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## Grade thresholds – November 2017

### Cambridge IGCSE Economics (0455)

Grade thresholds taken for Syllabus 0455 (Economics) in the November 2017 examination.

	maximum raw mark available	minimum raw mark required for grade:						
		A	B	C	D	E	F	G
Component 11	30	23	19	16	13	11	9	7
Component 12	30	23	19	16	13	11	9	7
Component 13	30	24	20	17	14	12	10	8
Component 21	90	61	51	40	34	27	21	15
Component 22	90	61	51	39	34	27	22	17
Component 23	90	60	49	36	30	22	15	9

Grade A\* does not exist at the level of an individual component.

The maximum total mark for this syllabus, after weighting has been applied, is **150**.

The overall thresholds for the different grades were set as follows.

Option	Combination of Components	A*	A	B	C	D	E	F	G
X	11, 21	124	106	88	71	59	48	38	28
Y	12, 22	124	106	88	70	59	48	39	30
Z	13, 23	125	106	87	68	56	44	33	22

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**ECONOMICS**

**0455/11**

Paper 1 Multiple Choice

**October/November 2017**

MARK SCHEME

Maximum Mark: 30

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**[Turn over**

Question	Answer	Marks
1	A	1
2	B	1
3	C	1
4	A	1
5	A	1
6	B	1
7	C	1
8	B	1
9	C	1
10	C	1
11	B	1
12	A	1
13	A	1
14	D	1
15	C	1
16	C	1
17	D	1
18	D	1
19	B	1
20	C	1
21	A	1
22	C	1
23	C	1
24	B	1
25	B	1
26	C	1
27	B	1
28	B	1

Question	Answer	Marks
29	B	1
30	B	1



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**ECONOMICS**

**0455/12**

Paper 1 Multiple Choice

**October/November 2017**

MARK SCHEME

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Question	Answer	Marks
1	C	1
2	B	1
3	D	1
4	D	1
5	D	1
6	B	1
7	C	1
8	B	1
9	B	1
10	A	1
11	B	1
12	A	1
13	C	1
14	D	1
15	A	1
16	C	1
17	A	1
18	D	1
19	A	1
20	C	1
21	D	1
22	C	1
23	A	1
24	C	1
25	B	1
26	C	1
27	B	1
28	B	1



Question	Answer	Marks
29	A	1
30	B	1



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**ECONOMICS**

**0455/13**

Paper 1 Multiple Choice

**October/November 2017**

MARK SCHEME

Maximum Mark: 30

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Question	Answer	Marks
1	A	1
2	C	1
3	C	1
4	C	1
5	A	1
6	B	1
7	D	1
8	D	1
9	A	1
10	B	1
11	A	1
12	A	1
13	A	1
14	D	1
15	B	1
16	C	1
17	D	1
18	D	1
19	D	1
20	C	1
21	D	1
22	C	1
23	D	1
24	B	1
25	B	1
26	A	1
27	B	1
28	A	1

Question	Answer	Marks
29	D	1
30	C	1





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**ECONOMICS**

**0455/21**

Paper 2 Structured Questions

**October/November 2017**

MARK SCHEME

Maximum Mark: 90

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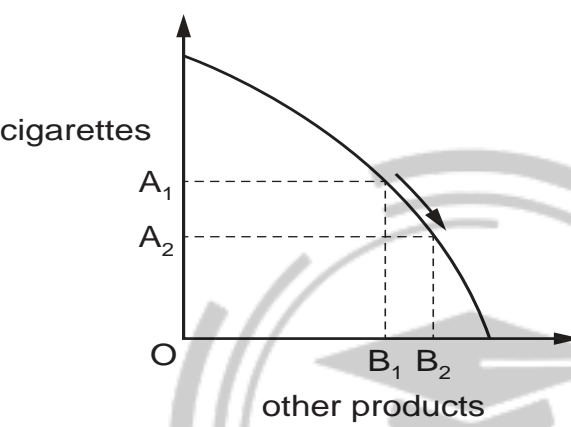
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Question	Answer	Mark
1(a)	<p><b>Identify, from the extract, <u>two</u> factors of production employed in producing cigarettes.</b></p> <p>Workers/labour (1) capital (1).</p>	<b>2</b>
1(b)	<p><b>Explain <u>two</u> reasons why firms merge.</b></p> <p><b>1 mark each for each of two reasons identified:</b></p> <ul style="list-style-type: none"> <li>• to take advantage of economies of scale / reduce costs of production</li> <li>• to gain greater market share / market power / reduce competition</li> <li>• to gain access to market outlets</li> <li>• to gain access to raw materials / resources / better methods of production</li> <li>• to diversify</li> <li>• to prevent one firm going out of business</li> <li>• to increase profit</li> <li>• to grow / expand / become larger</li> </ul> <p><b>1 mark each for each of two explanations:</b></p> <ul style="list-style-type: none"> <li>• a merged firm will be larger and due to economies of scale, average costs may be lower, example</li> <li>• a merged firm eliminates a competitor</li> <li>• a vertical merger forwards gives the firm control of the sale of its product</li> <li>• a vertical merger backwards may ensure an adequate supply of a raw material</li> <li>• a conglomerate merger will increase the range of products produced</li> <li>• a combined, larger firm will be able to survive</li> <li>• the combined profit of two merged firms might be greater than the profit of two individual firms</li> <li>• one of the key business goals is growth</li> </ul>	<b>4</b>
1(c)(i)	<p><b>Calculate, using information from the extract, the percentage decrease in the number of cigarette firms in China from 2009 to 2014</b></p> <p>80% (2).</p> <p>Correct working e.g. <math>160/200 \times 100</math> (1).</p>	<b>2</b>
1(c)(ii)	<p><b>Calculate, using information from the extract, the total tax revenue that the Chinese government received in 2014.</b></p> <p>16 000 billion yuan (2).</p> <p>16 000 billion OR yuan (1).</p> <p>Correct working i.e. <math>800 \text{ billion} \times 100/5</math> (1).</p> <p>Note: 16 000 billion = 16 000 000 000 000 or <math>1.6 \times 10^{13}</math></p>	<b>2</b>

Question	Answer	Mark
1(d)	<p><b>Analyse, using a production possibility curve diagram, the effect of moving factors of production from producing cigarettes to producing other products.</b></p> <p><b>Up to 3 marks for the diagram:</b></p> <p>Axes correctly labelled (1).</p> <p>Curve / downward-sloping straight line drawn to the axes (1).</p> <p>Movement along curve from cigarettes to other products (1) shown by an arrow on the curve or by change in combinations.</p>  <p><b>Up to 2 marks for explanation:</b></p> <p>Opportunity cost of producing more other products / devoting more resources to other products (1) means producing fewer cigarettes (1).</p>	5
1(e)	<p><b>Discuss whether people in countries with a high HDI always enjoy a high standard of living.</b></p> <p><b>Up to 3 marks for why they might:</b></p> <p>Indicates high income per head / high purchasing power / high ability to buy goods (1) high life expectancy / low death rate / good healthcare (1) good education / high literacy (1).</p> <p>1 mark for a general idea of what the HDI includes.</p> <p><b>Up to 3 marks for why they might not:</b></p> <p>May be uneven distribution of income / GDP figure is an average (1) so that not everyone enjoys a high standard of living / there may still be many poor people (1) unemployment may still be high (1) healthcare may still be poor for some (1) literacy levels may be high but there may be no suitable jobs (1).</p> <p>There are other influences on living standards (1) working hours may be long (1) working conditions may be poor (1) there may be high levels of pollution (1).</p>	5

Question	Answer	Mark
1(f)	<p><b>Explain, using information from the extract and Fig. 1, what happened to the market for fruit in the UK in 2015.</b></p> <p>The diagram shows demand increasing (1) price rising (1) revenue increasing (1) supply extending / quantity of fruit consumed increasing (1).</p> <p>This is due to the information campaign / people being better informed about the benefits of fruit (1).</p> <p>Inelastic demand (1) inelastic supply (1).</p>	4
1(g)	<p><b>Discuss the arguments for and against the Chinese Government increasing the tax on cigarettes.</b></p> <p><b>Up to 4 marks for why it should:</b></p> <p>Demand for cigarettes is price-inelastic (1) so may increase tax revenues (1) which government could spend on public services, e.g. health and education (1).</p> <p>Smoking is harmful (demerit good) (1) tax will raise the price (1) may discourage cigarette smoking / reduce consumption (1) improve smokers' health (1) prevent early deaths from smoking related diseases (1) reduce external costs (1) e.g. air pollution, passive smoking (1) reduces health costs (1) increases productivity of workers (1).</p> <p><b>Up to 4 marks for why it should not:</b></p> <p>May not be very effective in reducing consumption (1) smoking is addictive / demand is price-inelastic (1) and tax will therefore not reduce smoking significantly (1).</p> <p>May reduce output of cigarettes in the country / tobacco firms may close (1) may increase unemployment (1).</p> <p>May lead to an illegal market in cigarettes / cheap alternatives (1) people not paying the tax (1).</p>	6



Question	Answer	Mark
2(a)	<p><b>Define ‘equilibrium price’.</b></p> <p>The price where demand and supply are equal (2).</p> <p>Market clearing price (1) which ensures no surplus or shortage (1).</p> <p>The price which will not change (1) unless market conditions change (1).</p> <p>Note: award 2 marks for correctly drawn diagram.</p>	<b>2</b>
2(b)	<p><b>Explain <u>two</u> reasons why a worker may continue in a job despite a cut in pay.</b></p> <p><b>1 mark each for each of two reasons identified:</b></p> <ul style="list-style-type: none"> <li>• pay may be lower elsewhere</li> <li>• no alternative employment is available / high local unemployment</li> <li>• job satisfaction</li> <li>• promotion chances</li> <li>• working conditions may be good</li> <li>• working hours may be low</li> <li>• fringe benefits may be good</li> <li>• job security</li> <li>• location</li> <li>• qualifications / specific skills</li> <li>• pension scheme.</li> </ul> <p><b>1 mark each for each of two explanations given:</b></p> <ul style="list-style-type: none"> <li>• the pay gap may be smaller but the worker may still earn more in the job</li> <li>• the firm the only one employing locally / it is a monopoly employer</li> <li>• workers find the work interesting / challenging / rewarding</li> <li>• higher pay in the future</li> <li>• the job may provide an attractive working environment</li> <li>• the job may allow the workers to enjoy a lot of leisure time</li> <li>• fringe benefits, such as subsidised meals</li> <li>• maybe greater risk of losing job elsewhere</li> <li>• the job may be close to home – convenient and low transport costs</li> <li>• may not have the qualifications needed to get another job</li> <li>• the job may provide a good pension scheme / may have paid into the pension scheme.</li> </ul>	<b>4</b>

Question	Answer	Mark
2(c)	<p><b>Analyse how employing specialised workers may reduce a firm's average costs of production.</b></p> <p>Workers can concentrate on the task they are best at (1) gain practice in performing the task (1) higher productivity / better efficiency (1).</p> <p>May contribute ideas (1) on, e.g. production methods (1).</p> <p>Fewer mistakes may be made (1) leading to less waste / greater productivity (1).</p> <p>It can be quicker (1) and cheaper to train workers (1) as only learning one task/function (1).</p> <p>Less equipment may be needed per worker (1) reduce capital costs (1).</p> <p>Time can be saved (1) with the worker having to move less from one production point to another (1).</p>	6
2(d)	<p><b>Discuss whether consumers would benefit if a firm became a monopoly.</b></p> <p><b>Up to 5 marks for why they might:</b></p> <p>A monopoly may enjoy economies of scale (1) lower average costs of production (1) example (1) lower prices (1).</p> <p>A monopoly may reduce wasteful duplication of resources (1) e.g. water pipes (1).</p> <p>A monopoly may have more funds to invest (1) innovate more / spend on R&amp;D (1) better quality products (1).</p> <p>Security of supply (1) if the government runs / regulates the monopoly (1).</p> <p>Monopolies may compete internationally (1) keeping prices down (1).</p> <p><b>Up to 5 marks for why they might not:</b></p> <p>Lack of competition / too much market power (1) inelastic demand (1) may mean it will charge a higher price (1) price maker (1) reduce supply (1) innovate less (1) lower quality products (1) lack of choice for consumers (1).</p> <p>May experience diseconomies of scale (1) example/s (1) higher average costs (1) higher prices (1).</p>	8

Question	Answer	Mark
3(a)	<p><b>Define 'perfect competition'.</b></p> <p>Very high level of competition (1) firms are price takers (1) many buyers and sellers (1) free entry and exit (1) homogeneous / same product (1) perfect information (1)</p>	<b>2</b>
3(b)	<p><b>Explain <u>two</u> influences on the size of firms.</b></p> <p><b>1 mark each for each of two influences identified:</b></p> <ul style="list-style-type: none"> <li>• size of market</li> <li>• availability of finance/capital</li> <li>• type of business organisation</li> <li>• influence of government policies</li> <li>• age of firms</li> <li>• skills of entrepreneurs</li> <li>• goals of entrepreneurs.</li> </ul> <p><b>1 mark each for each of two explanations given:</b></p> <ul style="list-style-type: none"> <li>• the higher the demand for the product/greater the value of sales, the larger the firm is likely to be</li> <li>• firms that can borrow, sell shares or have high profits are able to expand</li> <li>• a MNC will be larger than e.g. a sole trader</li> <li>• a government may run large state-owned enterprises/operate restrictions on mergers</li> <li>• older firms tend to be larger than younger firms</li> <li>• firms run by skilful entrepreneurs are likely to be larger than those run by less skilful entrepreneurs</li> <li>• entrepreneurs may want the firm to remain small to keep control / may want it to be large to e.g. gain economies of scale.</li> </ul>	<b>4</b>
3(c)	<p><b>Analyse the causes of an increase in labour productivity.</b></p> <p>Improved education/training (1) workers will be skilled/specialised (1) capable of producing a higher output per hour (1).</p> <p>Advances in technology (1) better quality of capital goods (1) with more and better capital goods workers can produce more (1).</p> <p>Better working conditions (1) contented workers may be more productive (1).</p> <p>Better health (1) healthier workers can produce more (1)</p> <p>Higher wages (1) may motivate workers more (1).</p> <p>Fall in employment (1) the less productive workers tend to lose their jobs first (1) the more productive workers will remain (1).</p>	<b>6</b>

Question	Answer	Mark
3(d)	<p><b>Discuss whether a country which engages in free trade is likely to have a higher economic growth rate than one which uses trade protection.</b></p> <p><b>Up to 5 marks for why it might:</b></p> <p>It may enable countries to concentrate on what they are best at (1) making best use of their resources/specialisation (1).</p> <p>Greater exports bring in foreign revenue (1) contributing to economic growth (1).</p> <p>Unrestricted competition may improve efficiency of firms (1) increase sales (1) increase output (1).</p> <p>Firms will have more sources of raw materials (1) may lower production costs (1) lower prices (1) increase international competitiveness (1) make firms more price competitive (1).</p> <p>Capital equipment / new technology can be imported (1) gaining new ideas (1) improving production (1).</p> <p>Firms may be able to grow (1) take advantage of economies of scale (1) lower average costs (1).</p> <p>May attract MNCs (1) that contribute to economic growth (1).</p> <p><i>Note: reward but do not expect reference to comparative or absolute advantage.</i></p> <p><b>Up to 5 marks for why it might not:</b></p> <p>May make it difficult for infant industries to grow (1) unable to compete (1) because too small to take advantage of economies of scale (1).</p> <p>May result in declining industries going out of business (1) no longer contributing to output/GDP (1).</p> <p>Foreign firms may dump products in the country (1) selling at less than cost price (1) may drive domestic firms out of business (1).</p>	8

Question	Answer	Mark
4(a)	<p><b>What is used to measure a country's inflation rate?</b></p> <p>CPI / RPI / other relevant named measure (2)</p> <p>A weighted (1) price index (1)</p>	<b>2</b>
4(b)	<p><b>Explain <u>two</u> reasons for conserving resources.</b></p> <p><b>1 mark each for each of two reasons identified:</b></p> <ul style="list-style-type: none"> <li>• scarcity / economic problem</li> <li>• protect them for future generations</li> <li>• to achieve sustainable growth</li> <li>• demand may increase in the future</li> <li>• risk of becoming too dependent on one product.</li> </ul> <p><b>1 mark each for each of two explanations given:</b></p> <ul style="list-style-type: none"> <li>• unlimited wants but limited resources</li> <li>• conserving resources may mean output, income and employment can be higher in the future / habitats can be saved for future generations</li> <li>• there is a continuous need for resources</li> <li>• a higher revenue may be earned / prices may rise in the future</li> <li>• exploiting resources may mean that other products are not produced.</li> </ul>	<b>4</b>
4(c)	<p><b>Analyse how subsidies given to farmers could raise living standards.</b></p> <p>May increase supply (1) as extra payment received (1) higher supply will reduce price (1) lower price will make food more affordable (1) food is a basic necessity (1).</p> <p>Reduced costs for farmers (1) increases their profits/income (1).</p> <p>Subsidies for capital equipment e.g. tractors (1) improve productivity (1) increasing farm outputs / incomes (1).</p> <p>More/better quality food may make the poor healthier (1) increasing their earning capacity (1).</p> <p>The poor may be able to spend less on food (1) allowing them to buy other basic necessities (1).</p> <p>Note: reward increase in supply (1) lower price (1) if shown on a diagram.</p>	<b>6</b>

Question	Answer	Mark
4(d)	<p><b>Discuss whether a rise in direct taxes will reduce economic growth.</b></p> <p><b>Up to 5 marks for why it might:</b></p> <p>A rise in income tax will reduce disposable income (1) this may reduce consumer expenditure (1) lower total demand (1) reduce firms' output (1).</p> <p>A rise in income tax will reduce incentives to work (1) increase tax avoidance (1) leaving less revenue for government spending on e.g. health and education (1) reducing productive potential of workers (1).</p> <p>A rise in corporation tax (1) will increase costs of production (1) will reduce the profits firms can keep (1) reduce the incentive to produce (1) reduce the funds available for investment (1) to expand output (1).</p> <p><b>Up to 5 marks for why it might not:</b></p> <p>A rise in income tax may not reduce consumer expenditure if savings fall (1) wages increase by more than tax rise (1).</p> <p>A rise in corporation tax may not reduce investment if firms reduce savings/dividend payments (1).</p> <p>A rise in income tax may reduce spending on imports (1) this would reduce a current account deficit (1) increase net exports (1).</p> <p>The extra tax revenue earned (1) may increase government spending (1) this could offset any fall in consumer expenditure and investment (1).</p>	8

Question	Answer	Mark
5(a)	<p><b>Define a 'subsidy'.</b></p> <p>A payment by e.g. a government (1) to reduce production costs (1) to increase output (1) to improve quality (1) reduce prices for consumers (1).</p>	<b>2</b>
5(b)	<p><b>Explain <u>two</u> causes of a decrease in demand for oil.</b></p> <p><b>1 mark each for each of two reasons identified:</b></p> <ul style="list-style-type: none"> <li>• fall in price of another fuel / reduction in its availability</li> <li>• decrease in car driving</li> <li>• change in fashion/taste e.g. electric cars</li> <li>• greater concern for the environment</li> <li>• decrease in output / manufacturing of goods</li> <li>• decrease in population</li> <li>• decrease in income.</li> </ul> <p><b>1 mark each for each of two explanations:</b></p> <ul style="list-style-type: none"> <li>• if the price of e.g. coal falls, some firms and households may switch from a substitute such as oil</li> <li>• oil/petrol is a complement to a car</li> <li>• e.g. electric cars are substitutes for petrol driven cars</li> <li>• people may use cars less because they are concerned about e.g. pollution</li> <li>• lower output will require less fuel to produce it / fewer people will be using fuel to get to and from work</li> <li>• lower population will mean there are fewer people to consume products that require fuel to produce or use them</li> <li>• decrease in income will decrease demand for products, e.g. car driving which requires fuel.</li> </ul> <p>Note: accept an increase in the price of oil as a possible reason.</p>	<b>4</b>
5(c)	<p><b>Analyse the advantages of being a sole trader.</b></p> <p>Flexible / can respond quickly to changes in demand (1) as one person makes all the decisions (1).</p> <p>Easy to set up (1) limited finance / limited paperwork needed (1).</p> <p>Can provide a personal service (1) get to know customers personally (1).</p> <p>Profit incentive (1) owner will get all the profits (1).</p> <p>Sole trader has total control (1) can decide e.g. hours of work, holidays (1)</p> <p>May have good relationships with staff (1) less industrial disputes (1).</p>	<b>6</b>

Question	Answer	Mark
5(d)	<p><b>Discuss whether a government should be concerned about a growing deficit on the current account of its balance of payments.</b></p> <p><b>Up to 5 marks for why it should:</b></p> <p>Imports exceeding exports (1) country will be living beyond its means (1) consuming more than it produces (1) net exports will be making a negative contribution to output (1) output will be lower than possible (1) employment lower than possible (1) unemployment (1) may lead to increased government spending on benefits (1).</p> <p>May indicate a lack of international competitiveness (1) may suggest that the price of domestically produced products is too high (1) quality of domestically produced products too low (1).</p> <p>Country may be dependent on foreign products (1) causing security concerns (1).</p> <p>May put downward pressure on the exchange rate (1) increase the value of exports that have to be exchanged to gain a certain value of imports (1).</p> <p>Need to cover the deficit with e.g. borrowing/attracting investment from abroad (1).</p> <p><b>Up to 5 marks for why it should not:</b></p> <p>Deficit may only be temporary (1) more raw materials (1) capital goods may be imported (1) in the longer run these may be turned into exports (1).</p> <p>The deficit on current account may be balanced out by a surplus elsewhere (1) e.g. direct investment (1).</p> <p>The deficit may have been caused by a fall in incomes abroad (1) these may rise in the future, increasing exports (1).</p> <p>If the country has a floating exchange rate (1) a fall in the exchange rate resulting from the deficit will lower export prices (1) raise import prices (1) and so move the current account position towards a balance (1).</p> <p>A deficit reduces total demand (1) and this can reduce demand-pull inflation (1).</p> <p>Note: reward but do not expect reference to other parts of the balance of payments.</p>	8



Question	Answer	Mark
6(a)	<p><b>Identify <u>two</u> ways in which a high rate of unemployment may affect firms.</b></p> <p>Low demand for products (1) falling prices / lower revenue (1).</p> <p>Good supply of workers (1) downward pressure on wages (1).</p> <p>Trade union action (1) to protect workers' jobs (1).</p>	<b>2</b>
6(b)	<p><b>Explain <u>two</u> causes of deflation.</b></p> <p><b>1 mark each for each cause identified:</b></p> <ul style="list-style-type: none"> <li>• fall in total demand</li> <li>• rise in unemployment</li> <li>• drop in consumer confidence</li> <li>• drop in business confidence</li> <li>• banking crisis</li> <li>• an increase in total (aggregate) supply</li> <li>• fall in costs of production</li> <li>• advances in technology.</li> </ul> <p><b>1 mark each for each of two causes explained:</b></p> <ul style="list-style-type: none"> <li>• lower demand may cause firms to reduce their prices in order to attract more consumers</li> <li>• lower costs of production / advances in technology will enable firms to lower their prices and maintain/increase profits.</li> </ul>	<b>4</b>

Question	Answer	Mark
6(c)	<p><b>Analyse the <u>disadvantages</u> of a very high rate of inflation.</b></p> <p>Fall in international price competitiveness (1) currency rapidly devalues (1) worsening current account position / reduced exports (1) if inflation rate is higher than rival countries (1).</p> <p>Discourages saving / savers lose (1) if inflation rate is higher than interest rate (1) redistribution of income from lenders to borrowers (1).</p> <p>Those on fixed incomes are disadvantaged (1) e.g. pensions do not buy as many goods and services as they did before (1).</p> <p>Inflationary expectations increase (1) discouraging investment (1) uncertainty created by inflation (1).</p> <p>Inefficient choices (1) due to difficulty in judging relevant prices (inflationary noise) (1).</p> <p>The cost of changing prices (menu costs) (1) e.g. price tags, menus (1).</p> <p>Costs of moving money around in search of the highest interest rate (1).</p> <p>People's income dragged into higher tax brackets (fiscal drag) (1) reducing their disposable income (1).</p> <p>Unemployment (1) if caused by higher costs / cost-push inflation (1).</p> <p>Lower purchasing power / fall in values of money (1).</p> <p>Note: maximum 3 marks for a list-like approach.</p>	6

Question	Answer	Mark
6(d)	<p><b>Discuss whether increased government spending on training will always reduce inflation.</b></p> <p><b>Up to 5 marks for why it might:</b></p> <p>Training may increase workers' skills / specialisation (1) raise productivity (1) lower production costs (1) increase total supply (1) reduce cost-push inflation (1).</p> <p>Training may make workers more mobile (1) speed up adjustments to changes in demand (1) reduce shortages (1) lower demand-pull inflation (1).</p> <p><b>Up to 5 marks for why it might not:</b></p> <p>Training may be in the wrong areas (1) and not increase productivity (1).</p> <p>Government spending on training will increase total demand (1) if total demand rises by more than total supply (1) price level will rise (1) causing demand-pull inflation (1).</p> <p>Trained workers will find employment / better paid work (1) spend their wages and increase total demand (1).</p> <p>More highly trained workers may demand higher wages (1) if wages rise by more than productivity (1) costs will increase (1) cost-push inflation (1).</p>	8



Question	Answer	Mark
7(a)	<p><b>Identify <u>two</u> ways in which the expenditure patterns of the poor and the rich are different.</b></p> <p>The rich spend more / the poor spend less (1).</p> <p>Poor spend a higher proportion on basic necessities / needs e.g. food (1) rich spend a higher proportion on luxuries / wants (1).</p> <p>Poor spend a higher proportion (1) of their income than the rich (1) or the reverse argument.</p>	<b>2</b>
7(b)	<p><b>Explain <u>two</u> reasons why a commercial bank may prefer to lend to the rich rather than to the poor.</b></p> <p><b>1 mark each for each of two reasons identified:</b></p> <ul style="list-style-type: none"> <li>• greater expectation that they will repay</li> <li>• greater collateral</li> <li>• rich may borrow more / more profitable</li> <li>• it takes a longer time for the poor to repay loans.</li> </ul> <p><b>1 mark each for each of two explanations of the reasons:</b></p> <ul style="list-style-type: none"> <li>• rich will have more income/wealth to repay</li> <li>• rich will have more assets to sell if necessary</li> <li>• more interest can be earned from lending large sums</li> <li>• the poor have less income with which to repay.</li> </ul>	<b>4</b>
7(c)	<p><b>Analyse the effects that an increase in the labour force will have on an economy.</b></p> <p>An increase in the labour force will increase the quantity of resources (1) increase productive potential (1) enable more products to be produced (1) raise economic growth (1).</p> <p>An increase in the labour force may reduce inflation pressure (1) enable supply to increase to match higher demand (1).</p> <p>An increase in the labour force may increase total wages paid (1) increasing total spending/demand (1) causing demand-pull inflation (1). An increase in the labour force available may reduce wages (1) reducing cost-push inflation (1).</p> <p>An increase in the labour force may increase employment (1) if the number of jobs available increases (1) increasing income tax revenue for the government (1).</p> <p>If not employed, will increase unemployment rate (1) higher spending on benefits (1).</p>	<b>6</b>

Question	Answer	Mark
7(d)	<p><b>Discuss whether providing loans to the poor will reduce poverty.</b></p> <p><b>Up to 5 marks for why it might:</b></p> <p>Loans will enable the poor to buy more basic necessities (1) e.g. housing, food, clothing (1) reduces absolute poverty (1).</p> <p>Loans will enable the poor to spend more on education/training (1) increase their skills (1) increase the chances of them gaining a job (1) increase wage rate (1) increase education of children (1) reduce poverty in the future (1).</p> <p>Loans will enable the poor to set up small businesses (1) become entrepreneurs (1) receive income/profit (1) may employ other previously poor people (1) reduce unemployment (1).</p> <p>Loans may enable the poor to spend more on healthcare (1) raising living standards (1).</p> <p><b>Up to 5 marks for why it might not:</b></p> <p>Loans may be spent on items that do not increase earning potential (1) e.g. cigarettes (1).</p> <p>The poor may get into debt / may be unable to repay the loan (1) lose their collateral/home (1).</p> <p>Paying interest (1) may reduce the ability to buy basic necessities (1) high interest rates (1) may be charged to the poor (1).</p> <p>Loans may not be large enough (1) to pay for e.g. education/training (1).          Loans may not be a long-term solution to poverty (1) only improving living standards in the short-term.</p>	8



**Cambridge Assessment International Education**  
Cambridge International General Certificate of Secondary Education

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**ECONOMICS**

**0455/22**

Paper 2 Structured Questions

**October/November 2017**

MARK SCHEME

Maximum Mark: 90

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**Published**

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Question	Answer	Marks	Guidance
1(a)	<p><b>Identify, from the extract, <u>two</u> aims of government policies.</b></p> <p>Price stability / low inflation / stopping inflation rate rising above target (1) full employment / low unemployment (1).</p>	<b>2</b>	



Question	Answer	Marks	Guidance
1(b)	<p><b>Explain <u>two</u> problems caused by inflation.</b></p> <p>1 mark each for each of two problems identified:</p> <ul style="list-style-type: none"> <li>• worsen current account position</li> <li>• redistribution of income</li> <li>• uncertainty</li> <li>• menu costs</li> <li>• shoe leather costs</li> <li>• inflationary noise</li> <li>• fiscal drag</li> <li>• higher unemployment</li> <li>• money may cease to carry out its functions</li> <li>• lower demand / lower output / lower economic growth</li> <li>• lower purchasing power / fall in the value of money</li> <li>• lower standards of living / higher cost of living.</li> </ul> <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> <li>• export prices will rise – reduce international competitiveness</li> <li>• lenders / those on fixed incomes may lose and borrowers may gain</li> <li>• lack of certainty may discourage investment</li> <li>• cost of changing e.g. price labels</li> <li>• cost of moving money around in search of highest interest rate</li> <li>• confusion caused by not being able to work out change in relative prices</li> <li>• people's income being dragged into higher tax brackets</li> <li>• costs of production may increase, causing firms to reduce the number of workers they employ</li> <li>• during periods of hyperinflation, money may cease to be generally acceptable</li> <li>• cost-push inflation will reduce total demand</li> <li>• purchasing power will fall if incomes rise by less than prices</li> </ul>	4	Fall in the value of the currency on its own is too vague – must make clear reference to internal value.



Question	Answer	Marks	Guidance
1(c)(i)	<p>Calculate, using information from the extract, the percentage fall in the global price of a barrel of oil in 2015</p> <p>45% (2)</p> <p>Correct working i.e. <math>\\$54 / \\$120 \times 100</math> (1)</p>	2	
1(c)(ii)	<p>Calculate, using information from the extract, the consumer prices index in China at the end of 2015.</p> <p>102.51 (2)</p> <p>Correct working i.e. <math>100.5 \times 2 / 100 + 100.5</math> or <math>2.01</math> (1)</p>	2	Accept 102.5

Question	Answer	Marks	Guidance
1(d)	<p><b>Analyse why an increase in unemployment might cause an increase in government spending.</b></p> <p>It may increase government spending on unemployment benefits (1) the unemployed may suffer worse health (1) this may increase government spending on healthcare (1) if crime rises, the government may spend more on law and order (1).</p> <p>To reduce unemployment, the government may adopt expansionary fiscal policy / policy to stimulate the economy / policy to increase economic growth (1) to increase total demand (1) to create more jobs (1).</p> <p>Government may provide subsidies to firms (1) to encourage them to increase output and employment (1).</p> <p>Government may spend more on education (1) to increase skills of workers (1) reduce structural unemployment (1).</p> <p>Unemployment may increase poverty (1) leading to more spending on other benefits (1).</p> <p>Government may employ more workers in the public sector (1) to reduce unemployment / will increase wage bill (1).</p> <p>Government may spend on infrastructure (1) to raise labour mobility (1).</p>	5	Maximum of 3 marks for a list-like approach.

Question	Answer	Marks	Guidance
1(e)	<p><b>Discuss whether the supply of workers for unskilled jobs will be high in a country.</b></p> <p>Up to 3 marks for why it might:</p> <p>Levels of education and training may be low (1) in some developing countries there is a relatively high illiteracy rate (1) workers may lack skills/qualifications (1).</p> <p>Unskilled jobs may provide good non-wage benefits (1) example e.g. short working hours (1).</p> <p>The supply may be high due to immigration of unskilled workers / high population (1) attracted by wages that are higher than the countries they come from (1).</p> <p>Most workers may be employed in the primary sector (1) which may offer largely unskilled jobs (1).</p> <p>May be high unemployment (1) so some skilled workers may have to apply for unskilled jobs (1).</p> <p>May be high unemployment benefit (1) discourages incentive to work (1).</p> <p>Up to 3 marks for why it might not:</p> <p>Unskilled jobs are likely to be relatively poorly paid (1) wage rate is a key influence on jobs workers select (1).</p> <p>Unskilled jobs may offer poor working conditions (1) example e.g. hard manual work (1).</p> <p>Unskilled workers may emigrate to other countries (1) if wages/working conditions are better in other countries (1).</p> <p>Work may be capital-intensive (1) requiring high skills (1).</p>	5	

Question	Answer	Marks	Guidance
1(f)	<p><b>Explain, using information from the extract and Fig. 1, what happened to the market for food in 2015.</b></p> <p>The diagram shows supply increasing (1) price falling (1) demand extending / more food / higher quantity (1) costs of production falling due to lower transport costs (1) inelastic supply (1) inelastic demand (1).</p>	4	
1(g)	<p><b>Discuss whether a decrease in income tax would reduce deflation.</b></p> <p>Up to 4 marks for why it might:</p> <p>A reduction in income tax will increase disposable income (1) may raise consumer expenditure (1) may raise investment (1) increase total demand (1) higher demand may encourage firms to raise prices / demand-pull inflation (1).</p> <p>Up to 4 marks for why it might not:</p> <p>Consumers may not spend more / may save more (1) if concerned about the future (1) if expect prices to be lower in the future (1).</p> <p>A decrease in income tax may not reduce deflation caused by lower costs of production (1) e.g. advances in technology / investment may continue pushing down the price level (1).</p> <p>A decrease in income tax may reduce government spending (1) higher consumer spending may be offset by lower government spending (1).</p> <p>May act as incentive to work (1) may increase productivity / efficiency (1) lower costs of production / increase total (aggregate) supply (1).</p> <p>Consumers may spend on imports (1).</p>	6	

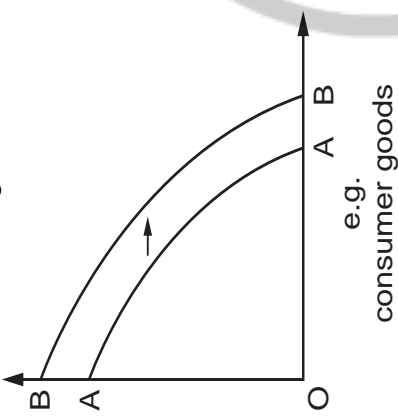
Question	Answer	Marks	Guidance
2(a)	<p><b>Define 'average costs'.</b></p> <p>Total cost divided by output (2). Cost per unit / average fixed cost plus average variable cost (1).</p>	2	
2(b)	<p><b>Explain <u>two</u> factors that would increase the supply of entrepreneurs in an economy.</b></p> <p>1 mark each for each of two factors identified:</p> <ul style="list-style-type: none"> <li>• rise in education</li> <li>• reduction in corporation tax / tax holidays</li> <li>• increase in subsidies for business/entrepreneurs</li> <li>• reduction in the rate of interest</li> <li>• privatisation / move to market economy</li> <li>• immigration</li> <li>• reduction in barriers to entry / deregulation</li> <li>• economic boom / high level of economic activity</li> <li>• improved legal framework / reduction in crime</li> </ul> <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> <li>• rise in education will develop the skills needed to be an entrepreneur</li> <li>• reduction in corporation tax will increase financial return from being an entrepreneur</li> <li>• subsidies may make it easier / cheaper to start-up a business</li> <li>• a lower rate of interest will make it cheaper to borrow to start up a business / increase expectation of higher demand</li> <li>• privatisation / move to market economy will increase the opportunities to set up new firms</li> <li>• a relatively high proportion of immigrants tend to set up their own businesses</li> <li>• lower barriers to entry / deregulation would make it easier to set up new firms</li> <li>• economic boom / high level of economic activity may increase the expectation that firms will be profitable</li> <li>• improved legal framework / reduction in crime would be likely to make entrepreneurs feel more confident.</li> </ul>	4	

Question	Answer	Marks	Guidance
2(c)	<p><b>Analyse how the market for a product would be affected by a reduction of the tax on the product combined with a fall in the price of a complement.</b></p> <p>Reducing the tax will lower costs of production (1) increase supply – <i>written or drawn</i> (1).</p> <p>A complement is a product bought to use with another product (1) a fall in its price would increase demand for this product – <i>written or drawn</i> (1).</p> <p>Effect on price is uncertain (1) would depend on relative size of changes (1).</p> <p>Quantity would rise – <i>written or drawn</i> (1).</p>	6	

Question	Answer	Marks	Guidance
2(d)	<p><b>Discuss whether low unemployment in a country will encourage multinational companies (MNCs) to set up there.</b></p> <p>Up to 5 marks for why it might:</p> <p>Low unemployment may indicate a strong economy / economic growth (1) high incomes (1) a high level of demand (1) may expect to be able to sell a large amount in the country (1) make a high profit (1).</p> <p>Low unemployment may mean high tax revenue (1) government spending on education may be high (1) improving quality of workers (1) spending on infrastructure e.g. roads may be high (1) lower MNCs' costs of production (1).</p> <p>Production may be capital-intensive (1) and so labour shortages may not be a significant problem (1).</p> <p>Other benefits may be greater than higher labour costs (1) e.g. not having to pay an import tariff (1).</p> <p>Up to 5 marks for why it might not:</p> <p>There may be difficulty in recruiting workers (1) may be a shortage of skilled workers (1) may increase trade union power (1) may have to pay high wages (1) which would increase costs (1) lower profits (1).</p> <p>Low unemployment may create demand-pull inflation (1) and cost-push inflation (1) this may make it relatively expensive to produce in the country (1).</p>	8	

Question	Answer	Marks	Guidance
3(a)	<p><b>What is a possible opportunity cost of working?</b></p> <p>Opportunity cost is the (next) best alternative forgone (1).</p> <p>Opportunity cost is leisure / education / retirement / raising a family (1).</p>	2	
3(b)	<p><b>Explain <u>two</u> reasons why older workers tend to earn more than young workers.</b></p> <p>1 mark each for each of two reasons identified: An older worker (or vice versa):</p> <ul style="list-style-type: none"> <li>• may have gained more qualifications</li> <li>• may have received more training</li> <li>• may have gained experience</li> <li>• may have been promoted</li> <li>• length of service.</li> </ul> <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> <li>• a more qualified worker can apply for a better paid job</li> <li>• a better trained worker will have more choice of occupation</li> <li>• more experience is likely to increase productivity/skills</li> <li>• over time a worker may become better at doing the job</li> <li>• in some jobs there are regular increases in pay.</li> </ul>	4	Some candidates may answer from the perspective of younger workers earning less than older workers.



Question	Answer	Marks	Guidance
3(c)	<p><b>Analyse, using a production possibility curve diagram, how an increase in labour productivity will affect an economy.</b></p> <p>Up to 4 marks for the diagram:</p>  <p>Up to 2 marks for written explanation:</p> <p>An increase in labour productivity increases the quality of labour (1) increases output per worker hour / efficiency (1) increases productive potential / cause economic growth (1).</p>	6	

Question	Answer	Marks	Guidance
3(d)	<p><b>Discuss whether the rich in one country will save more than the rich in another country.</b></p> <p>Up to 5 marks for why they might:</p> <p>The rich in one country may save more if they have more income than the rich in another country (1) people tend to save more as income rises (1) greater ability to save (1).</p> <p>The interest rate may be higher in the country (1) greater financial return from saving / save more / spend less (1).</p> <p>There may be more tax incentives in the country to encourage saving (1) i.e. interest rates earned not taxed or taxed at a lower rate (1).</p> <p>There may be a greater fear of a recession (1) rich expecting their income to be lower in the future / risk of losing their jobs (1).</p> <p>Up to 5 marks for why they might not:</p> <p>The rich in the country may be more optimistic about the future / may have greater job security (1) which will encourage them to spend a higher proportion of their income (1).</p> <p>There may be more of a culture of saving in another country (1).</p> <p>There may be more / greater range of financial institutions in another country (1) encouraging more saving there (1).</p> <p>The total number of the rich may be higher in another country (1) so even if, on average, the rich save more in the country, total saving may be higher in another country (1).</p> <p>There may be higher inflation / greater expectation of higher inflation in the future (1) encouraging higher spending now (1).</p>	8	

Question	Answer	Marks	Guidance
4(a)	<p><b>Name <u>two</u> factors of production used in making cars.</b></p> <p>1 mark each for each of two factors identified:</p> <ul style="list-style-type: none"> <li>• car workers / labour</li> <li>• car factory / capital</li> <li>• car firm owner / entrepreneur</li> <li>• water/land</li> </ul>	<b>2</b>	
4(b)	<p><b>Explain how <u>two</u> methods of trade protection may reduce imports.</b></p> <p>1 mark each for each of two methods identified:</p> <ul style="list-style-type: none"> <li>• tariffs</li> <li>• quotas</li> <li>• embargoes</li> <li>• exchange control</li> <li>• voluntary export restraint (VER)</li> <li>• quality standards</li> <li>• subsidies</li> <li>• expensive paperwork</li> </ul> <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> <li>• tariffs – tax on imports will raise price of imports which may reduce demand</li> <li>• quotas – a limit on imports will restrict quantity of imports that can be purchased</li> <li>• embargo – a ban on imports will reduce quantity imported to zero</li> <li>• exchange control – a limit on availability of foreign currency will make it difficult to get the currency to buy imports</li> <li>• VER – agreements between governments to restrict exports to each other</li> <li>• quality standards – making it difficult / expensive to achieve requirements</li> <li>• subsidies – given to domestic producers to make them internationally competitive</li> <li>• expensive paperwork – increase the costs of exporting to the country</li> </ul>	<b>4</b>	

Question	Answer	Marks	Guidance
4(c)	<p><b>Analyse the social costs created by car production and car use.</b></p> <p>Social costs are private costs plus external costs (1).</p> <p>Private costs are the costs to the car firm/buyers of cars (1) example: e.g. wages paid to workers / price paid for the cars (1).</p> <p>External costs are likely to exist in the form of costs to third parties (1) firms/buyers will not take them into account (1) examples: e.g. air pollution / noise pollution / congestion (up to 2).</p>	<b>6</b>	Maximum 4 marks if no reference to cars.

Question	Answer	Marks	Guidance
4(d)	<p><b>Discuss whether demand for cars is likely to increase in the future.</b></p> <p>Up to 5 marks for why it might:</p> <p>Rising incomes (1) people may switch from other forms of transport e.g. bus travel / can afford to buy cars (1).</p> <p>Price may fall (1) cars become more affordable (1).</p> <p>Advances in technology (1) increasing availability of hybrid / electric cars / raise quality (1) any other relevant cause of a fall in price (1).</p> <p>Population is increasing (1) creating more potential buyers (1).</p> <p>Greater availability of bank loans / credit (1) cars may be purchased using bank loans (1).</p> <p>More effective advertisements (1) persuading people to buy more cars (1).</p> <p>Up to 5 marks for why it might not:</p> <p>Other forms of transport may become cheaper (1) example of a substitute (1).</p> <p>Concern for the environment may increase (1) causing people to walk or cycle (1).</p> <p>Prices of complements may rise (1) e.g. petrol / car parking charges / road tolls / inner city charges (1).</p> <p>Governments may increase taxes on car travel / impose restrictions on car use (1) to reduce external costs (1).</p> <p>There may be a global recession / higher unemployment (1) reducing people's confidence in buying cars (1).</p>	<b>8</b>	Maximum of 4 marks for a list-like approach.

Question	Answer	Marks	Guidance
5(a)	<p><b>What is meant by a labour-intensive industry?</b></p> <p>An industry which has a high proportion of labour compared with the proportion of other factors of production used (2).</p> <p>An industry which uses a large amount of labour (1).</p>	2	
5(b)	<p><b>Explain <u>two</u> reasons why a country may stop exporting a product.</b></p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> <li>• may be a shortage of the product in own country</li> <li>• may want to conserve resources</li> <li>• may be a fall in demand from other countries</li> <li>• may want to switch resources to another product</li> <li>• may lose international competitiveness</li> <li>• trade restrictions may be imposed on the product by trading partners</li> <li>• may be an appreciation of the currency.</li> </ul> <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> <li>• may want to sell the product on the home market to prevent a shortage pushing up price</li> <li>• there may be concerns that e.g. deposits of gold are running out</li> <li>• exports can only be sold if there is a market for them / exports may have risen in price / may have fallen in quality</li> <li>• other products may have become more profitable and so resources may be switched away from the product</li> <li>• other countries may have discovered resources / improved the training of their workers giving them a cost advantage</li> <li>• there may be a tariff imposed which may make the product uncompetitive / an embargo may be imposed on the product stopping other countries importing it</li> <li>• a higher exchange rate will raise the price of exports which may make this product uncompetitive.</li> </ul>	4	

Question	Answer	Marks	Guidance
5(c)	<p><b>Analyse the effects of an increase in unemployment on inflation.</b></p> <p>A rise in unemployment may reduce incomes (1) lower spending (1) lower total demand (1) lower demand-pull inflation (1).</p> <p>A rise in unemployment may reduce rises in wages / lead to a fall in wages (1) reduce costs of production (1) reduce cost-push inflation (1).</p> <p>A rise in unemployment will reduce tax revenue (1) this could cause the government to reduce subsidies (1) this could increase costs of production (1) causing cost-push inflation (1).</p>	<b>6</b>	

Question	Answer	Marks	Guidance
5(d)	<p><b>Discuss whether having a relatively small population is an advantage or a disadvantage for an economy.</b></p> <p>Up to 5 marks for why it might be an advantage:</p> <p>A small population may mean that resources will last over a longer time period (1) enabling economic growth to continue (1).</p> <p>There may be less environmental damage (1) less risk of overcrowding (1).</p> <p>There may be fewer dependents (1) smaller proportion of children and elderly people (1) which can increase income per head (1) and may reduce the need for some forms of government spending (1).</p> <p>May be less imports (1).</p> <p>Up to 5 marks for why it may be a disadvantage:</p> <p>There may not be enough workers / low labour force (1) to take advantage of resources (1) low output (1) low tax revenue (1) reduces government ability to spend (1).</p> <p>The size of the market for the country's products may not be large enough / low total (aggregate) demand (1) less ability to take advantage of economies of scale (1) may be less attractive to MNCs (1).</p> <p>May be less exports (1).</p>	8	Reward but do not expect reference to the optimum population size.



Question	Answer	Marks	Guidance
6(a)	<p><b>Identify <u>two</u> influences on the size of a country's population.</b></p> <p>1 mark each for each of two influences identified:</p> <ul style="list-style-type: none"> <li>• birth rate</li> <li>• death rate</li> <li>• migration.</li> </ul>	2	Accept as influences, factors that would affect size of population.
6(b)	<p><b>Explain <u>two</u> causes of an increase in living standards.</b></p> <p>1 mark each for each of two causes identified:</p> <ul style="list-style-type: none"> <li>• rise in income / fall in poverty / fall in unemployment / rise in employment</li> <li>• improvements in education</li> <li>• improvements in healthcare</li> <li>• increase in leisure time.</li> </ul> <p>1 mark each for each of two causes explained:</p> <ul style="list-style-type: none"> <li>• higher incomes will enable people to buy more goods and services</li> <li>• improvements in education will enable people to earn higher incomes / make more efficient life choices</li> <li>• improvements in healthcare will increase life expectancy</li> <li>• increase in leisure time will give people the opportunity of follow leisure activities / suffer less pressure.</li> </ul>	4	

Question	Answer	Marks	Guidance
6(c)	<p><b>Analyse how an increase in the rate of interest could increase unemployment.</b></p> <p>Rise in the rate of interest may discourage borrowing / increase cost of borrowing (1) increase saving (1) decrease spending (1) decrease total demand (1) lower demand may decrease output (1) encourage firms to make workers redundant (1).</p> <p>Rise in the rate of interest may increase firms' costs of production (1) this may encourage firms to reduce their output (1).</p> <p>Rise in the rate of interest may increase the exchange rate (1) higher exchange rate may decrease exports and increase imports (1) decrease domestic production (1).</p>	6	

Question	Answer	Marks	Guidance
6(d)	<p><b>Discuss whether a government should increase tax rates during a recession.</b></p> <p>Up to 5 marks for why it should:</p> <p>To prevent tax revenue falling (1) lower output may reduce profits (1) lower revenue from corporation tax (1) a recession will lower incomes (1) reduce income tax revenue (1) reduce revenue from indirect taxes (1).</p> <p>Higher tax revenue could be used to implement policies to stop the recession (1) government may be able to spend on supply-side policy measures (1) example (1).</p> <p>A higher tax on imports / import tariff (1) may encourage some consumers to switch to buying domestic products (1) reverse fall in output/employment (1).</p> <p>May want to redistribute income (1) progressive taxes could be increased (1) and tax revenue used to help the poor (1) who may be particularly harmed by a recession (1).</p> <p>Up to 5 marks for why it should not:</p> <p>Higher tax rates may reduce disposable income (1) reduce consumer expenditure (1) may reduce investment (1) lower consumer expenditure and investment would lower total demand (1) this may reduce output further (1).</p> <p>Higher tax rates may discourage MNCs from setting up in the country (1) this may mean it will take longer to get out of a recession (1).</p> <p>Higher tariffs may provoke retaliation (1) reduce both imports and exports (1).</p>	8	Accept a counterargument i.e. the government should instead reduce tax rates during a recession.

Question	Answer	Marks	Guidance
7(a)	<p><b>Define 'specialisation'.</b></p> <p>The concentration/focus (1) on one task/product / what they are best at (1).</p>	2	
7(b)	<p><b>Explain <u>two disadvantages</u> that workers may experience from specialising.</b></p> <p>1 mark each for each of two disadvantages identified:</p> <ul style="list-style-type: none"> <li>• risk may not find another job easily</li> <li>• not finding where key strengths lie</li> <li>• limited skills</li> <li>• boredom</li> <li>• demotivation</li> <li>• increased risk of being replaced by machines</li> <li>• disruption caused by absent fellow workers.</li> </ul> <p>1 mark each for each of two explanations of the disadvantages:</p> <ul style="list-style-type: none"> <li>• workers may not find it easy to transfer their skills to another job should they lose their jobs / risk of long term unemployment</li> <li>• concentrating on a particular task may mean that workers do not find out what they are best at</li> <li>• performing the same task each day can become tedious</li> <li>• breaking down a process into its separate parts may make it easier to mechanise</li> <li>• workers may feel less appreciated</li> <li>• may have to cover for absent colleagues / example of impact on the workers.</li> </ul>	4	

Question	Answer	Marks	Guidance
7(c)	<p><b>Analyse how a country could reduce its reliance on imports.</b></p> <p>Replacing imports with domestic products (1) by producing more domestic products / reducing price of domestic products / raising quality of domestic products (1)</p> <p>It could subsidise domestic producers (1) help infant industries to grow (1) replacing imports with domestic products (1).</p> <p>It could place trade restrictions on imports (1) example: e.g. tariffs (1) reason why restriction could reduce imports e.g. tariff could make imports more expensive (1).</p> <p>It could keep its exchange rate low (1) e.g. by buying the currency (1) keeping import prices high (1).</p> <p>It could use supply-side policy (1) e.g. increase spending on education (1) to improve the quality of output (1) reduce costs of production (1) make domestic products more competitive (1).</p>	6	

Question	Answer	Marks	Guidance
7(d)	<p><b>Discuss whether producing more food will increase living standards.</b></p> <p>Up to 5 marks for why it might:</p> <p>Producing more food may lower the price of food (1) due to economies of scale (1) making it more affordable (1) increasing the availability/quality of food people can consume (1) reducing poverty (1) increasing life expectancy (1).</p> <p>Providing more food may create jobs (1) increase exports / reduce imports (1) increasing output / GDP (1) increasing incomes / GDP per head (1) allowing people to buy more goods and services (1).</p> <p>Up to 5 marks for why it might not:</p> <p>May lead to over-consumption of food (1) obesity (1) healthcare problems caused (1).</p> <p>Intensive farming methods may create external costs (1) e.g. river pollution arising from fertilisers spread on the land (1).</p> <p>Agricultural jobs may be low skilled (1) low paid (1).</p> <p>Those producing more food may lack the appropriate resources to produce it (1) and as a result may produce low quality food (1) high priced food (1).</p> <p>Increased food production may lead to an over-supply of food (1) with the extra output remaining unsold (1) may cause diseconomies of scale (1).</p> <p>There may be an opportunity cost involved (1) relevant example (1) fewer capital goods may be produced (1) which could lower potential economic growth (1) and so living standards in the future (1).</p> <p>Crops may be destroyed / damaged (1) by climate conditions / disease (1).</p>	8	

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**ECONOMICS**

**0455/23**

Paper 2 Structured Questions

**October/November 2017**

MARK SCHEME

Maximum Mark: 90

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**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.

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Question	Answer	Marks	Guidance
1(a)	<p><b>Identify from the extract, <u>two</u> monetary policy measures.</b></p> <p>interest rates (1) exchange rates (1)</p>	2	Do not reward subsidies or expansionary monetary policy
1(b)	<p><b>Explain <u>two</u> causes of a fall in the birth rate.</b></p> <p>1 mark each for each of two causes identified:</p> <ul style="list-style-type: none"> <li>• rise in incomes / standard of living</li> <li>• Increase in education</li> <li>• more women working</li> <li>• improved family planning</li> <li>• women marrying later</li> <li>• improved social provision / more affordable healthcare</li> <li>• higher cost of raising children / cut in government child benefits</li> <li>• fall in infant mortality rates</li> <li>• government discourages births.</li> </ul> <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> <li>• richer people tend to have fewer children – tend to spend more on their education, do not rely on children to support them</li> <li>• increased education raises people's expectations of living standards for themselves and for their children</li> <li>• more educated women tend to marry later</li> <li>• more knowledge and availability of ways to limit families will reduce the number of unwanted births</li> <li>• more children surviving to adulthood so fewer births</li> <li>• working women tend to limit their families to avoid too many career breaks</li> <li>• provision of state pensions and healthcare reduces parents, need to have children to look after them</li> <li>• reduces incentives to have children.</li> </ul>	4	



Question	Answer	Marks	Guidance
1(c)(i)	<p><b>Calculate, using information from the extract: the value in US\$ of China's contribution to global GDP growth in 2015</b></p> <p>\$546 billion (2) Correct method, i.e. 20% of US\$2.730 billion or \$546/546 billion (1)</p>	2	
1(c)(ii)	<p><b>Calculate, using information from the extract: the number of children born in Nauru in 2015.</b></p> <p>250 (2) Correct method, i.e. <math>25 \times 10</math> (1) 2500 (1)</p>	2	
1(d)	<p><b>Analyse, using a production possibility curve diagram, how the discovery of new oil reserves would affect an economy.</b></p> <p>Up to 4 marks for the diagram:</p> <ul style="list-style-type: none"> <li>• 1 mark for axes correctly labelled</li> <li>• 1 mark for original curve/straight downward sloping line drawn to the axes.</li> <li>• 1 mark for new production possibility curve</li> <li>• 1 mark for indicating curve will shift to the right – either by arrows or labels.</li> </ul> <p>Up to 1 mark for explanation: A discovery of new oil reserves will increase productive potential / capacity / be able to produce more / results in economic growth (1)</p>	5	<p>Accept any reasonable label of axis. If labelled with oil / petrol accept parallel PPCs.</p> <p>Do not reward output / production increases</p>

Question	Answer	Marks	Guidance
1(e)	<p><b>Discuss whether a firm would benefit from a fall in its country's exchange rate.</b></p> <p>Up to 3 marks for why it might:                      Lower prices of exports (1) increase demand for its products (1) raise sales / revenue (1) increase profits (1).                      Increase size of market (1) enabling it to take greater advantage of economies of scale (1) lower average costs of production (1).                      Domestic producers can produce goods cheaper than overseas goods (1) resulting in higher home sales (1).</p> <p>Up to 3 marks for why it might not:                      Increase price of imports (1) raise a firm's costs of production (1) lower profits (1).                      If demand for exports is price-inelastic (1) a fall in price of exports will cause a fall in revenue (1).                      A fall in the exchange rate (1) may create uncertainty making it difficult for a firm to plan (1)                      Maybe recession in other countries (1) will not result in increased sales (1).                      Quality of goods may be poor compared with other competitors (1) sales do not rise (1).</p>	5	To achieve full marks, benefits to a firm must be discussed.
1(f)	<p><b>Explain, using information from the extract and Fig. 1, what might have happened to the market for steel in China in 2015.</b></p> <p>The diagram shows:                      supply decreasing (1).                      price rising (1).                      demand contracting / less steel / fall in quantity (1).                      if the subsidy to steel industry was cut (1).                      demand and supply are inelastic (1).</p>	4	

Question	Answer	Marks	Guidance
1(g)	<p><b>Discuss whether engaging in free trade increases living standards in a country.</b></p> <p>Up to 4 marks for why it might:                      Free trade may increase competition / removal of tariffs and quotas (1) encourages multinational corporations (MNCs) to set up in country (1) specialise (1) drives down prices (1) promotes efficiency (1) encourages innovation (1) increases quality (1) increase the range of products available (1) reduce unemployment (1) raise income/GDP (1).                      May increase the size of firms' markets (1) allowing them to take advantage of economies of scale (1).</p> <p>Up to 4 marks for why it might not:                      Free trade may cause some industries to go out of business (1) increasing unemployment (1) reducing incomes / GDP falls (1) may cause higher pollution (1).                      Unsafe products/low quality products may be imported (1).                      Dumping may occur (1) driving out domestic producers (1) which can raise prices (1) lower quality in the long run (1).</p>	6	

Question	Answer	Marks	Guidance
2(a)	<p><b>Define 'demand'.</b></p> <p>The willingness/desire/want (1) and ability to buy a product (1) in a given period (1).</p>	2	
2(b)	<p><b>Explain <u>two</u> reasons why a country might want to restrict exports.</b></p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> <li>• keep prices low on home market</li> <li>• prevent stocks running out</li> <li>• maintain monopoly of raw materials</li> <li>• reduce balance of payments surplus / reduce demand-pull inflation</li> <li>• raise price of exports.</li> </ul> <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> <li>• reducing exports may increase supply on the home market</li> <li>• a government may want to conserve e.g. oil for future generations to enjoy</li> <li>• reducing exports of raw materials that are found mainly in the country may mean that other countries/firms will not be able to produce the product</li> <li>• may increase export revenue if demand is inelastic.</li> </ul>	4	
2(c)	<p><b>Analyse how information on price elasticity of demand for its product can influence a firm's pricing decisions.</b></p> <p>If a firm knows that demand for its products is price-elastic (1) it will know a fall in price will cause a rise in revenue (and vice versa) / percentage price change causes a bigger percentage change in demand (1). It will also know that its products probably have close substitutes (1).</p> <p>If it knows demand for its products is price-inelastic (1) it will know a rise in price will cause a rise in total revenue / percentage change in price is greater than percentage change in demand (1). It will also know its products probably do not have close substitutes (1).</p> <p>If it knows that demand for its products have unit price elasticity of demand (1) it will know that its revenue will not change if it changes price (1).</p> <p>It is difficult to calculate PED (1) firms may use other factors to determine price (1).</p>	6	

Question	Answer	Marks	Guidance
2(d)	<p><b>Discuss whether a merger of two firms in the same industry will be likely to reduce the price of the product.</b></p> <p>Up to 5 marks for why it might:                      A horizontal merger may allow the firm to enjoy economies of scale (1) example/s (2) lower average costs (1) enabling the firm to lower prices and maintain/increase profit / pass on savings (1).                      A horizontal merger may allow a firm to rationalise (1) to cut out duplication (1).                      Up to 5 marks for why it might not:                      A merger may result in a firm experiencing diseconomies of scale (1) example/s (2) higher average costs (1).                      A merger may increase market share / power / firm becomes a price maker (1) reducing competition (1) making demand price-inelastic (1) prices may rise rather than fall (1).</p>	8	

Question	Answer	Marks	Guidance
3(a)	<p><b>Identify <u>two</u> reasons why governments impose taxes.</b></p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> <li>• raise revenue</li> <li>• discourage consumption of harmful products / correct market failure / negative externalities</li> <li>• discourage purchase of imports</li> <li>• redistribute income / reduce income inequality</li> <li>• reduce total demand / reduce rate of inflation.</li> </ul>	2	Reward but do not expect reference to demerit goods.

Question	Answer	Marks	Guidance
3(b)	<p><b>Explain <u>two</u> advantages a business organisation may gain from becoming a public limited company.</b></p> <p>1 mark each for each of two advantages identified:</p> <ul style="list-style-type: none"> <li>• relatively easy to raise finance</li> <li>• likely to be relatively large</li> <li>• sustainability</li> <li>• take advantage of limited liability.</li> </ul> <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> <li>• able to sell shares on the stock exchange / limited liability may attract shareholders / banks may be more willing to lend</li> <li>• the ability to raise finance can allow firms to expand/take advantage of economies of scale</li> <li>• not dependent on current owners for survival of firm</li> <li>• owners can only lose the value of their shares.</li> </ul>	4	
3(c)	<p><b>Analyse how a cut in taxes would increase tax revenue.</b></p> <p>A cut in income tax rates (1) may increase the incentive to work (1) an increase in disposable income (1) would increase the financial reward from working (1) reduces tax evasion (1).</p> <p>A cut in corporation tax (1) may increase the incentive for firms to increase output (1) increasing the total value of profits that can be taxed (1).</p> <p>A cut in indirect taxes (1) may increase spending (1) raising expenditure that can be taxed (1).</p>	6	

Question	Answer	Marks	Guidance
3(d)	<p><b>Discuss whether an economy would benefit from an increase in the strength of its trade unions.</b></p> <p>Up to 5 marks for why it might:                      Stronger trade unions may achieve higher wages (1) this could increase living standards (1) enabling workers to afford e.g. better healthcare (1) improve training / skills of workers (1) motivate workers (1).                      Stronger trade unions may improve working conditions (1) prevent workers being discriminated against (1) this may increase labour productivity (1) can make exports more competitive (1) improving balance of payments (1) which can increase economic growth (1).                      Stronger trade unions may increase communication between workers and employers (1) may help promote training (1) reduce cost of negotiations / making negotiations more effective (1).</p> <p>Up to 5 marks for why it might not:                      Stronger trade unions may raise firms' costs of production (1) higher costs of production can reduce firms' profits (1) cause wage/price spiral (1) resulting in a fall in output (1) increase in unemployment (1) causing cost push inflation (1).                      Stronger trade unions may increase industrial action (1) will disrupt firms' production (1) result in a fall in orders (1) fall in investor confidence (1).                      Stronger trade unions may restrict the ability of firms to change their output (1) reducing their responsiveness to changes in market conditions (1).</p>	8	

Question	Answer	Marks	Guidance
4(a)	<p><b>Define 'devaluation'.</b></p> <p>A fall in the value (1) of the currency (1) in the case of a fixed exchange rate/caused by government decision / against other currencies (1).</p>	2	

Question	Answer	Marks	Guidance
4(b)	<p><b>Explain <u>two disadvantages</u> of a decrease in a country's output.</b></p> <p>1 mark each for each of two benefits identified:</p> <ul style="list-style-type: none"> <li>• rise in unemployment / recession / less exports</li> <li>• reduction in living standards</li> <li>• reduction in tax revenue.</li> </ul> <p>1 mark each for each of two explanations given:</p> <ul style="list-style-type: none"> <li>• fewer workers will be needed if output falls/cyclical unemployment</li> <li>• negative impact on balance of payments</li> <li>• there will be fewer goods and services for people to consume</li> <li>• lower incomes and spending to tax</li> <li>• lower GDP.</li> </ul>	4	
4(c)	<p><b>Analyse the effect on the market for food of an increase in population combined with a prolonged period of bad weather.</b></p> <p>There will be more people to buy food (1) demand would increase – written or shown by a shift to the right of a demand curve (1).            Bad weather will reduce crop yields (1) supply will decrease – written or shown by a shift to the left of the supply curve (1).            Price will increase (1) but the effect on quantity is unclear (1) – can both be shown by change in equilibrium price and quantity on a diagram.</p>	6	



Question	Answer	Marks	Guidance
4(d)	<p><b>Discuss whether a central bank should lend to commercial banks which get into financial difficulties.</b></p> <p>Up to 5 marks for why it should: A central bank is a lender of last resort (1) one of its functions is to lend to commercial banks when they cannot borrow elsewhere (1) example of another function (1). If a central bank does not lend, the commercial banks may collapse (1) holders of bank accounts will lose money (1) they may get into difficulties (1) there may be a 'run' on other banks (1) with people withdrawing their money (1) putting other banks at risk (1). Fewer banks would reduce the funds for firms to borrow (1) investment would be reduced (1) economic growth would decline (1) makes it more difficult for commercial banks to carry out their function (1) example of another function (1).</p> <p>Up to 5 marks for why it should not: May encourage banks to take risks (1) lend to creditworthy customers (1) they may think they are too big to fail (1). It would involve an opportunity cost (1) could use funds to lend to new, expanding banks (1).</p>	8	

Question	Answer	Marks	Guidance
5(a)	<p><b>Identify <u>two</u> reasons why a government may place an embargo on the import of a product.</b></p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> <li>• to improve the current account position</li> <li>• to prevent the import of a harmful product</li> <li>• to retaliate against another country's embargo</li> <li>• to protect domestic employment / infant industry / high unemployment.</li> </ul>	2	

Question	Answer	Marks	Guidance
5(b)	<p><b>Explain <u>two</u> reasons why some young workers may earn more than some old workers.</b></p> <p>1 mark each for each of two reasons identified:</p> <ul style="list-style-type: none"> <li>• may be more qualified</li> <li>• may be more skilled</li> <li>• may be more up to date with the latest technology</li> <li>• may be more mobile</li> <li>• may work longer hours / less time off for illness</li> <li>• firms discriminate against older workers</li> <li>• work primarily in tertiary industry rather than primary.</li> </ul> <p>1 mark each for each of two explanations:</p> <ul style="list-style-type: none"> <li>• people with high qualifications are in short supply</li> <li>• people with more skills may be more productive</li> <li>• demand is likely to be high for people who have good technical skills</li> <li>• workers who can change occupations and locations will have more choice of jobs</li> <li>• young workers may be less likely to work part-time / more likely to work overtime.</li> <li>• old workers perceived to be less productive.</li> </ul>	4	Accept an argument why some old workers may earn less than some young workers.
5(c)	<p><b>Analyse the factors that may make the supply of a product more price-elastic.</b></p> <p>The production period may decrease (1) e.g. due to advances in technology (1) making it easier to alter the quantity produced (1).</p> <p>The time period available (1) easier to adjust supply in longer time period (1).</p> <p>It may become easier to store the product (1) e.g. due to the building of more storage facilities (1) making it easier to bring more products onto the market or withdraw them from the market (1).</p> <p>More sources of a raw material may be found (1) giving greater flexibility of supply (1).</p> <p>Mobility of factors of production (1) able to substitute between products being produced (1).</p> <p>Ability to source additional resources /output (1) at similar cost retaining profit margins (1).</p> <p>Lack of barriers to entry (1) enables new firms to enter the market (1).</p>	6	

Question	Answer	Marks	Guidance
5(d)	<p><b>Discuss whether a decrease in government spending will benefit an economy.</b></p> <p>Up to 5 marks for why it might:</p> <p>Lower government spending may reduce total demand (1) lower inflation / demand-pull inflation (1).</p> <p>Lower government spending on e.g. benefits, public sector wages (1) may reduce spending on imports (1) improve the current account position (1).</p> <p>Lower government spending on benefits may encourage the incentive to work (1) reduce unemployment (1).</p> <p>Lower government spending may enable the government to cut taxes (1) increase the incentive to invest (1) the incentive to work (1) disposable income increases (1) increase output (1).</p> <p>Lower government spending may allow growth of the private sector (1) by the release of resources (1).</p> <p>Up to 5 marks for why it might not:</p> <p>May cause cyclical unemployment (1) by reducing total demand (1).</p> <p>If spending on education is cut (1) may reduce the quality / skills / productivity of labour force (1) this may lower output (1) cause structural unemployment (1).</p> <p>Lower government subsidies (1) to infant industries may worsen the current account position (1) may reduce supply (1) cause cost-push inflation (1).</p> <p>Lower government spending on education and healthcare (1) may lower living standards (1) increase poverty (1).</p>	8	

Question	Answer	Marks	Guidance
6(a)	<p><b>Define 'trade protection'.</b></p> <p>Protecting domestic firms (1) from foreign competition (1).</p> <p>Helping domestic firms (1) to face foreign competition (1).</p> <p>Implementing trade barriers (1).</p> <p>Deliberate attempt to limit imports (1).</p> <p>Government action (1) that restricts international trade (1).</p>	2	No marks for examples.

Question	Answer	Marks	Guidance
6(b)	<p><b>Explain <u>two</u> advantages of countries specialising.</b></p> <p>1 mark each for each reason identified:</p> <ul style="list-style-type: none"> <li>• can concentrate on what they are best at / factor endowment</li> <li>• can reduce average costs / create economies of scale</li> <li>• can increase output/income/GDP</li> <li>• can improve quality of output.</li> </ul> <p>1 mark each for each of two reasons explained:</p> <ul style="list-style-type: none"> <li>• influenced by factor endowment</li> <li>• productivity can be increased / more price competitive / increased speed of production</li> <li>• living standards can rise</li> <li>• 'practice makes perfect'.</li> </ul>	4	<p>Do not reward 'promotes peace and friendship'.</p> <p>Reward but do not expect reference to comparative or absolute advantage.</p>
6(c)	<p><b>Analyse why developed countries usually have lower death rates than developing countries.</b></p> <p>They tend to have higher incomes per head (1) enabling them to enjoy better housing (1) better nutrition (1) better education (1) better private sector healthcare (1) people live longer (1).</p> <p>Tax revenue may be higher (1) enabling greater public sector spending on education (1) greater public sector spending on health care (1) and so longer life expectancy (1).</p> <p>Better environment / less pollution / cleaner water (1) less illness (1).</p>	6	

Question	Answer	Marks	Guidance
6(d)	<p><b>Discuss whether a rise in income tax will reduce a current account deficit.</b></p> <p>Up to 5 marks for why it might:                      A rise in income tax would reduce disposable income (1) which will lower consumer spending (1) lowering spending on imports (1).                      It may reduce spending on domestic products (1) encouraging firms to switch products to the export market (1).                      It may reduce demand-pull inflation (1) increasing international competitiveness (1).</p> <p>Up to 5 marks for why it might not:                      A rise in income tax may reduce saving rather than spending (1).                      It may be accompanied by a rise in government spending (1) leaving demand unchanged (1).                      It may increase demand for wage rises (1) which, if granted, would increase costs of production (1) making domestic products less internationally competitive (1).</p>	8	

Question	Answer	Marks	Guidance
7(a)	<p><b>Identify <u>two</u> causes of inflation.</b></p> <p>Demand-pull/consumer boom/higher government spending/increase in net exports/increase in aggregate demand (1).                      Cost-push inflation/higher wages/higher raw material costs / depreciation or devaluation of domestic currency / imported inflation (1).</p>	2	

Question	Answer	Marks	Guidance
7(b)	<p><b>Explain <u>two</u> reasons why government spending may be greater than tax revenue.</b></p> <p>1 mark each for each of two causes identified:</p> <ul style="list-style-type: none"> <li>• low level of economic activity</li> <li>• government desire to increase economic activity</li> <li>• actual government expenditure higher than planned expenditure</li> <li>• ageing population.</li> </ul> <p>1 mark each for each of two explanations of the causes:</p> <ul style="list-style-type: none"> <li>• if economic activity is low, spending on benefits may be high while, due to low incomes with low spending, tax revenue will be low</li> <li>• a government may be engaging in expansionary fiscal policy to increase total demand and raise revenue</li> <li>• planned expenditure and forecast tax revenue may not be achieved</li> <li>• more pressure on pensions and healthcare, while tax revenues may fall due to fewer workers.</li> </ul>	4	Maximum of 2 marks if explanation is restricted to either why there may be high government expenditure, or low tax revenue.
7(c)	<p><b>Analyse how an increase in labour productivity can increase living standards.</b></p> <p>Higher productivity will lower costs of production (1) may lower prices (1) enabling people to consume more goods and services (1) greater supply (1). It may increase output (1) raise employment (1) increase incomes (1) greater purchasing power (1) e.g. greater access to healthcare / education / leisure (1) live longer (1) higher HDI (1). Increase in government revenue (1) higher spending on education/healthcare (1).</p>	6	

Question	Answer	Marks	Guidance
<p>7(d)</p>	<p><b>Discuss whether monetary policy measures can increase economic growth.</b></p> <p>Up to 5 marks for why they might:                      A cut in interest rates (1) may discourage saving (1) increase borrowing (1) raise consumer spending (1) raise investment (1) increase total demand (1) increase output (1) higher investment will increase productive capacity (1).                      A reduction in the value of the exchange rate (1) will lower export prices and raise import prices (1) increasing demand for domestic products (1) increase output (1).                      An increase in the money supply (1) may stimulate higher spending (1) increasing output (1).</p> <p>Up to 5 marks for why they might not:                      Lower interest rates may not increase consumer spending and investment if confidence is low (1) households and firms may not spend extra disposable income if they think that incomes will fall in the future (1).                      A lower exchange rate will not lead to a rise in export revenue and a fall in import expenditure if demand is price-inelastic (1) there is an increase in import restrictions imposed by other countries/fall in incomes abroad (1).                      An increase in the money supply or other measure may lead to demand-pull inflation (1) the economy may not have the resources to produce more goods and services despite the rise in total demand (1).</p>	<p>8</p>	<p>Accept an argument that contractionary monetary policy leading to higher interest rates and lower domestic demand would reduce economic growth.                      Do not reward the same argument on both sides (mirror image) without additional relevant analysis.</p>



**Cambridge International Examinations**  
Cambridge International General Certificate of Secondary Education

**ECONOMICS**

**0455/11**

Paper 1 Multiple Choice

**October/November 2017**

**45 minutes**

Additional Materials: Multiple Choice Answer Sheet  
Soft clean eraser  
Soft pencil (type B or HB is recommended)

\* 8 1 2 2 6 5 7 3 7 8 \*

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- 1 An oil company announced in 2015 that it was starting its drilling operations for oil deposits in the Arctic Ocean.

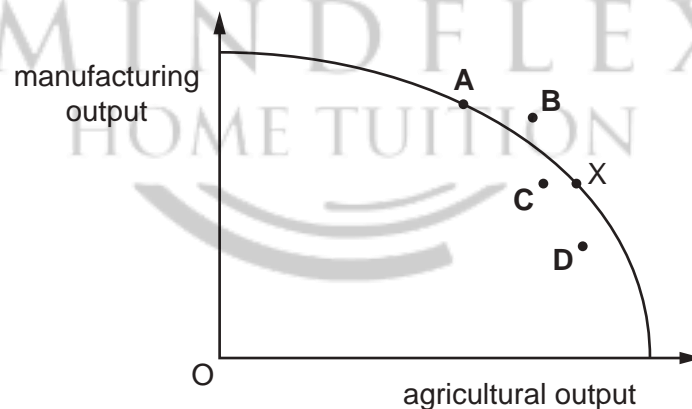
What will be the effect of this?

- A to increase the supply of raw materials
  - B to reduce the level of technology available
  - C to solve the economic problem
  - D to worsen resource allocation
- 2 A self-employed fortune teller earns a living by reading the palms of people's hands.

Which factors of production are essential to this activity?

- A capital and enterprise
  - B enterprise and labour
  - C labour and land
  - D land and capital
- 3 A country is operating at point X on its production possibility curve (PPC). A drought significantly reduces agricultural output.

Which point represents the new position?



- 4 A government needs to decide how much to fine firms for causing the external costs of air pollution in industrial areas.

Which external cost would be the most difficult to measure in monetary terms?

- A the discomfort associated with breathing
- B the expenditure on additional healthcare
- C the loss of earnings due to illness
- D the medical research into respiratory disease

5 What is an example of market failure?

- A city centre congestion
- B low economic growth
- C rising prices
- D trade deficits

6 The table illustrates the demand and supply for coffee in a market in Africa.

price per kg (\$)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40
50	10	50

When the price rises from \$20 to \$30 per kg, what is the price elasticity of demand for coffee?

- A 0.2                      B 0.5                      C 2.0                      D 5.0

7 Between 2005 and 2015 the number of late-night music clubs in the UK fell from 3144 to 1733. The causes were said to be the increase in the cost to clubs of planning regulations and the increase in alternative ways of meeting people on social media.

How would the effect of these causes be shown on a demand and supply diagram for entrance to late-night music clubs?

	planning regulations	increase in dating websites
A	movement down the supply curve	shift of demand curve to left
B	movement up the supply curve	movement up the demand curve
C	shift of supply curve to left	shift of demand curve to left
D	shift of supply curve to right	shift of demand curve to right

8 A job offers employees piecework, commission, paid holidays and a company pension.

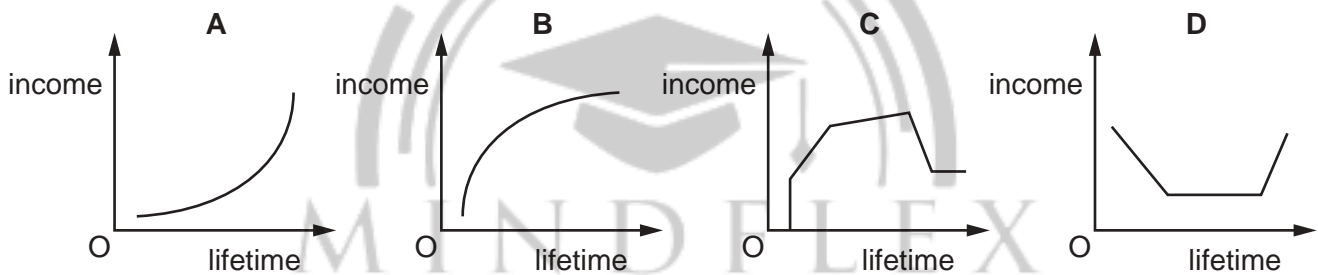
Which are non-wage factors?

- A commission and company pension
- B company pension and paid holidays
- C paid holidays and piecework
- D piecework and commission

9 When will a trade union be most likely to succeed in achieving the aims of its members?

- A when firms are trying to cut costs of production
- B when the rate of unemployment in the country is high
- C when trade union membership in the industry is compulsory
- D when workers are unskilled

10 The typical pattern of income over a person's whole lifetime is shown by which diagram?



11 When choosing an occupation people often consider things other than the wage-rate.

What would **not** be a good match for the type of work that is desired?

	desired aspect	occupation
A	detailed work; career structure	lawyer
B	outdoor lifestyle; regular hours	farmer
C	part-time hours; work with people	supermarket assistant
D	technical knowledge; responsibility	telephone engineer

12 Which is an internal diseconomy of scale?

- A a lack of communication in a firm
- B a reduction of cost by buying in bulk
- C a shortage of skilled labour in an area
- D traffic congestion in a particular area

13 What is **not** likely in an industry with many small firms?

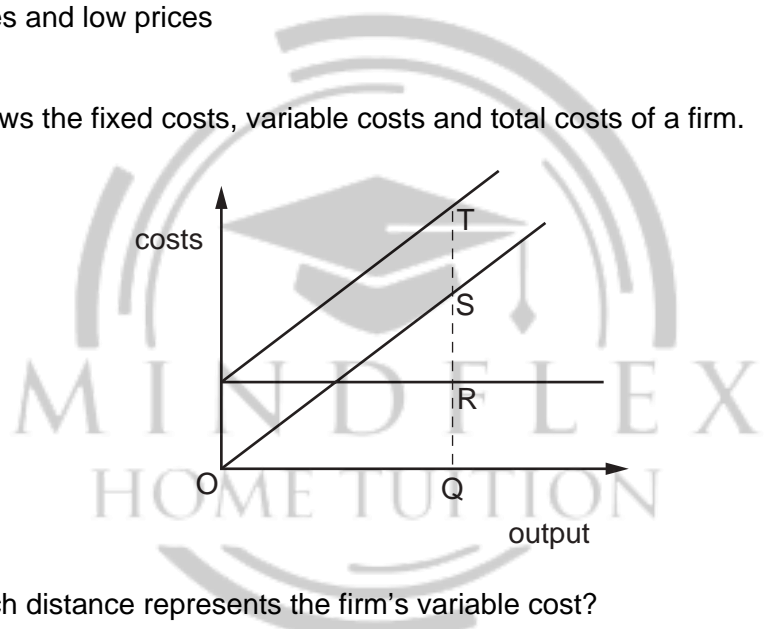
- A high capital costs
- B high level of competition
- C low barriers to entry
- D low research expenditure

14 A major computer company announced that its profits had fallen below the level predicted.

What might have caused this?

- A increased advertising costs that greatly improved sales
- B low prices that made the company's product competitive
- C new technology that reduced costs
- D reduced sales and low prices

15 The diagram shows the fixed costs, variable costs and total costs of a firm.



At output Q, which distance represents the firm's variable cost?

- A QR
- B QT
- C RT
- D ST

16 What, when increased, will help a government to reduce the rate of inflation?

- A budget deficit
- B consumer spending
- C income tax
- D pensions

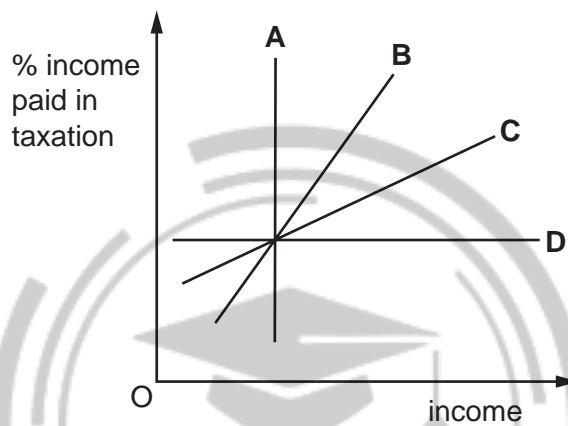
17 An economy has a deficit on its balance of trade in manufactured goods.

Which government policy will reduce this deficit?

- A a decrease in subsidies paid to local manufacturers
- B an increase in interest rates
- C an increase in sales tax on locally manufactured goods
- D an introduction of import duties on manufactured goods

18 The graph shows the percentage of income paid in taxation.

Which line represents a proportional tax?



19 What is most likely to decrease when employment increases?

- A economic growth
- B government welfare payments
- C the price level
- D the standard of living

20 Why is the Human Development Index (HDI) often considered to be better than Gross Domestic Product (GDP) per head as a measure of living standards?

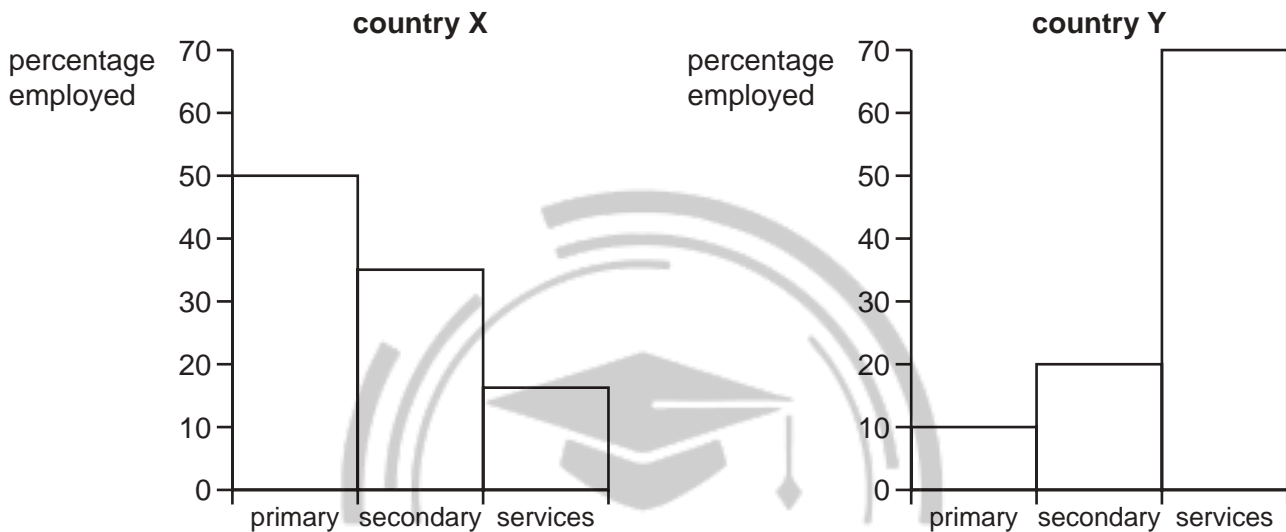
- A GDP per head excludes economic growth.
- B GDP per head ignores population growth.
- C HDI includes more than the production of goods and services.
- D HDI is calculated by the national government.

21 An economy is predicted to grow at a rate of 3% during the next year.

What is most likely to cause this growth?

- A an increase in expenditure
- B an increase in interest rates
- C an increase in sales (goods and services) tax
- D an increase in the government's budget surplus

22 The diagrams show percentage employment in different sectors in two countries.



Which statement is correct when comparing country X and country Y?

- A Country X employs more workers in secondary industry than country Y.
- B Country X produces more primary output than country Y.
- C Country Y is more developed than country X.
- D Country Y produces more secondary output than country X.

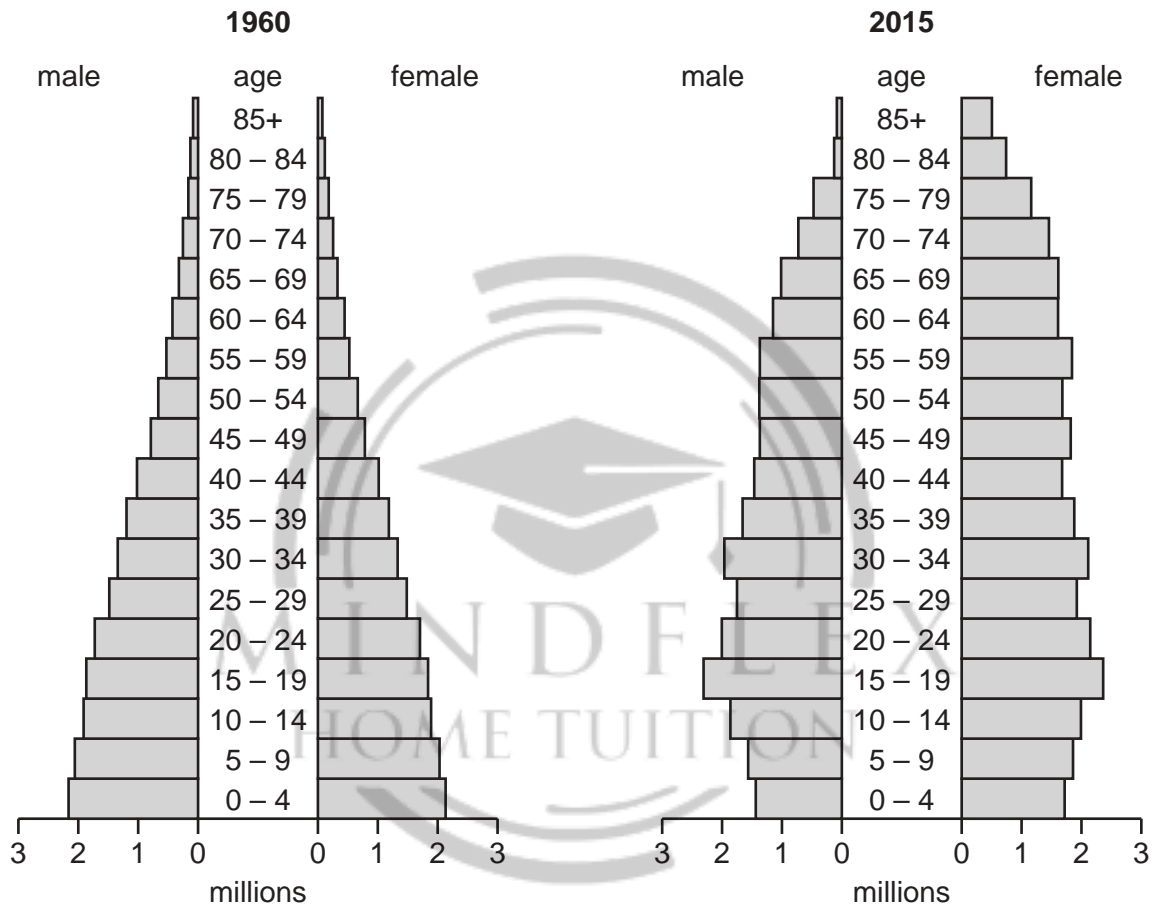
23 Which policy aims to maintain low inflation over a period of time?

- A imposing a minimum wage to be paid to workers
- B reducing interest rates to encourage borrowing
- C restricting the supply of money through the central bank
- D writing off the debts of low-income countries

24 What most accurately measures the international purchasing power of a currency?

- A the balance of payments
- B the exchange rate
- C the gross domestic product
- D the rate of inflation

25 The charts show the population structure of a country in 1960 and 2015.



What **decreased** between 1960 and 2015?

- A average age
- B number of people below 15
- C number of people over 60
- D total population

26 The table gives information about four countries.

Which country is likely to be most developed?

	life expectancy	GDP per head (US\$)	% of labour force in agriculture
<b>A</b>	52	450	50
<b>B</b>	54	490	40
<b>C</b>	60	550	15
<b>D</b>	60	500	25

27 What is a benefit of tariffs?

- A increased choice
- B increased government revenue
- C more competition
- D more trade

28 What is a country said to have if the value of its exported goods exceeds the value of its imported goods?

- A a surplus on its balance of payments
- B a surplus on its balance of trade
- C a surplus on its capital account
- D a surplus on its current account

29 An Argentine product initially sells in the US for \$50 when the exchange rate between the two countries is 5 pesos to 1 dollar

The exchange rate changes to 10 pesos to 1 dollar and the price of the product remains unchanged in Argentina.

What will be the new price of the product in the US?

- A \$5
- B \$25
- C \$100
- D \$500



30 The UK wants to increase exports to the US.

What action will achieve this?

- A borrowing US dollars from international banks
- B devaluing UK pounds against the US dollar
- C placing a quota on imports from the US
- D selling US dollars to buy UK pounds



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**Cambridge International Examinations**  
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**ECONOMICS**

**0455/12**

Paper 1 Multiple Choice

**October/November 2017**

**45 minutes**

Additional Materials: Multiple Choice Answer Sheet  
Soft clean eraser  
Soft pencil (type B or HB is recommended)

\* 2 0 9 4 1 6 3 3 3 1 \*

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1 Economists refer to factors of production.

Which is **not** a factor of production?

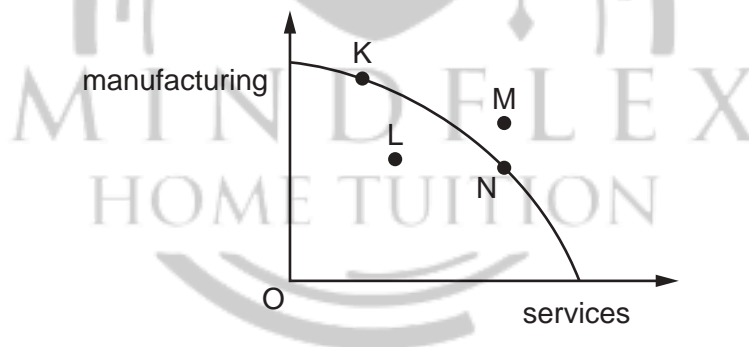
- A the fields of a farm
- B the machinery in a factory
- C the shares of a company
- D the staff in an office

2 A government allowed a building company to construct new houses which destroyed an area designated as an area of natural beauty.

Which concepts can be applied to this statement?

- A budget surplus; public sector
- B external cost; opportunity cost
- C government subsidy; mixed economy
- D private enterprise; budget deficit

3 The diagram shows a production possibility curve. The country is using all its resources to produce both manufactured goods and services.



What movement would represent an improvement of technology in manufacturing?

- A K to N
- B L to K
- C N to K
- D N to M

4 What is the government most likely to produce in a mixed economy?

- A all of the services and none of the goods
- B amounts of goods and services equal to those of the private sector
- C no goods and services
- D some of the goods and services

- 5 Which of the effects of economic development is an external cost?
- A higher employment
  - B higher fixed costs
  - C increased production
  - D increased traffic congestion

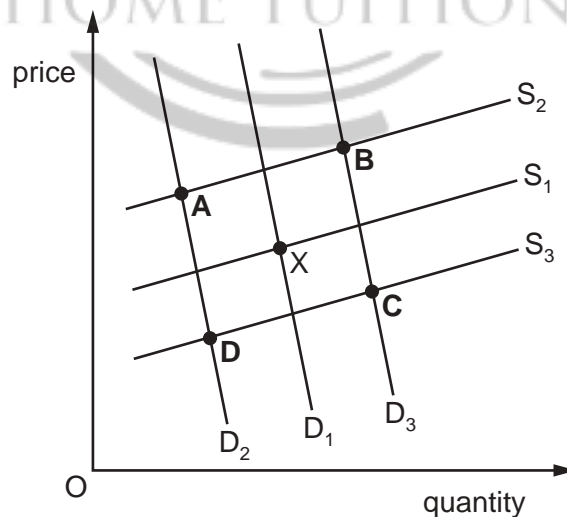
6 The table illustrates the demand and supply for coffee in a market in Africa.

price per kg (\$)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40
50	10	50

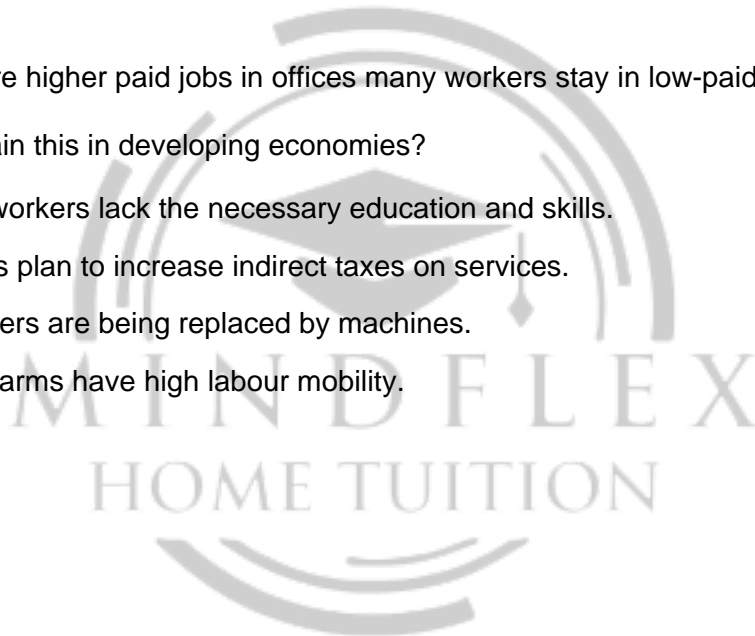
When the price rises from \$20 to \$30 per kg, what is the price elasticity of demand for coffee?

- A 0.2
  - B 0.5
  - C 2.0
  - D 5.0
- 7 It was reported that the supply of oil would be affected by the discovery of new oil fields and demand would be affected by rapid global economic growth.

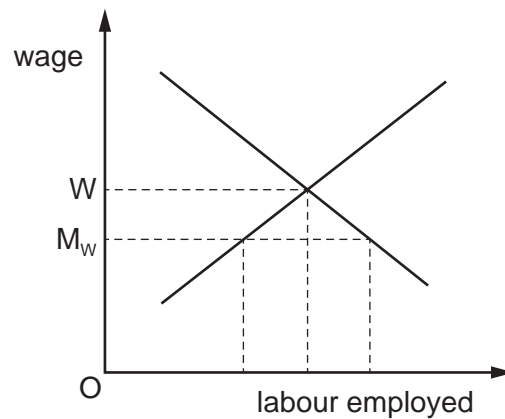
If point X is the initial equilibrium point, which point could represent the new equilibrium?



- 8 What is likely to decrease the level of saving in an economy?
- A an increase in the general level of income
  - B an increase in the number of cheap offers in shops
  - C a redistribution of income from poor to rich households
  - D a rise in the rate of interest
- 9 Which change will make a manufacturing company replace machines with labour to maintain the most efficient combination of factors of production?
- A The price of the product manufactured has increased.
  - B The productivity of labour has increased.
  - C The productivity of machinery has increased.
  - D The wages of labour have increased.
- 10 Although there are higher paid jobs in offices many workers stay in low-paid jobs on farms. What might explain this in developing economies?
- A Agricultural workers lack the necessary education and skills.
  - B Governments plan to increase indirect taxes on services.
  - C Manual workers are being replaced by machines.
  - D Workers on farms have high labour mobility.



- 11 The diagram shows two curves. One is the demand for labour, the other is the supply of labour. A government fixes a minimum wage ( $M_w$ ) that must be paid by employers.



What will be the effect of this minimum wage?

- A fewer workers will be employed
  - B no change in the market equilibrium
  - C no worker will be paid wage  $W$
  - D supply of labour will exceed demand
- 12 Which is an internal diseconomy of scale?
- A a lack of communication in a firm
  - B a reduction of cost by buying in bulk
  - C a shortage of skilled labour in an area
  - D traffic congestion in a particular area
- 13 What distinguishes a multinational company from other types of company?
- A It exports its products.
  - B It imports its raw materials.
  - C It produces outside its country of origin.
  - D It promotes its products in trade fairs abroad.
- 14 A major computer company announced that its profits had fallen below the level predicted.
- What might have caused this?
- A increased advertising costs that greatly improved sales
  - B low prices that made the company's product competitive
  - C new technology that reduced costs
  - D reduced sales and low prices



- 15 The table shows the variable costs of a firm. It can sell the units for \$5 each. Its fixed costs are \$10.

quantity produced (units)	10	11	12	13
variable cost (\$)	20	30	40	50

How many units will the firm produce to maximise profits?

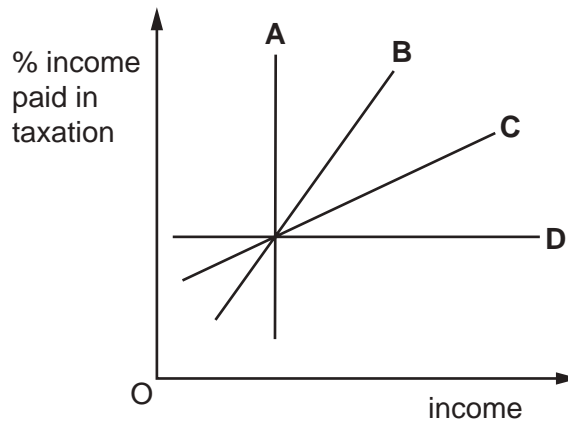
- A 10                      B 11                      C 12                      D 13
- 16 What, when increased, will help a government to reduce the rate of inflation?
- A budget deficit  
B consumer spending  
C income tax  
D pensions
- 17 The government introduces a new tax. It adds \$1 to the price of every \$10 good and \$2 to the price of every \$20 good.

What can be concluded about the nature of this tax?

	it is a direct tax	it is a specific tax	it is a progressive tax
A	no	no	no
B	no	no	yes
C	yes	yes	no
D	yes	yes	yes

18 The graph shows the percentage of income paid in taxation.

Which line represents a proportional tax?



19 A worker earns \$40 000 a year and pays 20% income tax.

He spends \$5000 on electrical goods and \$10 000 on a car, and pays 20% sales tax on each.

How much indirect tax does he pay?

- A \$3000      B \$5000      C \$8000      D \$11 000

20 Why is the Human Development Index (HDI) often considered to be better than Gross Domestic Product (GDP) per head as a measure of living standards?

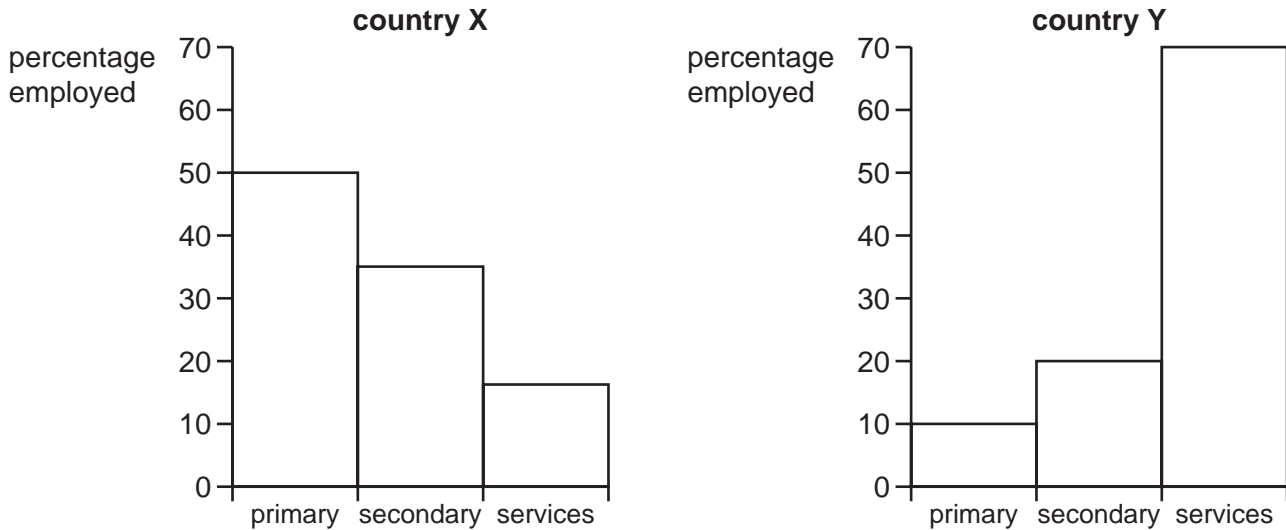
- A GDP per head excludes economic growth.  
B GDP per head ignores population growth.  
C HDI includes more than the production of goods and services.  
D HDI is calculated by the national government.

21 A finance minister reported that the economy was experiencing inflation and economic growth.

What would be evidence that both of these had occurred?

- A increased exports and increased output  
B increased imports and increased income tax  
C increased interest rates and increased net migration  
D increased prices and increased employment

22 The diagrams show percentage employment in different sectors in two countries.



Which statement is correct when comparing country X and country Y?

- A Country X employs more workers in secondary industry than country Y.
- B Country X produces more primary output than country Y.
- C Country Y is more developed than country X.
- D Country Y produces more secondary output than country X.

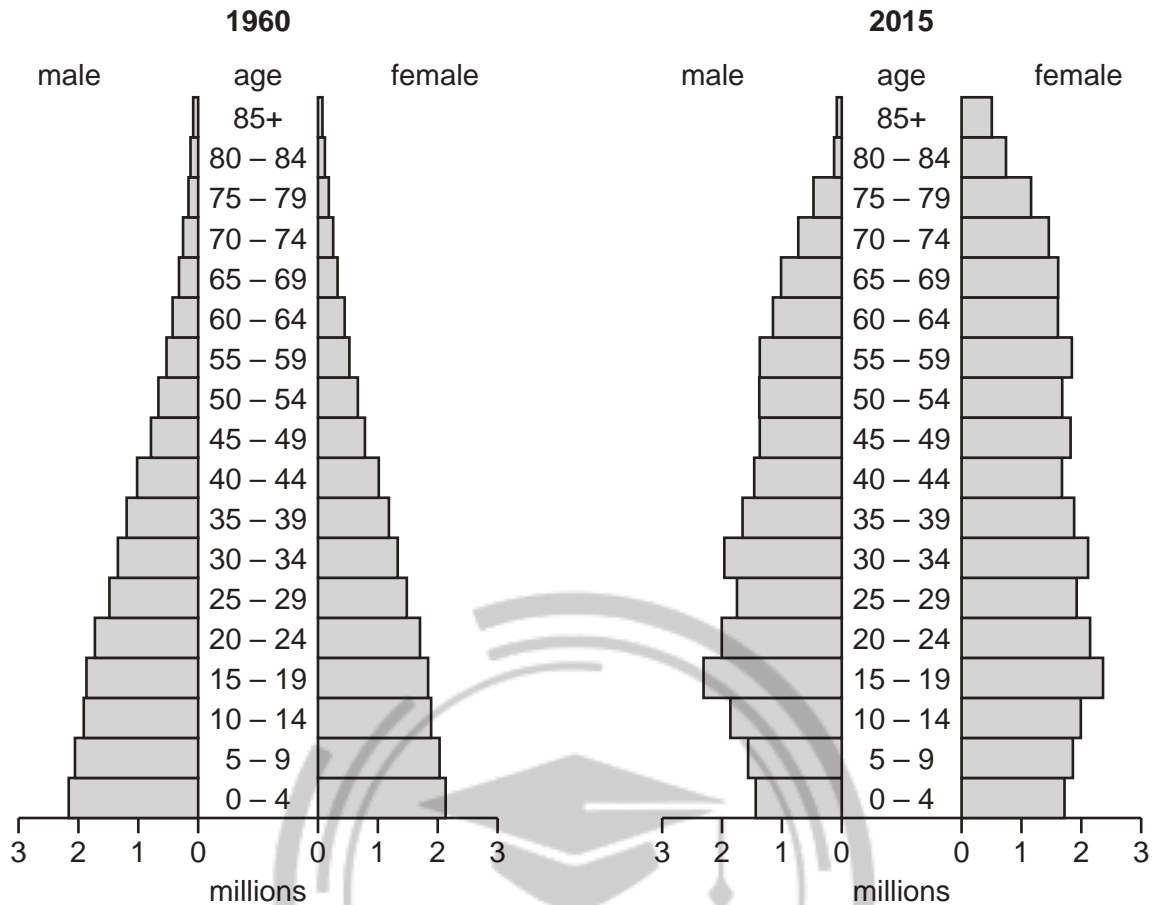
23 What would be a cause of cost-push inflationary pressure in an industry which supplies mobile (cell) phones?

- A an increase in advertising expenses for mobile phones
- B an increase in export duties on mobile phones
- C an increase in income taxes on wages of employees
- D an increase in world demand for mobile phones

24 What is most likely to cause an increase in the population growth of a developing country?

- A a decrease in immigration
- B a decrease in the birth rate
- C a decrease in the death rate
- D a decrease in the standard of living

25 The charts show the population structure of a country in 1960 and 2015.



What **decreased** between 1960 and 2015?

- A average age
- B number of people below 15
- C number of people over 60
- D total population

26 At the start of the year a developing country had a population of 1 000 000, its birth rate was 16.0 per thousand per annum and its death rate was 8.0 per thousand per annum. At the end of the year the population was 1 005 000.

What could explain this change in the population?

- A The birth rate rose.
- B The death rate fell.
- C There were 3000 emigrants.
- D There were 5000 immigrants.

- 27 What is a benefit of tariffs?
- A increased choice
  - B increased government revenue
  - C more competition
  - D more trade
- 28 Which name is given to the external value of a currency in terms of another currency?
- A the balance of trade
  - B the exchange rate
  - C the relative inflation rate
  - D the supply of money
- 29 It was reported in 2011 that the United States (US) needed to achieve a lower current account deficit.
- What would help this in the short run?
- A a protectionist policy
  - B a strong exchange rate
  - C increased private sector spending
  - D investment in the US by multinational firms
- 30 The table shows the number of units of foreign currency that the UK pound (UK£) could buy in August 2012 and August 2013.

currency	rate per UK£ August 2012	rate per UK£ August 2013
Argentine peso	7.16	8.35
South African rand	12.86	14.97
euro	1.27	1.14

What can be concluded from the table about the change in currency values between 2012 and 2013?

- A The Argentine peso appreciated against the UK pound.
- B The Argentine peso depreciated against the euro.
- C The euro depreciated against the UK pound.
- D The South African rand appreciated against the euro.

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**Cambridge International Examinations**  
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**ECONOMICS**

**0455/13**

Paper 1 Multiple Choice

**October/November 2017**

**45 minutes**

Additional Materials: Multiple Choice Answer Sheet  
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\* 4 0 0 6 1 8 5 7 8 0 \*

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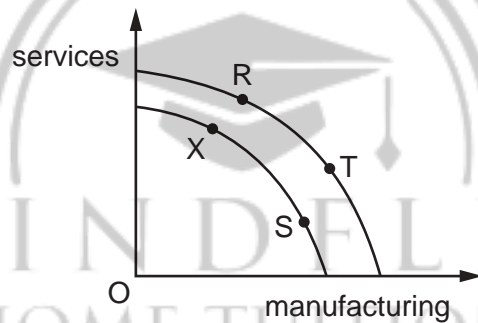
Each correct answer will score one mark. A mark will not be deducted for a wrong answer.  
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- 1 What does an economist mean by the factor of production called *capital*?
- A goods that can be used to produce other goods
  - B money used to start a business
  - C resources that cannot be replaced
  - D the profits of a company
- 2 A government decides to spend more on defence and cannot spend money on a new airport.
- Which concepts can be applied to the above statement?
- A budget surplus; external cost
  - B factor of production; private monopoly
  - C public sector; opportunity cost
  - D trade surplus; budget deficit

- 3 The diagram shows a production possibility curve diagram. A country's initial position is X.



Better manufacturing processes are introduced and the country improves its tourist facilities.

What would represent this?

- A S to T
  - B T to R
  - C X to R
  - D X to T
- 4 What might be an external cost of drinking alcohol?
- A the cost of a bottle of wine
  - B the risk of illness from drinking alcohol
  - C the risk of street violence
  - D the tax paid to the government

- 5 What is a benefit of the market system?
- A Competition ensures choice for consumers.
  - B Prices equal supply costs.
  - C Unemployment is kept to a minimum.
  - D Wage differentials are small.

- 6 The table illustrates the demand and supply for coffee in a market in Africa.

price per kg (\$)	quantity demanded (kg)	quantity supplied (kg)
10	50	10
20	40	20
30	30	30
40	20	40
50	10	50

When the price rises from \$20 to \$30 per kg, what is the price elasticity of demand for coffee?

- A 0.2
  - B 0.5
  - C 2.0
  - D 5.0
- 7 In recent years the price of crude oil on the world market has fallen dramatically. One cause has been the increase in oil obtained by the new extraction process of fracking.
- How is this shown on a demand and supply diagram of the market for crude oil?
- A a shift in the demand curve to the left
  - B a shift in the demand curve to the right
  - C a shift in the supply curve to the left
  - D a shift in the supply curve to the right
- 8 What is the best example of specialisation?
- A a diversified engineering company
  - B a general repairs handyman
  - C a self-sufficient, non-trading country
  - D an old person's helper and care assistant

- 9 Which workers are most likely to gain the highest increase in wages from a pay rise of 2%?
- A airline pilots
  - B farm workers
  - C nurses
  - D shop assistants
- 10 A female accountant in a private firm earns \$80 per hour; a male Professor of Finance in a government university earns \$40 per hour. Each works the same number of hours.

What could explain the difference in earnings?

- A It is difficult to measure the output per hour in each profession.
  - B Pay in the private sector is profit-related but is not in the public sector.
  - C Qualifications of accountants are lower than those of Professors of Finance.
  - D Women are generally given preference over men in professional jobs.
- 11 Each of the four sets of descriptions in the table refers to a person applying for a job.

Which person is likely to receive higher pay?

A	skilled	experienced	younger worker
B	skilled	inexperienced	older worker
C	unskilled	experienced	older worker
D	unskilled	inexperienced	younger worker

- 12 Which is an internal diseconomy of scale?
- A a lack of communication in a firm
  - B a reduction of cost by buying in bulk
  - C a shortage of skilled labour in an area
  - D traffic congestion in a particular area

- 13 Private multinational clothing companies operate in developing countries to reduce their average costs of production.

Which feature of developing countries attracts them for this purpose?

- A In developing countries, clothing workers receive low wages.
- B In developing countries, foreign managers are allowed to pay no income tax.
- C In developing countries, multinationals are allowed to take profits out of the country.
- D In developing countries, there is a large market for fashion clothing.

- 14 A major computer company announced that its profits had fallen below the level predicted.

What might have caused this?

- A increased advertising costs that greatly improved sales
- B low prices that made the company's product competitive
- C new technology that reduced costs
- D reduced sales and low prices

- 15 An entrepreneur buys a workshop for \$10 000 to make picture frames. In the first year he spent \$40 000 on materials and employed two workers. He paid the workers for each frame produced with a total cost of \$30 000. He bought a vehicle to deliver the frames for \$10 000.

What were his total variable costs?

- A \$40 000      B \$70 000      C \$80 000      D \$100 000

- 16 What, when increased, will help a government to reduce the rate of inflation?

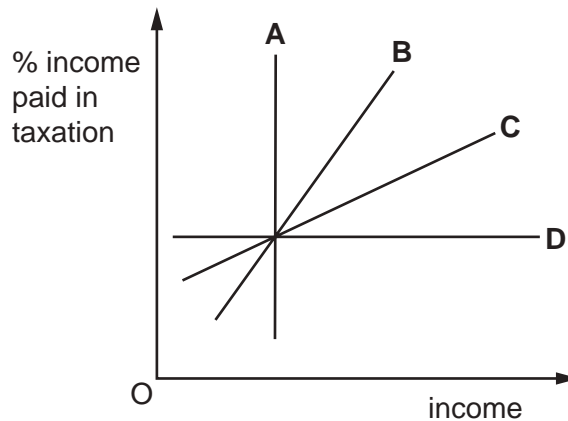
- A budget deficit
- B consumer spending
- C income tax
- D pensions

- 17 Which policy is most likely to increase the level of economic activity?

- A increasing the exchange rate
- B increasing the rate of interest
- C reducing government spending
- D reducing the general tax level

18 The graph shows the percentage of income paid in taxation.

Which line represents a proportional tax?



19 A government collects the following revenue in a year.

	\$m
customs duties	100
taxes on goods	200
taxes on income	400
taxes on services	300

What is the amount of indirect tax revenue?

- A \$200 m      B \$400 m      C \$500 m      D \$600 m

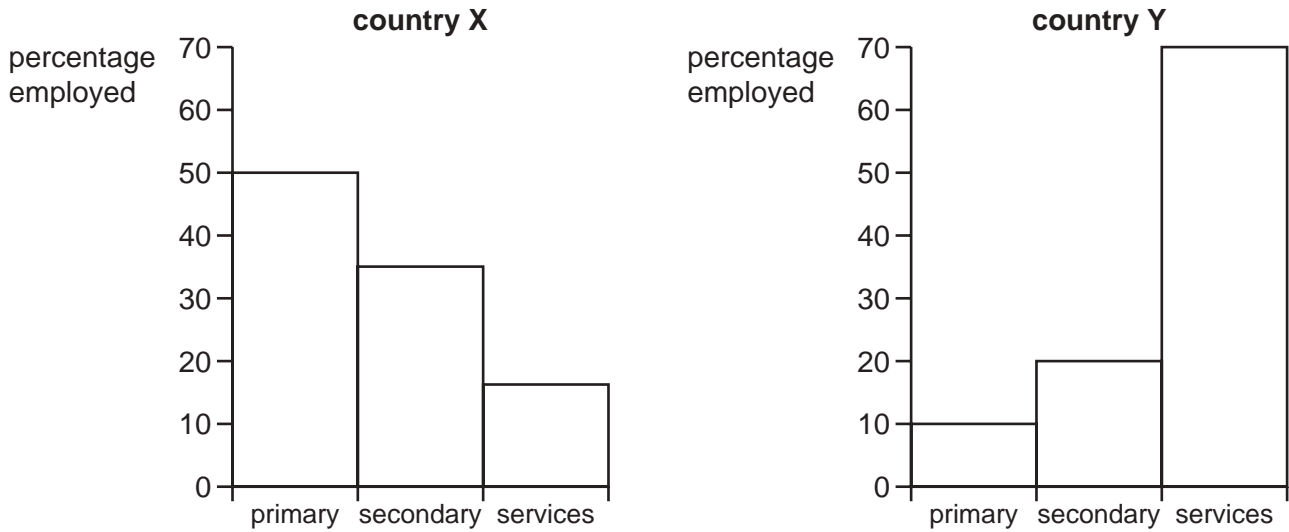
20 Why is the Human Development Index (HDI) often considered to be better than Gross Domestic Product (GDP) per head as a measure of living standards?

- A GDP per head excludes economic growth.
- B GDP per head ignores population growth.
- C HDI includes more than the production of goods and services.
- D HDI is calculated by the national government.

21 What may cause an immediate increase in the working population?

- A a higher birth rate
- B a higher death rate
- C a higher fertility rate
- D a higher rate of net immigration

22 The diagrams show percentage employment in different sectors in two countries.



Which statement is correct when comparing country X and country Y?

- A Country X employs more workers in secondary industry than country Y.
- B Country X produces more primary output than country Y.
- C Country Y is more developed than country X.
- D Country Y produces more secondary output than country X.

23 What is likely to fall when the rate of unemployment falls?

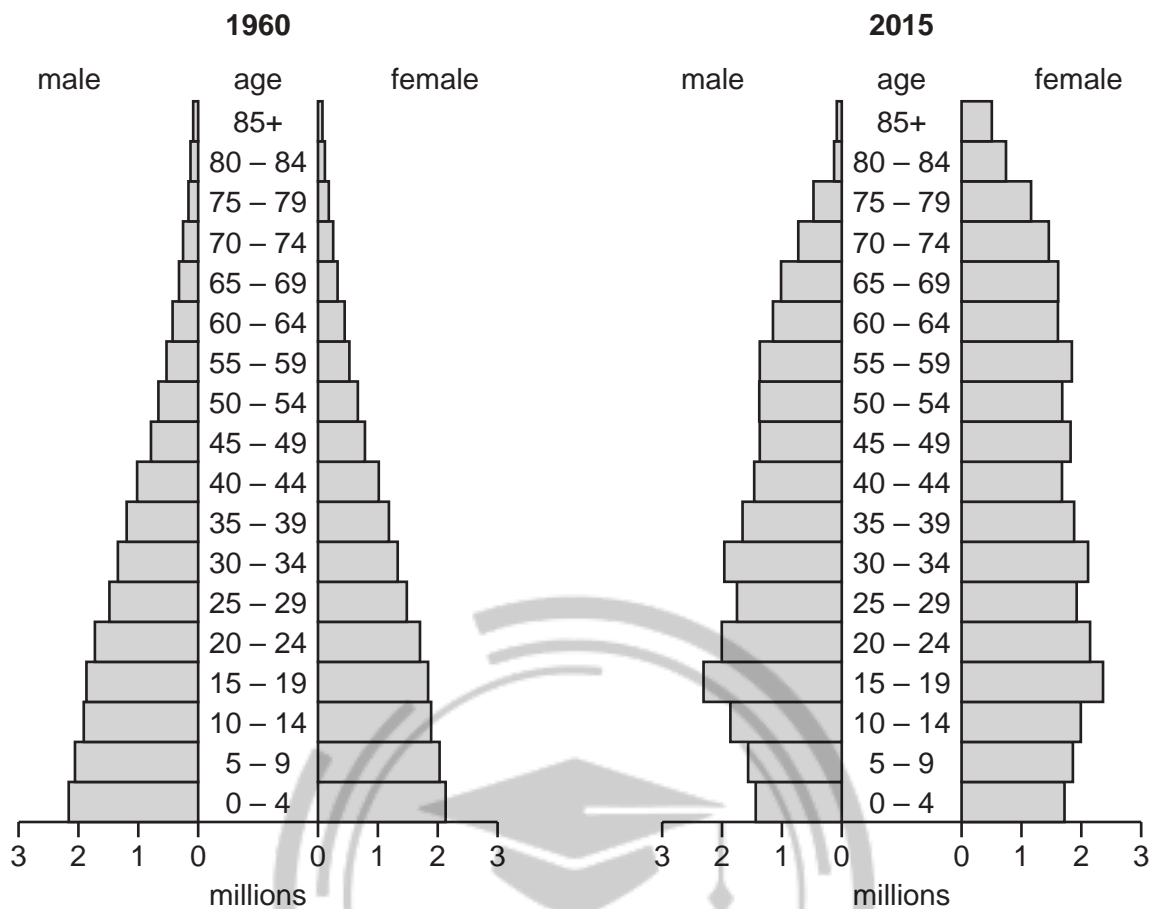
- A business confidence
- B consumer spending
- C government revenue
- D government welfare payments

24 The birth rate and death rate in a country are the same.

What is likely to happen if there is a decrease in the birth rate, while the death rate and migration remain the same?

- A population structure will remain the same
- B population will decrease
- C the standard of living will decrease
- D the working population will increase

25 The charts show the population structure of a country in 1960 and 2015.



What **decreased** between 1960 and 2015?

- A average age
- B number of people below 15
- C number of people over 60
- D total population

- 26 The table shows the Consumer Prices Index (CPI) for selected cities for August 2015 relative to New York, USA at 100.

city	CPI
Geneva, Switzerland	137
Oslo, Norway	105
Sydney, Australia	89
Singapore	88
Istanbul, Turkey	48
Johannesburg, South Africa	48
Lima, Peru	44

What can be concluded from the table?

- A** Geneva had the highest average price level.
- B** Living standards were highest in Lima.
- C** Singapore was more expensive than Oslo.
- D** The annual rate of inflation was the same in Istanbul and Johannesburg.
- 27 What is a benefit of tariffs?
- A** increased choice
- B** increased government revenue
- C** more competition
- D** more trade
- 28 What is an increase in the value of an exchange rate of a currency in a floating system called?
- A** appreciation
- B** depreciation
- C** devaluation
- D** revaluation



- 29 A developing economy has a surplus on its trade in goods of \$75 billion and a deficit on its trade in services of \$25 billion, while its current account is in overall balance.

Which values for net income (primary income) and net transfers (secondary income) result in the current account being in balance?

	net income	net transfers
<b>A</b>	deficit of \$20 billion	surplus of \$120 billion
<b>B</b>	deficit of \$30 billion	deficit of \$70 billion
<b>C</b>	surplus of \$35 billion	surplus of \$15 billion
<b>D</b>	surplus of \$40 billion	deficit of \$90 billion

- 30 What policy would encourage greater international specialisation?

- A** the promotion of industrial diversification
- B** the protection of new businesses
- C** the reduction of tariffs
- D** the subsidising of service industries



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**ECONOMICS**

**0455/21**

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**October/November 2017**

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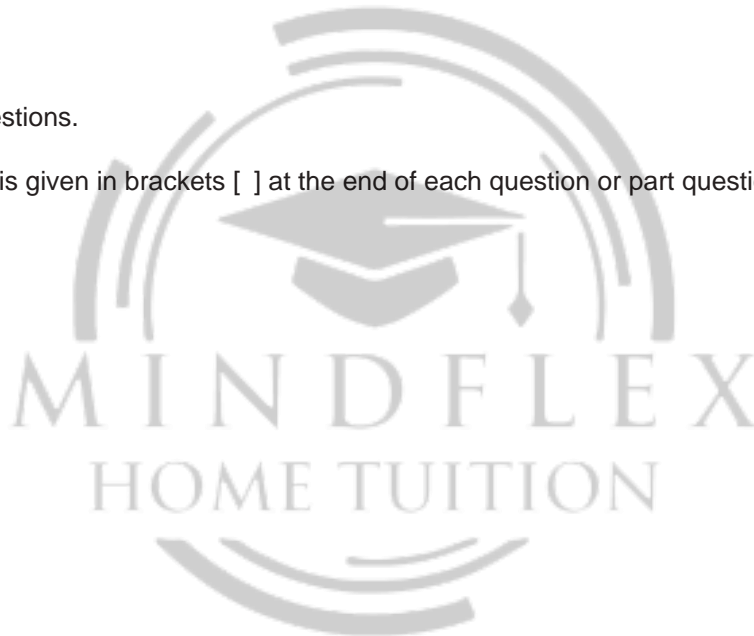
**Section A**

Answer Question 1.

**Section B**

Answer any **three** questions.

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## Section A

Answer this question.

### 1 Cigarette smoking in China

China has recently experienced rapid economic growth and an improving Human Development Index (HDI) ranking. It is, however, facing a number of health challenges. It is currently the world's largest cigarette market, with more than 350 million smokers. A higher proportion of men smoke in China than in most other countries, including Russia and the USA. While 50% of Chinese men smoke, only 2% of Chinese women smoke. It has been estimated that nearly 2 million Chinese citizens a year die from smoking-related illnesses. These include smokers and those who have suffered from passive smoking.

As well as being the largest consumer of cigarettes, China is also the world's largest producer of cigarettes. Tobacco is grown in a number of the provinces of China, including the province of Yunnan. Over 3 million workers are employed in the industry, which is increasingly using advanced technological capital equipment. However, between 2009 and 2014 the number of cigarette-producing firms declined from 200 to 40 as firms merged and grew in size.

Although revenue from taxes on cigarettes earned the Chinese Government 800 billion yuan in 2014 (5% of the government's total tax revenue), it recently introduced a number of measures to discourage smoking. It has imposed a ban on smoking in public places, hospitals, schools and public transport. Health campaigns are also being used. Such campaigns are used throughout the world both to discourage the consumption of some products that are thought to be harmful to health and to encourage the consumption of products that are considered to be beneficial to health. For example, an information campaign on the benefits of consuming fruit has met with some success in the UK. Fig. 1 shows the impact it had on the market for fruit in the UK in 2015.

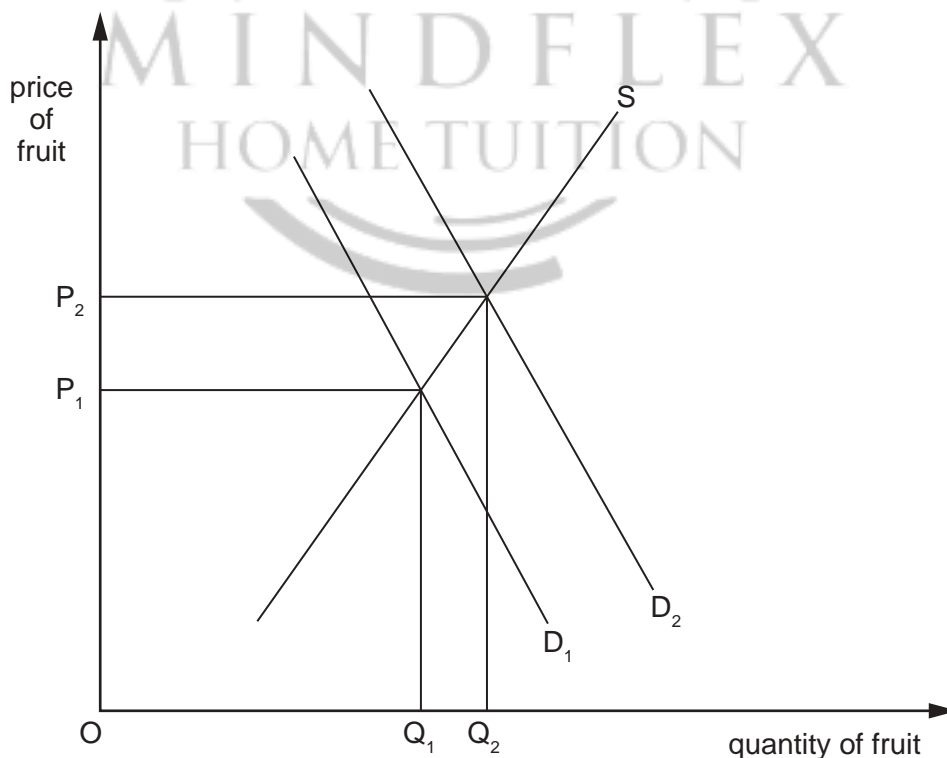


Fig. 1 The market for fruit in the UK in 2015

- (a) Identify, from the extract, **two** factors of production used in producing cigarettes. [2]
- (b) Explain **two** reasons why firms merge. [4]
- (c) Calculate, using information from the extract:
- (i) the percentage decrease in the number of cigarette firms in China from 2009 to 2014 [2]
  - (ii) the total tax revenue that the Chinese Government received in 2014. [2]
- (d) Analyse, using a production possibility curve diagram, the effect of moving factors of production from producing cigarettes to producing other products. [5]
- (e) Discuss whether people in countries with a high HDI always enjoy a high standard of living. [5]
- (f) Explain, using information from the extract and Fig. 1, what happened to the market for fruit in the UK in 2015. [4]
- (g) Discuss the arguments for and against the Chinese Government increasing the tax on cigarettes. [6]



## Section B

Answer any **three** questions from this section.

- 2 In 2015, the global equilibrium price of milk fell. As a result, the number of farms producing milk declined. Farms tried to cut costs by becoming larger and employing fewer but more specialised workers. The reduction in the number of farms has led to less competition because some large farms have gained monopoly powers in local areas. A number of farm workers switched to other jobs, but some who remained accepted a cut in pay.
- (a) Define 'equilibrium price'. [2]
  - (b) Explain **two** reasons why a worker may continue in a job despite a cut in pay. [4]
  - (c) Analyse how employing specialised workers may reduce a firm's average costs of production. [6]
  - (d) Discuss whether consumers would benefit if a firm became a monopoly. [8]
- 3 Qatar is a growing economy and has benefited from the expansion of the insurance industry. This industry is currently dominated by one firm and is a long way from perfect competition. The economy has also experienced a general increase in labour productivity. However, the nature of the relationship between free trade and economic growth is debated among economists.
- (a) Define 'perfect competition'. [2]
  - (b) Explain **two** influences on the size of firms. [4]
  - (c) Analyse the causes of an increase in labour productivity. [6]
  - (d) Discuss whether a country that engages in free trade is likely to have a higher economic growth rate than one that uses trade protection. [8]
- 4 Indonesia is rich in resources including such raw materials as copper, gold and coal. Indonesia is the second-largest exporter of coal. In 2015, the Indonesian Government was considering increasing subsidies to producers, including farmers. Subsidies can be used to reduce inflation. Recent years have seen lower direct taxes in Indonesia, but higher direct taxes in some other countries.
- (a) What is used to measure a country's inflation rate? [2]
  - (b) Explain **two** reasons for conserving resources. [4]
  - (c) Analyse how subsidies given to farmers could raise living standards. [6]
  - (d) Discuss whether a rise in direct taxes will reduce economic growth. [8]

- 5 In 2015, Venezuela was facing a number of challenges. Despite government subsidies, increases in demand meant there were shortages of food. The fall in the global price of oil increased the deficit on the current account of the country's balance of payments. Oil accounted for nearly 90% of the country's export earnings. In Venezuela, oil is produced by one large state-owned company, but the country also has many sole traders involved in other industries.
- (a) Define a 'subsidy'. [2]
- (b) Explain **two** causes of a decrease in demand for oil. [4]
- (c) Analyse the advantages of being a sole trader. [6]
- (d) Discuss whether a government should be concerned about a growing deficit on the current account of its balance of payments. [8]
- 6 In 2008, Zimbabwe reached a record high rate of inflation of 500 trillion per cent. By 2015, it had fallen so much that there was even talk of deflation. Such deflation could be very serious given the country's high rate of unemployment. Increased government spending on training is one of the policy measures that can be used to reduce both unemployment and inflation.
- (a) Identify **two** ways in which a high rate of unemployment may affect firms. [2]
- (b) Explain **two** causes of deflation. [4]
- (c) Analyse the **disadvantages** of a very high rate of inflation. [6]
- (d) Discuss whether increased government spending on training will always reduce inflation. [8]
- 7 Despite encouragement from central banks, in 2015 some commercial banks were still reluctant to lend, especially to the poor. Attracting more lenders and borrowers would have allowed commercial banks to expand and employ more workers. A rise in employment would make more use of a country's labour force. Over time, the size of a country's labour force is likely to change.
- (a) Identify **two** ways in which the expenditure patterns of the poor and the rich are different. [2]
- (b) Explain **two** reasons why a commercial bank may prefer to lend to the rich rather than to the poor. [4]
- (c) Analyse the effects that an increase in the labour force will have on an economy. [6]
- (d) Discuss whether providing loans to the poor will reduce poverty. [8]



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**0455/22**

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**October/November 2017**

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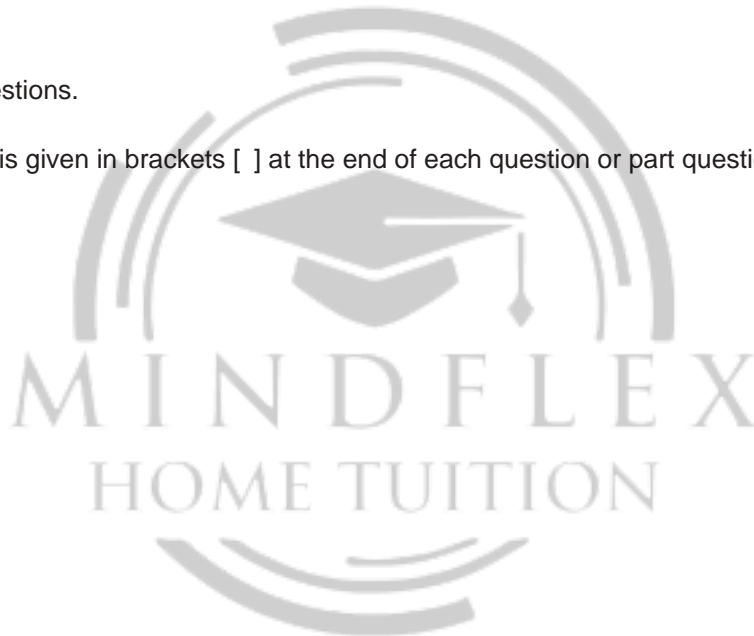
**Section A**

Answer Question 1.

**Section B**

Answer any **three** questions.

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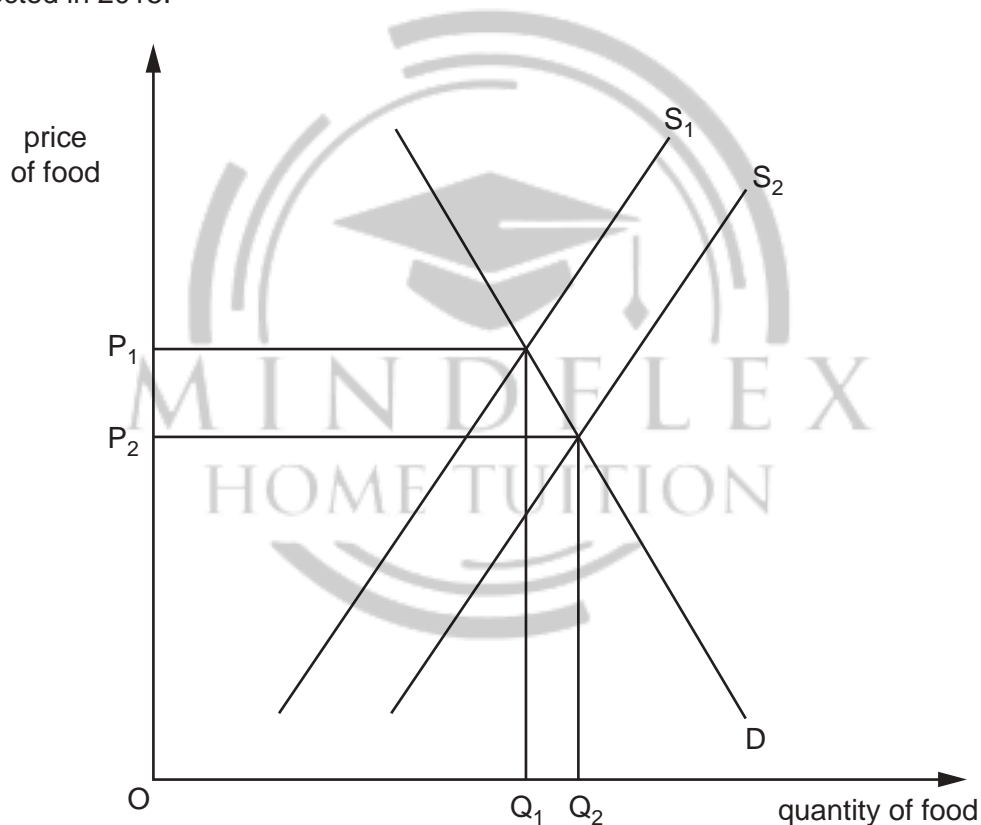
### Section A

Answer this question.

#### 1 From inflation to deflation

For some time, many central banks have tried to achieve a target inflation rate of about 2%. A small and steady rise in the price level can bring a number of benefits to an economy. For central banks and governments, the problem used to be stopping the inflation rate from going above the target rate while keeping the unemployment rate low. Now the problem has changed, and the risk is that inflation will fall below this target rate. At the end of 2014 the consumer prices index in China stood at 100.5. The inflation rate in the country in 2015 was 2%. Meanwhile, a number of countries in Europe experienced deflation. This had several consequences, including increasing the gap between the wages of skilled and unskilled workers.

One major reason for the downward pressure on inflation was a fall in the global price of oil from US\$120 to US\$66 a barrel in 2015. This reduced the price of energy and transport. Lower transport costs had a noticeable impact on the price of food. Fig. 1 shows how the market for food was affected in 2015.



**Fig. 1 The market for food in 2015**

At the same time as falling inflation, some countries experienced falling unemployment. Other countries, however, experienced both falling inflation and rising unemployment. For example, France saw unemployment rising between 2014 and 2015. This put upward pressure on French Government spending.

- (a) Identify, from the extract, **two** aims of government policies. [2]
- (b) Explain **two** problems caused by inflation. [4]
- (c) Calculate, using information from the extract:
- (i) the percentage fall in the global price of a barrel of oil in 2015 [2]
  - (ii) the consumer prices index in China at the end of 2015. [2]
- (d) Analyse why an increase in unemployment might cause an increase in government spending. [5]
- (e) Discuss whether the supply of workers for unskilled jobs will be high in a country. [5]
- (f) Explain, using information from the extract and Fig. 1, what happened to the market for food in 2015. [4]
- (g) Discuss whether a decrease in income tax would reduce deflation. [6]



## Section B

Answer any **three** questions from this section.

- 2 Singapore is usually ranked as one of the best countries in which to do business. It is an open economy engaging in free trade. It has a history of strong entrepreneurship, low unemployment, low average costs and relatively low tax rates. Its example may encourage other countries to remove trade restrictions.
- (a) Define 'average costs'. [2]
  - (b) Explain **two** factors that would increase the supply of entrepreneurs in an economy. [4]
  - (c) Analyse how the market for a product would be affected by a reduction of the tax on the product combined with a fall in the price of a complement. [6]
  - (d) Discuss whether low unemployment in a country will encourage multinational companies (MNCs) to set up there. [8]
- 3 Rich people in some countries are now working for more hours on average than poor people. One reason for this is thought to be that well-paid jobs provide more job satisfaction. Gaining enjoyment from work can lead to high labour productivity.
- (a) What is a possible opportunity cost of working? [2]
  - (b) Explain **two** reasons why older workers tend to earn more than younger workers. [4]
  - (c) Analyse, using a production possibility curve diagram, how an increase in labour productivity will affect an economy. [6]
  - (d) Discuss whether the rich in one country will save more than the rich in another country. [8]
- 4 In Pakistan there is a limited choice of cars to buy. The country has a population of approximately 190 million but only about 120 000 cars a year are produced there. The firms producing cars in Pakistan are protected from foreign competition by a range of methods of trade protection.
- (a) Name **two** factors of production used in making cars. [2]
  - (b) Explain how **two** methods of trade protection may reduce imports. [4]
  - (c) Analyse the social costs created by car production and car use. [6]
  - (d) Discuss whether demand for cars is likely to increase in the future. [8]

- 5 Nauru is one of the smallest countries in the world with a population of only 10000. Fifty years ago the population was one of the richest per head in the world, largely the result of exporting the phosphate created over many centuries by sea-bird droppings. This labour-intensive industry has declined significantly. Now incomes are much lower and one third of workers are jobless.
- (a) What is meant by a 'labour-intensive industry'? [2]
  - (b) Explain **two** reasons why a country may stop exporting a product. [4]
  - (c) Analyse the effects of an increase in unemployment on inflation. [6]
  - (d) Discuss whether having a relatively small population is an advantage or a disadvantage for an economy. [8]
- 6 Moldova has a population of 3.5 million. It is one of the poorest countries in Europe, with relatively low living standards. In 2015, the country experienced a recession and a doubling of its inflation rate. Moldova's central bank increased its interest rate from 8.5% to 15.5%.
- (a) Identify **two** influences on the size of a country's population. [2]
  - (b) Explain **two** causes of an increase in living standards. [4]
  - (c) Analyse how an increase in the rate of interest could increase unemployment. [6]
  - (d) Discuss whether a government should increase tax rates during a recession. [8]
- 7 The Gulf countries, some of which are quite specialised, import a high proportion of the food their inhabitants eat. For example, the United Arab Emirates imports 83% of all the food that it consumes. The Gulf countries are trying to reduce their reliance on imports of food.
- (a) Define 'specialisation'. [2]
  - (b) Explain **two disadvantages** that workers may experience from specialising. [4]
  - (c) Analyse how a country could reduce its reliance on imports. [6]
  - (d) Discuss whether producing more food will increase living standards. [8]



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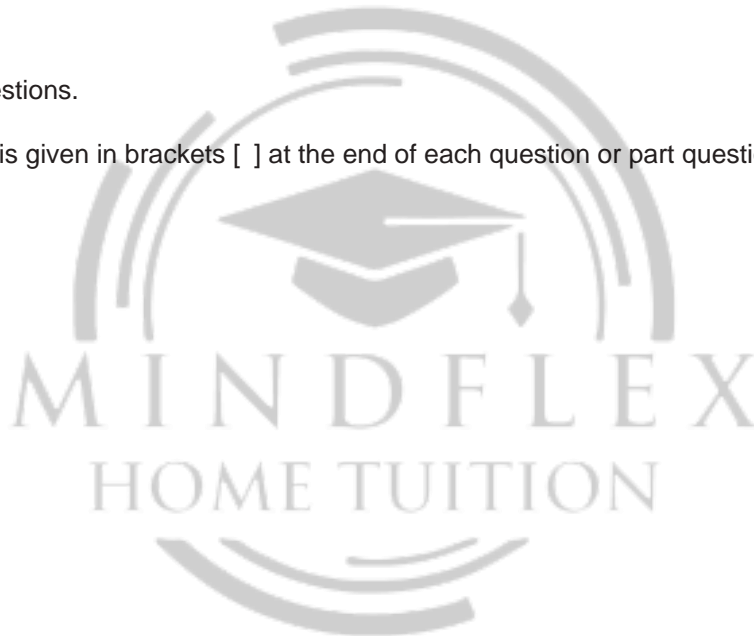
**Section A**

Answer Question 1.

**Section B**

Answer any **three** questions.

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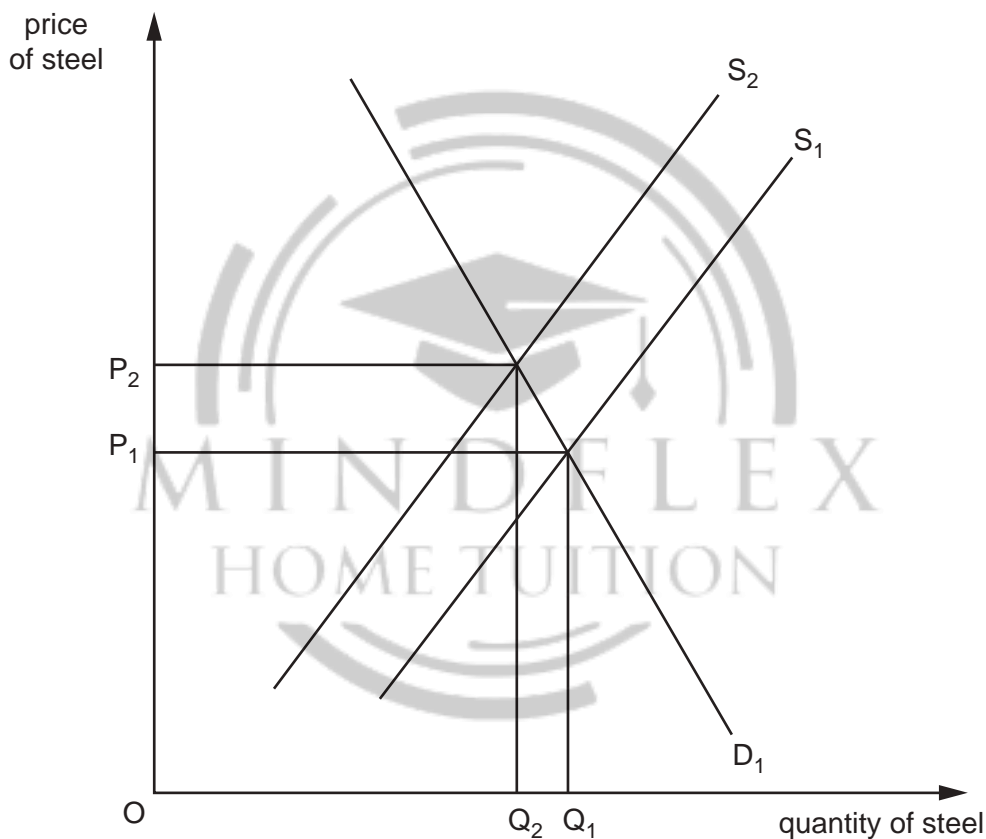
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### Section A

Answer this question.

#### 1 Changes in the global balance of economic power

In 2014, global Gross Domestic Product (GDP) stood at US\$78 000 billion. A year later it had increased to US\$80 730 billion. In the past, countries such as the USA and Germany might have been expected to have made the largest contribution to the increase in GDP. China accounted for 20% of the increase in world output in 2015. China is set to become the largest economy. It is becoming a stronger competitor in a number of markets. This increased price competitiveness is the result of a number of factors including maintaining a low exchange rate, providing subsidies to a number of industries and increased labour productivity. However, in 2015 the Chinese Government was considering whether to reduce the size of the country's steel industry, possibly by cutting the subsidy it received. Fig. 1 shows how the market for steel might be affected by such a change.



**Fig. 1 The market for steel in China in 2015**

Some developed countries have been struggling recently. For example, Australia has seen its economic growth rate declining. To try to increase domestic economic activity the Reserve Bank of Australia has cut interest rates.

Developing and emerging economies' economic growth rates are increasing. In Africa, this is in part because of the discovery and exploitation of oil and mineral resources. These countries have different exchange rate systems and have different records of success in attracting multinational companies. Many African countries use protectionist measures but some are moving towards free trade.

In most developing and emerging economies the birth rate is falling. The impact of this change is influenced by the relative size of the fall. For instance, Nauru is one of the smallest countries in the world having a population of only 10 000. Its birth rate fell from 26 to 25 in 2015.

- (a) Identify, from the extract, **two** monetary policy measures. [2]
- (b) Explain **two** causes of a fall in the birth rate. [4]
- (c) Calculate, using information from the extract:
- (i) the value in US\$ of China's contribution to global GDP growth in 2015 [2]
  - (ii) the number of children born in Nauru in 2015. [2]
- (d) Analyse, using a production possibility curve diagram, how the discovery of new oil reserves would affect an economy. [5]
- (e) Discuss whether a firm would benefit from a fall in its country's exchange rate. [5]
- (f) Explain, using information from the extract and Fig. 1, what might have happened to the market for steel in China in 2015. [4]
- (g) Discuss whether engaging in free trade increases living standards in a country. [6]



**Section B**

Answer any **three** questions from this section.

- 2 In Saudi Arabia, output of cement has risen as a result of an increase in demand from the construction industry for building houses, schools, hospitals and roads. The market for cement is also being affected by price changes, export bans and mergers between companies making cement.
- (a) Define 'demand'. [2]
  - (b) Explain **two** reasons why a country might want to restrict exports. [4]
  - (c) Analyse how information on the price elasticity of demand for its product can influence a firm's pricing decisions. [6]
  - (d) Discuss whether a merger of two firms in the same industry will be likely to reduce the price of the product. [8]
- 3 In June 2015, trade unions in Argentina demanded higher wages and lower taxes. As well as pressure for increased wages the economy was facing a number of other challenges. It was trying to promote the formation of public limited companies and economic growth.
- (a) Identify **two** reasons why governments impose taxes. [2]
  - (b) Explain **two** advantages a business organisation may gain from becoming a public limited company. [4]
  - (c) Analyse how a cut in tax rates could increase tax revenue. [6]
  - (d) Discuss whether an economy would benefit from an increase in the strength of its trade unions. [8]
- 4 In August 2015, China devalued its currency, the yuan. The Chinese Government was trying to increase output, including the output of food. It had experienced a slow-down in its economic growth. However, some other countries had actually experienced a decrease in output. One of the causes of the decline in economic growth in some countries was problems connected with their commercial banks. Some commercial banks were at risk of going out of business.
- (a) Define 'devaluation'. [2]
  - (b) Explain **two disadvantages** of a decrease in a country's output. [4]
  - (c) Analyse the effect on the market for food of an increase in population combined with a prolonged period of bad weather. [6]
  - (d) Discuss whether a central bank should lend to commercial banks which get into financial difficulties. [8]

- 5 In 2015, the island of Puerto Rico announced it was considering ending some of its trade embargoes. Its government was also reviewing the amount it was planning to spend. Incomes have been increasing in Puerto Rico with some workers doing better than others. There have also been changes on the micro level, with elasticities of demand and supply changing in some markets.
- (a) Identify **two** reasons why a government may place an embargo on the import of a product. [2]
  - (b) Explain **two** reasons why some young workers may earn more than some old workers. [4]
  - (c) Analyse the factors that can make the supply of a product more price-elastic. [6]
  - (d) Discuss whether a decrease in government spending will benefit an economy. [8]
- 6 Trade protection reduces the opportunity for countries to specialise and influences the current account positions that countries have on their balance of payments. There are differences in the amount and types of trade protection used by developed and developing countries. Developed countries also usually have a lower death rate than developing countries.
- (a) Define 'trade protection'. [2]
  - (b) Explain **two** advantages of countries specialising. [4]
  - (c) Analyse why developed countries usually have lower death rates than developing countries. [6]
  - (d) Discuss whether a rise in income tax will reduce a current account deficit. [8]
- 7 In 2015, the UK economy experienced an increase in production and relatively low unemployment. There was, however, little growth in labour productivity and earnings. The government continued to spend more than it was receiving in tax revenue and considered changing some of its monetary policy measures.
- (a) Identify **two** causes of inflation. [2]
  - (b) Explain **two** reasons why government spending may be greater than tax revenue. [4]
  - (c) Analyse how an increase in labour productivity can increase living standards. [6]
  - (d) Discuss whether monetary policy measures can increase economic growth. [8]



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