (1). Developed countries tend to have a higher proportion of workers employed in the tertiary sector (1) which may mean better working conditions (1). Tax revenue may be higher (1) enabling more government expenditure (1).	**4**	Accept response from the perspective of the disadvantages of developing countries. Accept any reason that is linked to improved macroeconomic performance or improved living standards.
2(c)	**Analyse the external costs that can be caused by the building and expansion of an airport.** External costs are harmful effects on third parties / social costs minus private costs (1). Building and operating an airport will cause noise pollution (1) air pollution (1) which will be experienced by those living near the airport (1) reducing their health (1). Traffic congestion may be caused (1) delaying people's journeys (1). The prices of houses close to the airport may fall (1) reducing local residents' wealth (1) local residents may be displaced (1). Train companies may lose revenue (1) as people switch from train travel to air travel (1). Environmental damage / global warming (1) e.g. loss of wildlife habitats (1).	**6**	Accept pollution on its own as one example. Also allow visual pollution, but maximum of 2 marks for types of pollution.

Question	Answer	Marks	Guidance
2(d)	**Discuss whether people would prefer to buy a product from a small firm or a large firm.** **Up to 5 marks for why they might prefer to buy from a small firm:** May be flexible (1) quick to respond to changes in consumer demand (1) as do not have to consult others (1). May provide a personal service (1) can get to consumers and their requirements (1) adapt to particular requirements (1). May be specialised (1) produce high quality products (1). Small firms may receive government subsidies (1) enabling them to keep price low / quality high (1). Unlikely to experience diseconomies of scale (1) *example* (1). **Up to 5 marks for why they might prefer to buy from a large firm:** Lower prices (1) due to lower costs (1) because of economies of scale (1) *example* (1). Better known brands (1) due to advertising (1). Wider variety (1) better quality (1) better after sales (1) due to more funds to invest (1).	**8**	Accept response from either perspective. Accept better quality for either side, but only one mark if given on both sides. More marks can only be awarded if it is established why there may be better quality.

Question	Answer	Marks	Guidance
3(a)	**Identify <u>two</u> examples of capital goods that may be used by a farm.** One mark each for each of two examples e.g. tractor, farm buildings.	**2**	
3(b)	**Explain how a country could have a trade in goods surplus but a deficit on the current account on the balance of payments.** Trade in goods surplus means exports (of goods) exceeds imports (of goods) (1) trade in goods is only one part of the current account (1) *identification of two of the three other components* (1) there could be a larger deficit on the trade in services balance (1) *example of a service item decreasing* (1) there can be a larger deficit on income (primary) balance (1) *example of an income item increasing* (1) there could be a larger deficit on current transfers (secondary) balance (1) *example of a current transfer item decreasing* (1) or a combination of deficits on other items (1). A current account deficit means more money will be leaving than entering the country (1).	**4**	
3(c)	**Analyse the economies of scale from which a farm may benefit.** Buying (purchasing) economies (1) e.g. buying seed in bulk at reduced price (1). Technical economies (1) using up to date / efficient equipment e.g. combine harvesters (1). Managerial economies (1) employing specialist workers e.g. farm managers (1). Financial economies (1) borrowing at a lower rate of interest/finding it easier to obtain a loan (1). Risk bearing economies (1) a farm may grow a variety of crops (1).	**6**	Maximum of 4 marks unless at least one type of economy of scale is related specifically to a farm e.g. buying seed in bulk. Also credit analysis of external economies of scale. Maximum of 3 marks for a list-like approach.

Question	Answer	Marks	Guidance
3(d)	**Discuss whether or not developing countries benefit from producing mainly primary products.** **Up to 5 marks for why they might:** May have the resources to produce high quality (1) low cost primary products (1). If more can be exported (1) revenue can be used for development (1). Specialisation can reduce average costs (1) increasing output (1) enabling advantage to be taken of economies of scale (1). Demand for primary products may be increasing (1) some primary products can be sold for high prices (1) e.g. oil (1) increasing living standards (1). May be able to raise revenue (1) as demand for some primary products, e.g. oil, is price-inelastic (1). Countries may lack education (1) primary sector provides some unskilled jobs (1). **Up to 5 marks for why they might not:** Demand for primary products does not tend to rise as rapidly as demand for manufactured products and services (1) tend to have less valued added (1). The production of some primary products may be adversely affected by bad weather and diseases (1) disrupting supply (1) resulting in fluctuating income (1) working conditions may be poor (1). Developed countries may impose trade restrictions on primary products from developing countries (1). The primary sector does not tend to offer many high skilled jobs (1) low pay (1) low living standards (1). There are risks of overspecialisation (1) a more diversified economy would be in a stronger position to resist economic downturns (1). Developing countries will be dependent on other countries for manufactured goods and services (1).	**8**	Accept as an alternative to the first two points that developing countries may have the resources to produce high quality primary products at low cost, that they may not have the resources to produce high quality secondary / tertiary products at low cost. Reward but do not expect reference to comparative advantage.

Question	Answer	Marks	Guidance
4(a)	**Define a *substitute* and give an example.** A rival product / a product that can be used instead of another (1) e.g. bus travel and car travel / oranges and apples (1).	**2**	
4(b)	**Explain <u>two</u> advantages a firm may gain from being a monopoly.** May be able to charge high prices / price maker (1) due to lack of competition (1) enabling it to earn a high profit (1). May produce at lower costs (1) due to economies of scale / charge lower prices (1). May produce high quality products (1) as high profits enable it to invest and innovate (1). May be able to compete with foreign firms (1) gain a wider market / export more (1). May have stronger bargaining power with suppliers (1) keeping costs low (1).	**4**	
4(c)	**Analyse how price elasticity of demand for a product influences the revenue a firm receives.** *Formula or definition of PED* (1). If demand is elastic, a rise in price will cause a fall in revenue (1) because the quantity demanded will fall by more than the rise in price (1) in percentage terms (1) *example of type of product with elastic demand* e.g. a luxury (1). If demand is inelastic, a rise in price will cause a rise in revenue (1) because the quantity demanded will fall by less than the rise in price (1) in percentage terms (1) *example of a product with inelastic demand e.g. one without a substitute* (1). If demand is perfectly inelastic, a rise in price will cause an equally proportionate rise in revenue (1) because the quantity demanded will not change (1). If demand is perfectly elastic, a rise in price will cause revenue to fall to zero (1) because people will stop buying the product (1). If demand is unitary, a rise in price will leave total revenue unchanged (1) as the proportionate change in quantity demanded and price will be the same (1).	**6**	Accept as reasons why demand may be price-elastic, availability of substitutes and why demand may be price-inelastic, lack of substitutes.

Question	Answer	Marks	Guidance
4(d)	**Discuss whether or not a government should subsidise bus transport.** **Up to 5 marks for why it should:** A subsidy will lower costs, (1) it may encourage a rise in bus travel (1) reducing bus fares (1). It may reduce poverty / redistribute income (1) the poor tend to use buses more than the rich (1) better quality travel (1). Bus travel creates fewer external costs than car travel (1) reduce pollution (1) reduce traffic congestion (1) increase employment / reduce unemployment (1) increase labour mobility (1). **Up to 5 marks for why it should not:** It will involve an opportunity cost (1) the government might instead spend more on e.g. education / raise taxes (1). Bus companies may not pass on the subsidy to passengers (1) subsidies may make bus companies complacent (1) not try to keep their costs low (1) may not improve quality (1). Rail transport may be more efficient (1) may provide more social benefits (1) generate lower social costs (1).	**8**	Reward but do not expect reference to bus transport being a merit good.

Question	Answer	Marks	Guidance
5(a)	**Identify <u>two</u> causes of an ageing population.** One mark each for each of two from: A fall in the birth rate (1) a fall in the death rate / longer life expectancy (1) net emigration of young people / net immigration of old people (1).	**2**	Accept causes that would result in a fall in the birth rate or fall in the death rate. These may be two causes of a fall in the birth rate or a fall in the death rate e.g. better healthcare and better nutrition.
5(b)	**Explain why the price of housing may increase.** Increase in demand (1) due to e.g. increase in income / rise in population (1). Decrease in supply (1) due to e.g. rise in costs of production (1).	**4**	
5(c)	**Analyse why more women may enter the labour force**. May be a reduction in gender discrimination (1) a change in social attitudes (1) making it easier for women to get jobs (1) be promoted (1). There may be a rise in the pay available to women (1) increasing the opportunity cost of not being in the labour force (1). There may be a fall in the birth rate (1) making it easier for women to work (1). There may be improvements in the education of women (1) increasing their skills / raising their earning potential (1). There may be a rise in part-time and/or flexible employment (1) making it easier for women to combine working and caring for families (1). Increases in the cost of living (1) may create a need for higher family income / to support their family (1). Government measures to encourage the entry of women into the labour force (1) e.g. provision of free or subsidised childcare (1).	**6**	

5(d)	**Discuss whether or not a rise in the birth rate will benefit an economy.** **Up to 5 marks for why it might:** A higher birth rate will increase the labour force in the long run (1) increase the potential output (1) total (aggregate) demand may rise (1). It will lower the average age of the population, (1) younger workers may be occupationally mobile (1) geographically mobile (1) may be able to work with the latest technology (1). There may be rise in tax revenue (1). If the country is underpopulated (1) better use might be made of resources in the long run (1). Demand for products related to children will increase (1) benefiting e.g. toy industry (1). **Up to 5 marks for why it might not:** A higher birth rate will increase the number of dependents (1) resources that could have been used to e.g. increase the quality of healthcare will have to be devoted to providing more healthcare services to mothers and children (1) there will be an opportunity cost (1). It will reduce the size of the labour force in the short run (1) as mothers leave it to have children (1). If the country is overpopulated (1) resources may be depleted more quickly (1).	**8**	Reward but do not expect reference to the idea of an optimum population size.

6(a)	**Define *commercial bank*.** Two marks from: A financial institution (1) that offers services to people/households/firms (1) *examples of services* (1) that is profit orientated (1) (usually) in the private sector (1).	**2**	
6(b)	**Explain how a stock exchange could encourage economic growth.** A stock exchange enables firms to raise finance by issuing shares (1) by providing a market for shares / enables shares to be bought and sold (1) finance allows firms to invest (1) which increases their ability to produce more (1). A stock exchange helps firms merge (1) enabling firms to take greater advantage of economies of scale (1) reducing costs of production (1) increasing international competitiveness (1) capturing more market share (1). If stock exchange is doing well (1) wealth/dividends may rise (1) causing higher spending (1). Allows sales of government bonds/securities (1) money raised can be spent on e.g. infrastructure (1).	**4**	
6(c)	**Analyse what can cause deflation.** A fall in the price level could be caused by a fall in total (aggregate) demand (1). This may be due to a fall in consumer expenditure / rise in saving (1) a fall in borrowing (1) a fall in investment (1) due to e.g. a lack of confidence (1) spending may be delayed due to the expectation that prices may be lower in the future (1) deflationary demand-side policy measures (1) e.g. a rise in the rate of interest (1) rise in direct taxation (1). Exports may fall (1) due to e.g. fall in incomes abroad (1) a rise in exchange rate (1). A rise in total (aggregate) supply (1) due to e.g. advances in technology (1) increased investment (1) reduced costs of production (1) increase in productivity (1) supply-side policy measures (1) resulting from e.g. improvements in education and training (1).	**6**	

6(d)	**Discuss whether or not government policy measures to reduce unemployment will cause inflation.** **Up to 5 marks for why they might:** Increased government spending and/or lower taxes / expansionary fiscal policy (1) lower interest rates and/or increased money supply / expansionary monetary policy (1) will increase total (aggregate) demand/spending (1) may reduce cyclical unemployment / more workers may be employed to meet the higher demand (1) but may cause demand-pull inflation (1). Higher demand may also cause cost-push inflation (1) as demand for workers rises (1) firms may compete for workers (1) causing wage rates to rise (1). **Up to 5 marks for why they might not:** An increase in demand may not push up prices if unemployment is initially high (1) firms will be able to attract more workers by just offering jobs (1) they will not have to raise wages (1). The government may use supply side policy measures to reduce unemployment (1) e.g. improved education and training/privatisation/deregulation (1) such policy measures may reduce costs (1) may increase total (aggregate) supply by as much as total (aggregate) demand (1). The government may use price controls (1).	**8**	

Question	Answer	Marks	Guidance
7(a)	**Define *import tariff*.** A tax (1) imposed on products purchased from other countries / imports (1).	**2**	
7(b)	**Explain <u>two</u> benefits of an increase in world output.** Higher output may increase employment (1) better use of resources (1). Higher output may increase incomes (1) reduce poverty / raise living standards (1) increase choice (1). Higher output may increase government tax revenue (1) to increase education/healthcare (1). Higher output may include higher agricultural output (1) reduce risk of malnutrition (1).	**4**	
7(c)	**Analyse how a recession may reduce a country's imports.** A recession is a decrease in GDP (1) over 6 months or more / two consecutive quarters (1). A recession is likely to reduce incomes (1) increase unemployment (1) reduce confidence levels (1) consumer spending is likely to fall (1). As output is falling (1) firms are likely to buy less raw materials from abroad (1) buy fewer capital goods from abroad (1). During recessions governments may impose trade restrictions which will reduce imports (1). A recession may cause a depreciation of the currency (1) making imports more expensive (1).	**6**	

7(d)	**Discuss whether or not a developing country will benefit from the removal of trade restrictions.** **Up to 5 marks for why it might:** Developing countries tend to have more trade restrictions on their products (1). The removal of trade restrictions on the country's products can enable a country to specialise in the products it is best at producing (1) they can be sold at a lower price which may increase demand in foreign markets (1). The removal of trade restrictions that the country imposes may mean it can purchase raw materials (1) and capital equipment (1) at a lower price (1) reducing costs of production (1). Consumers may enjoy a greater variety of products (1) greater availability of products (1) lower prices (1) higher quality (1). Domestic firms may respond to greater competition by becoming more efficient (1). The removal of trade restrictions may increase inward investment / attract MNCs (1). **Up to 5 marks for why it might not:** Infant industries (1) may not be able to survive without protection (1) because they cannot take advantage of economies of scale (1). Declining industries (1) may go out of business more quickly (1) causing unemployment (1). Strategic industries (1) may go out of business disrupting the rest of the economy (1). There may be dumping (1) with foreign firms selling products at below cost price (1) to drive domestic firms out of business (1) and then raising price (1). Demerit goods may be imported (1). May result in imports exceeding exports, (1) causing a current account deficit (1). Tax revenue may fall (1) revenue from tariffs may account for a relatively high proportion of a developing country's tax revenue (1).	**8**	