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Cambridge IGCSE™

ECONOMICS

0455/11

Paper 1 Multiple Choice

October/November 2020

45 minutes

You must answer on the multiple choice answer sheet.

You will need: Multiple choice answer sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

INSTRUCTIONS

- There are **thirty** questions on this paper. Answer **all** questions.
- For each question there are four possible answers **A, B, C** and **D**. Choose the **one** you consider correct and record your choice in soft pencil on the multiple choice answer sheet.
- Follow the instructions on the multiple choice answer sheet.
- Write in soft pencil.
- Write your name, centre number and candidate number on the multiple choice answer sheet in the spaces provided unless this has been done for you.
- Do **not** use correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 30.
- Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
- Any rough working should be done on this question paper.

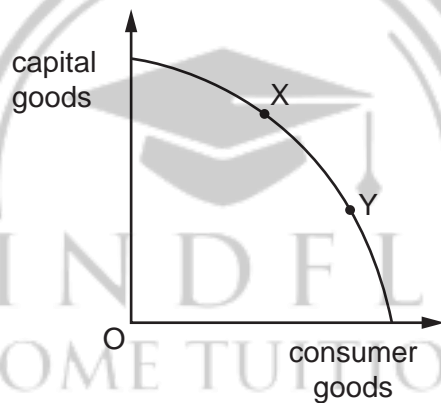
This document has **12** pages. Blank pages are indicated.



- 1 What is the basic economic problem?
 - A excess supply of goods and services
 - B lack of profits
 - C recession
 - D scarcity of resources

- 2 On which factor of production does innovation directly depend?
 - A decisions of entrepreneurs
 - B high inputs of capital
 - C long hours of manual labour
 - D plentiful supplies of land

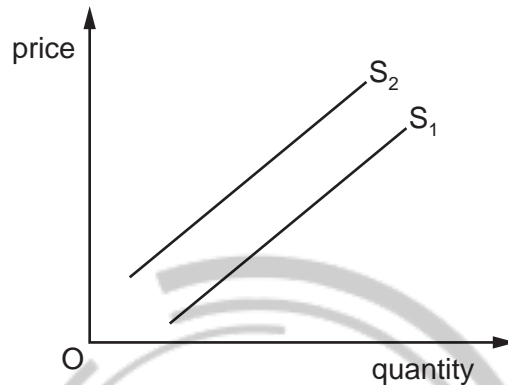
- 3 The diagram shows an economy's production possibility curve (PPC). The economy moves from point X to point Y.



What is the **most** likely effect of this change?

- A Different quantities of the goods are produced.
 - B More people are employed.
 - C There is an immediate fall in gross domestic product.
 - D There is an increase in investment.
-
- 4 Which person makes macroeconomic decisions?
 - A a bank manager
 - B a government finance minister
 - C a shareholder in a firm
 - D a worker

- 5 What is a function of the price mechanism?
- A to allocate goods and services
 - B to calculate national expenditure
 - C to ensure an equal distribution of income
 - D to guide government policy decisions
- 6 The diagram shows a shift in the supply curve for cars in China from S_1 to S_2 .



What is the **most** likely cause of this shift in the supply curve?

- A an increase in an indirect tax on petrol in China
 - B an increase in the price of cars in China
 - C an increase in the wages of Chinese car workers
 - D a new subsidy given to Chinese car manufacturers
- 7 The price elasticity of supply of a good is 2. The price of the good then falls by 10%.
- What is the effect on quantity supplied?
- A It falls by 0.2%.
 - B It falls by 20%.
 - C It increases by 0.2%.
 - D It increases by 20%.

- 8 A German car manufacturer builds a factory in India. A group of Indian workers at the factory join a trade union.

What would this trade union be expected to do for the workers?

- A Encourage the workers to bargain individually with the employer.
 - B Negotiate with the German government on tariff reductions for Indian-produced cars.
 - C Promote an advertising campaign to sell more Indian cars.
 - D Protect the workers against unfair dismissal by the employer.
- 9 Why do women, on average, earn less than men?
- A Women may be less able than men.
 - B Women are not eligible for government jobs.
 - C Women may not work as hard as men.
 - D Women often face discrimination in the workplace.
- 10 The table shows how household spending changes with income.

income (\$ per month)	spending (\$ per month)
3000	3150
3300	3375
3600	3500
3900	3825
4200	4050
4500	4275

What is the lowest level of income at which savings are positive?

- A \$3000
 - B \$3600
 - C \$3900
 - D \$4200
- 11 What can a central bank increase in order to reduce consumer borrowing?
- A commercial bank deposits
 - B government spending
 - C the exchange rate
 - D the rate of interest

- 12 In the short run, a firm calculates its total fixed cost, total variable cost and total cost. It then plots a graph showing how they change as output increases.

What happens to the lines showing the total variable cost and total cost as output increases?

- A They merge to become one curve.
- B They move closer together.
- C They move further apart.
- D They remain a constant distance apart.

- 13 A firm has fixed costs of \$1000. The table shows the variable cost at different levels of output.

output (units)	1	2	3	4
variable cost (\$)	100	190	270	350

If the goods are sold for \$500 each, how much profit will be made from the sale of 4 units?

- A \$650 B \$1000 C \$1650 D \$2000

- 14 When is it **most** likely that the demand for labour in an industry increases?

- A When the demand for the industry's product increases.
- B When the level of immigration into the country increases.
- C When the level of qualifications needed to work in the industry decreases.
- D When the level of wages paid in the industry increases.

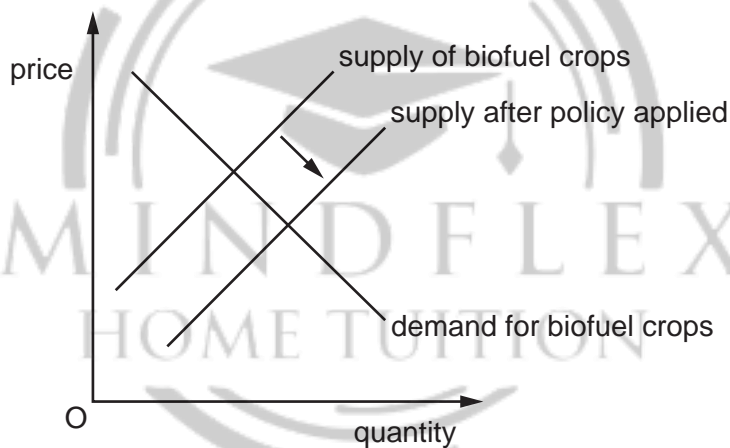
- 15 What could cause internal diseconomies of scale for a firm?

- A a fall in demand for the products produced by the firm
- B a merger with another firm that results in slower decision-making
- C spending more on research and development to create new products
- D the lack of skilled labour in the geographical area where the firm is based

- 16 What are two aims that a government normally pursues when managing the performance of the whole economy?

- A to encourage an increase in production and to prevent high inflation
- B to ensure no one is unemployed and to reduce exports
- C to give everyone equal incomes and to increase government revenue
- D to protect the environment and to reduce interest rates

- 17 What is **most** likely to be the responsibility of a central government?
- A the provision of immigration officials at an airport
 - B the provision of security cameras in a shopping centre
 - C the provision of security staff at a bank
 - D the provision of ticket inspectors on a train
- 18 Which measure would indicate that an expansionary fiscal policy is being used by the government?
- A cuts in government spending
 - B higher interest rates
 - C lower interest rates
 - D lower taxes
- 19 The diagram shows how a government policy influences the market for biofuel crops in the private sector.



According to the diagram, which policy does the government use and what effect does it have on the market?

	policy	effect
A	subsidy	increases supply
B	subsidy	lowers quantity demanded
C	tax	decreases demand
D	tax	increases supply costs

20 Some governments in the European Union are trying to reduce unemployment.

What should increase to achieve this?

- A imports of goods
- B interest rates
- C public sector spending
- D taxation of firms

21 In 2016, Romania had an increase in its real gross domestic product of 4.8%.

What must this mean about the Romanian economy?

- A Living standards increased by 4.8%.
- B Total consumer income increased by 4.8%.
- C Total output of all goods and services adjusted for inflation increased by 4.8%.
- D Total output of manufactured goods adjusted for inflation increased by 4.8%.

22 An economy is experiencing rising prices.

Which government policy will help reduce consumer expenditure?

- A introducing compulsory saving for income earners
- B investing more in building infrastructure
- C issuing more banknotes and coins
- D reducing indirect taxes

23 Some goods take a greater percentage of a typical household's total spending than others.

How is this accounted for in the construction of a consumer prices index?

- A by deducting the goods
- B by giving a weight to the goods
- C by taking an average of price fluctuations during a year
- D by using the price elasticity of demand for the goods

24 A low-income country experiences extreme poverty in its rural areas.

What is a possible cause of this?

- A development of better irrigation techniques
- B distribution of international food aid
- C high trade barriers imposed by high-income countries
- D higher prices for agricultural produce

25 Which factor in the world's low-income countries limits their economic development?

- A balance of payments surpluses
- B high saving ratios
- C large inflows of foreign investment
- D rapid population growth

26 The table shows the percentage employment in the primary, secondary and service sectors in four countries.

Which country is likely to be the **most** developed?

country	percentage employment		
	primary sector	secondary sector	service sector
A	10	35	55
B	20	60	20
C	35	35	30
D	40	40	20

27 A government is faced with an unwanted deficit on the current account of its balance of payments.

Which action is **most** likely to reduce the deficit?

- A raising government spending on welfare benefits
- B reducing income tax
- C restricting imports by raising tariffs
- D revaluing its currency

28 What is meant by a depreciation in the foreign exchange rate?

- A The government intervenes to reduce the exchange rate of the country's currency.
- B The rate of exchange of exports for imports for a country deteriorates.
- C The rate of inflation in a country continues to rise.
- D The value of a country's currency falls on the international exchange market.

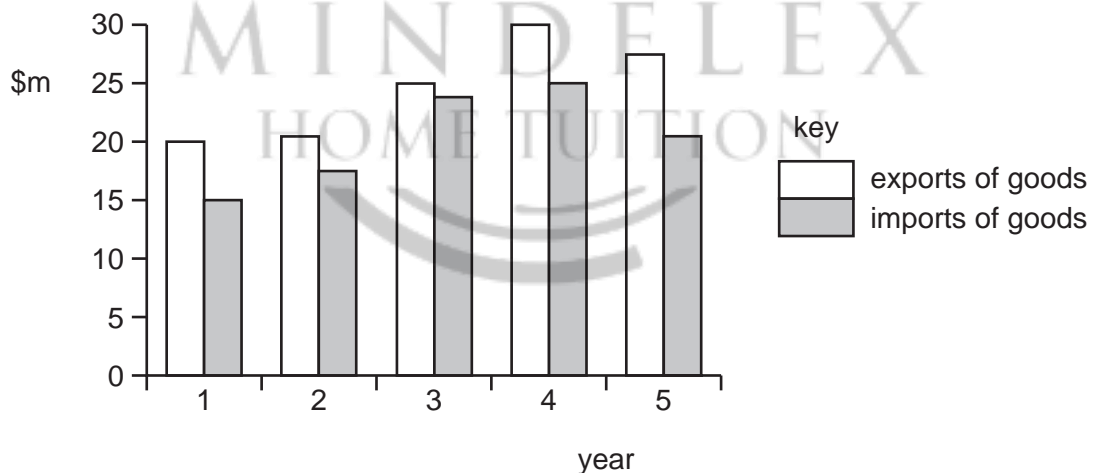
29 The table shows information from a country's current account of its balance of payments.

	\$ billion
exports of goods	20
imports of goods	24
net services	+5
net primary income	-8
net secondary income	-8

What is the country's current account balance?

- A +\$1 billion B -\$4 billion C -\$7 billion D -\$15 billion

30 The diagram shows the value of a country's exports and imports of goods over five years.



Between which two years did the country have an increase in the value of imports and an improvement in its balance of trade in goods?

- A 1 and 2 B 2 and 3 C 3 and 4 D 4 and 5

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Cambridge IGCSE™

ECONOMICS

0455/11

Paper 1 Multiple Choice

October/November 2020

MARK SCHEME

Maximum Mark: 30

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This document consists of **3** printed pages.

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

Question	Answer	Marks
29	D	1
30	C	1





Cambridge IGCSE™

ECONOMICS

0455/21

Paper 2 Structured Questions

October/November 2020

2 hours 15 minutes



You must answer on the enclosed answer booklet.

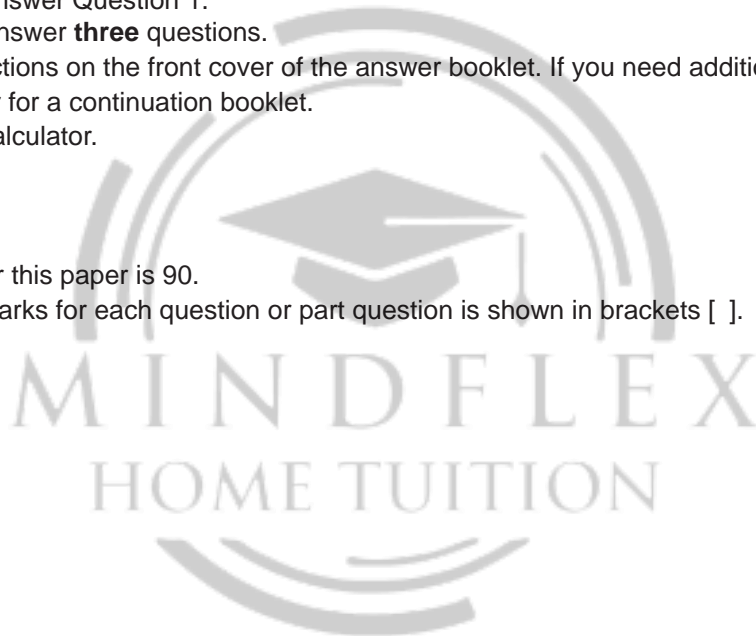
You will need: Answer booklet (enclosed)

INSTRUCTIONS

- Answer **four** questions in total:
 - Section A: answer Question 1.
 - Section B: answer **three** questions.
- Follow the instructions on the front cover of the answer booklet. If you need additional answer paper, ask the invigilator for a continuation booklet.
- You may use a calculator.

INFORMATION

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [].



This document has **8** pages. Blank pages are indicated.

Section A

Read the source material carefully before answering Question 1.

Source material: Istanbul's geographical advantage

Istanbul fact file	2014
Population	14 million
Output per head	\$6858
Total output	\$96 billion
Istanbul's output contribution to Turkey's total output (%)	30%

Istanbul is Turkey's largest city by population size. In 2014, its population was approximately 14 times more than it was in 1955. This could be due to increased migration from rural areas to cities and improved healthcare. Istanbul also has the highest output per head of all regions in Turkey.

Good transport links have contributed to Istanbul's economic growth. In addition to good land transport, Istanbul is also home to the 14th largest airport in the world, measured by passenger numbers. From Istanbul, there is access to a market of \$24 trillion with 1.5 billion people within a flight time of 4 hours. In addition to affordable international air travel to and from Istanbul, domestic air travel is also very affordable. This is most likely due to economies of scale. There is also a high level of competition in this industry which influences prices and quality of service. The growth in transport industries, along with growth of financial services, has contributed greatly to Istanbul's growth rate as shown in Table 1.1.

Table 1.1 The percentage growth of Istanbul's service sector and the percentage growth of Istanbul's total output 2010–2014

Year	% growth of Istanbul's service sector	% growth of Istanbul's total output
2010	11.9	14.4
2011	28.2	21.9
2012	15.3	16.0
2013	14.2	16.1
2014	13.6	12.7

Foreign investment is flowing into Istanbul. Multinational companies (MNCs) are finding Istanbul an attractive city to invest in because of the low cost of living. These MNCs are affecting employment, the level of technology and wages in Istanbul.

However, there is worry that such confidence in the Turkish economy may not last. Many companies have depended on borrowing for expansion. Increased interest rates around the world may make it harder for such companies to continue borrowing and also to attract new customers. If there are greater worries about safety for tourists in Turkey in the future, this may cause fewer people to book flights to Turkey.

Answer all parts of Question 1. Refer to the source material in your answers.

- 1 (a) Calculate Turkey's total output. [1]
- (b) Identify **two** factors that affect borrowing in an economy. [2]
- (c) Explain the relationship between the growth of Istanbul's service sector and its growth in total output. [3]
- (d) Explain **two** reasons for Istanbul's increased population. [4]
- (e) Analyse how good transport links have contributed to Istanbul's economic growth. [4]
- (f) Draw a demand and supply diagram to show the effects on flights to Turkey of greater worries about safety for tourists. [4]
- (g) Discuss whether or not Istanbul benefits from investment by MNCs. [6]
- (h) Discuss whether or not competition is beneficial for airlines. [6]



Section B

Answer any **three** questions.

Each question is introduced by stimulus material. In your answer you may refer to this material and/or to other examples that you have studied.

- 2 The election of a new president in South Africa in 2018 led to improvement in business and consumer confidence. Inflation rates fell despite a rise in total demand. One government policy measure established areas known as economic zones where firms pay lower, or no, taxes. These zones encourage domestic firms to become internationally competitive which could reduce the deficit on the current account of South Africa's balance of payment.
- (a) State **two** components of the current account. [2]
 - (b) Explain why inflation may fall even if there is an increase in total demand. [4]
 - (c) Analyse how a country's current account deficit might be reduced if its firms become internationally competitive. [6]
 - (d) Discuss whether or not lower taxes on firms will be beneficial for an economy. [8]
- 3 Among the reasons for Malaysia's continued economic growth are rises in consumer spending and the country's ability to adapt to changes in global demand. For example, when the price of natural rubber fell, most rubber plantations changed to palm oil production. The government has tried to promote the growth of different sectors, including the primary sector.
- (a) State **two** sectors, other than the primary sector, in an economy. [2]
 - (b) Explain **two** possible reasons for a fall in the price of a product such as natural rubber. [4]
 - (c) Analyse the influences on spending. [6]
 - (d) Discuss whether or not the growth of the primary sector is beneficial to a country. [8]
- 4 South east Asian countries have reduced tariffs between themselves through the ASEAN Free Trade Agreement. ASEAN member countries are also removing non-tariff methods of protection. The intention is to raise economic growth through more international trade. This should enable small and medium-sized firms in ASEAN countries to grow and increase their exports.
- (a) Define *tariffs*. [2]
 - (b) Explain **two** non-tariff methods of protection. [4]
 - (c) Analyse, using a production possibility curve (PPC) diagram, the beneficial effects for a country of the growth of its small and medium-sized firms. [6]
 - (d) Discuss whether or not increased international trade can promote economic growth. [8]

- 5 Free trade has allowed the Mexican economy to specialise in low-cost manufacturing. Unemployment nationally is relatively low, but approximately 50 million people were still considered to be in poverty in 2016. In addition, there are worries that technological advances will soon replace labour with capital.
- (a) State the rewards for labour and capital. [2]
- (b) Explain the **two** types of poverty. [4]
- (c) Analyse how firms can benefit from specialisation. [6]
- (d) Discuss whether or not supply-side policy measures can reduce unemployment. [8]



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Cambridge IGCSE™

ECONOMICS

0455/21

Paper 2 Structured Questions

October/November 2020

MARK SCHEME

Maximum Mark: 90

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2020 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **18** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

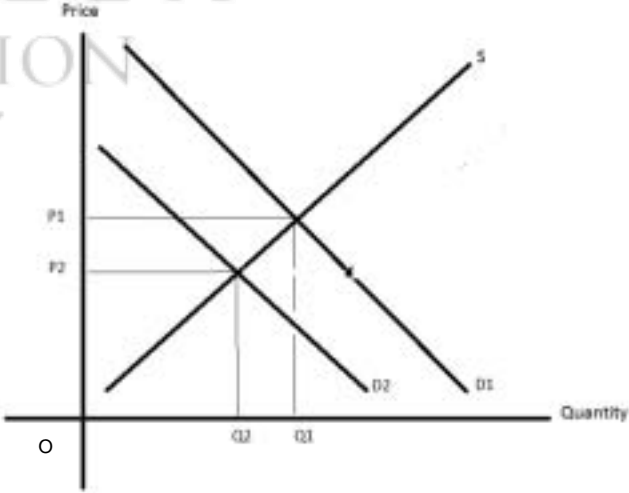
GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks	Guidance
1(a)	Calculate Turkey's total output. \$320 billion	1	
1(b)	Identify <u>two</u> factors that affect borrowing in an economy. <ul style="list-style-type: none"> • interest rates • confidence levels • wages / incomes 	2	
1(c)	Explain the relationship between the growth of Istanbul's service sector and its growth in total output. Logical explanation which might include: Higher growth in service sector leads to higher total economic growth (1). This is expected as countries become more developed, the share of services increases (1) and the share of primary sector decreases (1). For example, in 2011, the service industry grew most rapidly at 28.16% and the total economic growth was 21.9% (1). However, although growth of service sector was lowest in 2010 at 11.9%, total growth was 14.38% (1), higher than in 2014 where growth of service sector was higher (1).	3	
1(d)	Explain <u>two</u> reasons for Istanbul's increased population. Logical explanation which might include: People moving from rural areas to the city centre (1) e.g. for higher wages / more employment opportunities / better housing / low cost of living / good transport links (1). Improved healthcare (1) longer life expectancy / lower infant mortality / higher quality of life (1).	4	One mark for each of two reasons identified and one mark for each of two explanations.

Question	Answer	Marks	Guidance
1(e)	<p>Analyse how good transport links have contributed to Istanbul’s economic growth.</p> <p>Coherent analysis which might include: Good roads could lead to reduction in commute time (1) good roads / air transport leads to faster transport of goods and services (1). Workers can move easily / higher labour mobility (1) reduce unemployment (1). More competition in the labour market (1) more competition in the product market (1) could lead to fall in cost of production (1) increase in productivity (1). Easy to conduct business internationally due to good air transport links (1) access to huge international market (1) e.g. 1.5 billion people within a flight time of 4 hours (1) may have attracted MNCs (1). Contributed to the growth of the transport industry (1) allowing transport firms to take greater advantage of economies of scale (1).</p>	4	
1(f)	<p>Draw a demand and supply diagram to show the effects on flights to Turkey of greater worries about safety for tourists.</p> <p>Up to 4 marks for the diagram: Axes correctly labelled – price and quantity or p and q (1) Original demand and supply curves correctly labelled (1) Demand curve shifts to the left (1) Equilibriums – shown by lines P₁ and Q₁ and P₂ and Q₂, or by labelling equilibrium points as E₁ and E₂ (1).</p>	4	

Question	Answer	Marks	Guidance										
1(g)	<p>Discuss whether or not Istanbul benefits from investment by MNCs.</p> <p>Up to 4 marks for why it may be beneficial: Increased investment leads to increased total demand (1) leads to economic growth (1). Increase demand for workers in Istanbul (1) decreasing unemployment rates (1) increasing incomes (1) and increasing standards of living (1). Bring new / better technology (1) increase productive capacity / productivity (1) Increase variety of products on sale (1) produce new products (1) Increase tax revenue (1) allowing local government to spend more on e.g. roads (1).</p> <p>Up to 4 marks for why it may not be beneficial: Replace domestically owned firms in Istanbul / decrease demand for domestic firms (1) MNCs may be more efficient than domestic firms (1) leading to failure of domestic firms / decrease demand for domestic firms (1) monopoly of MNCs (1). Profits leave the country (1) not reinvested domestically (1). MNCs may exploit workers (1) such as low wages (1) poor working conditions (1). MNCs may exploit environment (1) e.g. pollution (1).</p>	6	<p>Apply this example to all questions with the command word DISCUSS (1(g), 1(h), 2(d), 3(d), 4(d) and 5(d))</p> <p>Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is rewarded.</p> <table border="1" data-bbox="1256 451 2056 1046"> <thead> <tr> <th data-bbox="1256 451 1951 517">Generic example</th> <th data-bbox="1951 451 2056 517">mark</th> </tr> </thead> <tbody> <tr> <td data-bbox="1256 517 1951 592">Tax revenue may decrease ...</td> <td data-bbox="1951 517 2056 592">1</td> </tr> <tr> <td data-bbox="1256 592 1951 692">... because of reason e.g. incomes may be lower.</td> <td data-bbox="1951 592 2056 692">1</td> </tr> <tr> <td data-bbox="1256 692 1951 810">Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument.</td> <td data-bbox="1951 692 2056 810">0</td> </tr> <tr> <td data-bbox="1256 810 1951 1046">Tax revenue may increase because of a different reason i.e. <u>not</u> the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education.</td> <td data-bbox="1951 810 2056 1046">1</td> </tr> </tbody> </table>	Generic example	mark	Tax revenue may decrease ...	1	... because of reason e.g. incomes may be lower.	1	Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument.	0	Tax revenue may increase because of a different reason i.e. <u>not</u> the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education.	1
Generic example	mark												
Tax revenue may decrease ...	1												
... because of reason e.g. incomes may be lower.	1												
Tax revenue may increase because incomes may be higher i.e. reverse of a previous argument.	0												
Tax revenue may increase because of a different reason i.e. <u>not</u> the reverse of a previous argument e.g. government spending on subsidies may stimulate the economy more than spending on education.	1												

Question	Answer	Marks	Guidance
1(h)	<p>Discuss whether or not competition is beneficial for airlines.</p> <p>Up to 4 marks why it is beneficial: Competition will lead to airline being forced to be more efficient (1) productivity increase (1) use latest technology (1) reduce wasteful spending (1) quality increases (1) cost of production goes down (1) prices become more affordable (1) increase in quantity demanded (1) total revenue and profit increases (1).</p> <p>Up to 4 marks why it is not beneficial: Too much competition means less market share for each airline (1) less quantity demanded (1) airlines may have to advertise more (1) increase cost of production (1) total revenue and profit decreases (1) airlines who can't compete may go bankrupt / leave the market (1). Too much competition may result in the airline being small (1) cannot take advantage of economies of scale (1). An airline may not benefit from becoming more competitive (1) because of brand loyalty (1) lower demand for air travel (1).</p>	6	

Question	Answer	Marks	Guidance
2(a)	<p>State <u>two</u> components of the current account.</p> <p>Any two from:</p> <ul style="list-style-type: none"> • trade in goods • trade in services • primary income • secondary income 	2	Any two components. Accept exports and imports for 1 mark.
2(b)	<p>Explain why inflation may fall even if there is an increase in total demand.</p> <p>Logical explanation which might include: There may have been an increase in total supply (1) which may be greater than the increase in total demand (1). There could be an improvement in productivity (1) better technology / capital (1). Costs of production could have gone down (1) e.g. lower taxes / lower costs of raw material, stronger exchange rates (1).</p>	4	
2(c)	<p>Analyse how a country's current account deficit might be reduced if its firms become internationally competitive.</p> <p>Coherent analysis which might include: Being internationally competitive e.g. high productivity, low inflation, low exchange rates (max 2) increases production (1) reduces cost of production (1) decreases price of exports (1) increases quality of exports (1) increases demand for exports (1) increases value of exports / net exports (1). Imports relatively more expensive / other countries products more expensive (1) lower relative quality of imports (1) decreases imports (1).</p>	6	

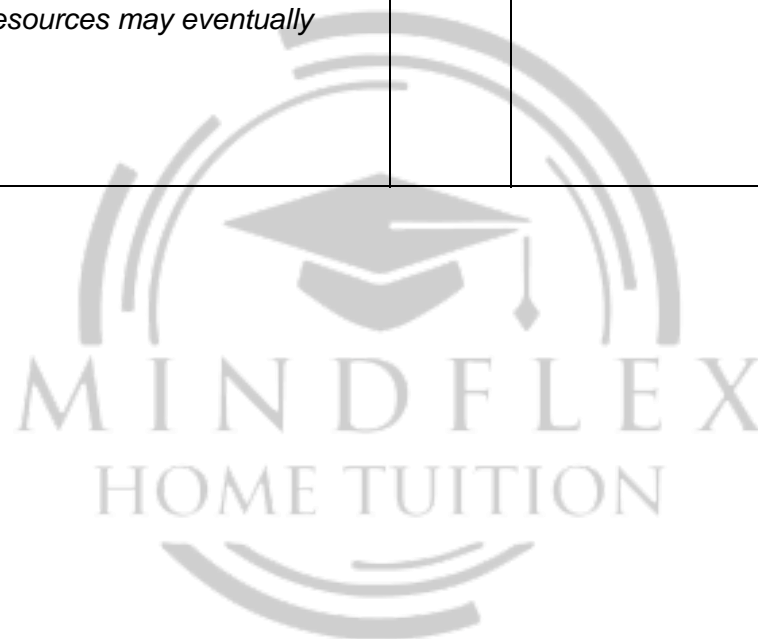
Question	Answer	Marks	Guidance		
2(d) Discuss whether or not lower taxes on firms will be beneficial for an economy. In assessing each answer, use the table opposite. Why it might be beneficial: <ul style="list-style-type: none"> • will increase after tax profits • increase ability and incentive to invest • firms may expand output leading to higher employment and economic growth • higher investment may increase innovation and productivity which may improve the current account • will reduce cost of production. This may reduce inflation Why it might not be beneficial: <ul style="list-style-type: none"> • firms might not invest more and just keep the profits to themselves • government will get less revenue from firms, reducing ability to spend to improve the economy • may attract MNCs which may replace domestic firms • capital goods may replace labour, causing unemployment • higher output may result in external costs e.g. pollution. 		8	Level	Descriptors	Mark
			3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8
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			1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	1–2
			0	A mark of zero should be awarded for no creditable content.	0

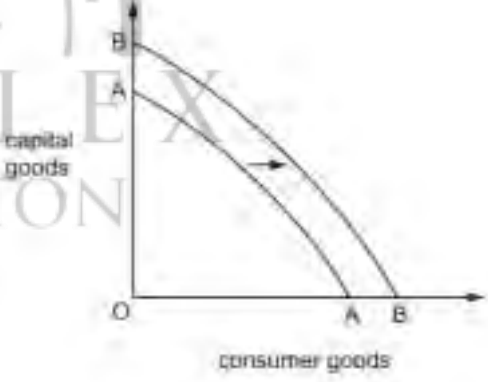
Question	Answer	Marks	Guidance
2(d)	<p>Example of L3 answer:</p> <p><i>Lower taxes on firms will be beneficial for an economy, as this will reduce the production costs for firms and increase their profits. With greater profits, firms may invest in labour, which will decrease unemployment, and allow the firm to increase its output. With greater output, a firm's exports may increase, and this will improve the current account position. Furthermore, lower taxes may allow for lower prices as the reduced production costs may be passed on to consumers. Also, lower taxes may allow a firm to increase its wages which not only increase average incomes, but also increase productivity and so economic output.</i></p> <p><i>On the other hand, low taxes may not be beneficial, as firms may use their increased income for expansion, but may also increase external costs such as pollution when they do this. Furthermore, lower taxes may allow firms to become monopolies, which will hurt competition and the potential for new firms. Moreover, with increased income, firms may choose to become capital-intensive rather than labour-intensive, which would increase unemployment.</i></p> <p>Principal Examiner comment: Strong on one side and reasonable on the other side.</p>		

Question	Answer	Marks	Guidance
3(a)	<p>State <u>two</u> sectors, other than the primary sector, in an economy.</p> <p>Secondary sector (1) Tertiary sector (1)</p>	2	Reward but do not expect the quaternary sector.
3(b)	<p>Explain <u>two</u> possible reasons for a fall in the price of a product such as natural rubber.</p> <p>Logical explanation which might include: Decrease in demand for natural rubber (1) emergence of substitutes (1) decrease in future expected price or any other relevant examples (1).</p> <p>Increase in supply of natural rubber (1) due to increase in number of producers / good yield / relevant example (1).</p>	4	
3(c)	<p>Analyse the influences on spending.</p> <p>Coherent analysis which might include:</p> <p>Income (1) higher income increases the ability to spend / increases purchasing power (1). The rate of interest (1) a change in the rate of interest influences the proportion of income that is spent and saved (1) and affects borrowing (1). Confidence (1) people spend more when they are optimistic (1) about future income / job security (1). Wealth (1) people can spend some of their wealth (1) e.g. sell shares (1) use it as collateral to borrow (1). Inflation (1) spending may fall if prices rise more than money wages (1) spending may rise as people seek to buy products before they increase in price even further (1). Expansionary fiscal / monetary policy may increase spending (1).</p>	6	

Question	Answer	Marks	Guidance															
3(d)	<p>Discuss whether or not the growth of the primary sector is beneficial to a country.</p> <p>In assessing each answer, use the table opposite.</p> <p>Why it is beneficial:</p> <ul style="list-style-type: none"> • can increase total output of the economy, increasing economic growth • can provide employment opportunities that are accessible to all / requires low skill / requires low technology • could increase standards of living in rural areas • provide raw materials for secondary sector • could ensure that country has food security, reduce imports of necessities, if prices of primary sector products are high e.g. high oil price which this could bring huge export revenue to the country. This could reduce current account deficit. <p>Why it is not beneficial:</p> <ul style="list-style-type: none"> • productivity may be low in the primary sector, very low value added • may be low wages and poor working conditions • overdependence on primary sector may restrict growth of secondary and tertiary sectors • some primary industries may be disrupted by weather conditions and natural disasters • supply and demand are inelastic so there may be considerable price fluctuations • natural resources e.g. copper may be depleted. 	8	<table border="1"> <thead> <tr> <th data-bbox="1256 213 1361 279">Level</th> <th data-bbox="1361 213 1957 279">Descriptors</th> <th data-bbox="1957 213 2058 279">Mark</th> </tr> </thead> <tbody> <tr> <td data-bbox="1256 279 1361 786">3</td> <td data-bbox="1361 279 1957 786">A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td data-bbox="1957 279 2058 786">6–8</td> </tr> <tr> <td data-bbox="1256 786 1361 1090">2</td> <td data-bbox="1361 786 1957 1090">A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td data-bbox="1957 786 2058 1090">3–5</td> </tr> <tr> <td data-bbox="1256 1090 1361 1257">1</td> <td data-bbox="1361 1090 1957 1257">There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td data-bbox="1957 1090 2058 1257">1–2</td> </tr> <tr> <td data-bbox="1256 1257 1361 1359">0</td> <td data-bbox="1361 1257 1957 1359">A mark of zero should be awarded for no creditable content.</td> <td data-bbox="1957 1257 2058 1359">0</td> </tr> </tbody> </table>	Level	Descriptors	Mark	3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8	2	A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	3–5	1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	1–2	0	A mark of zero should be awarded for no creditable content.	0
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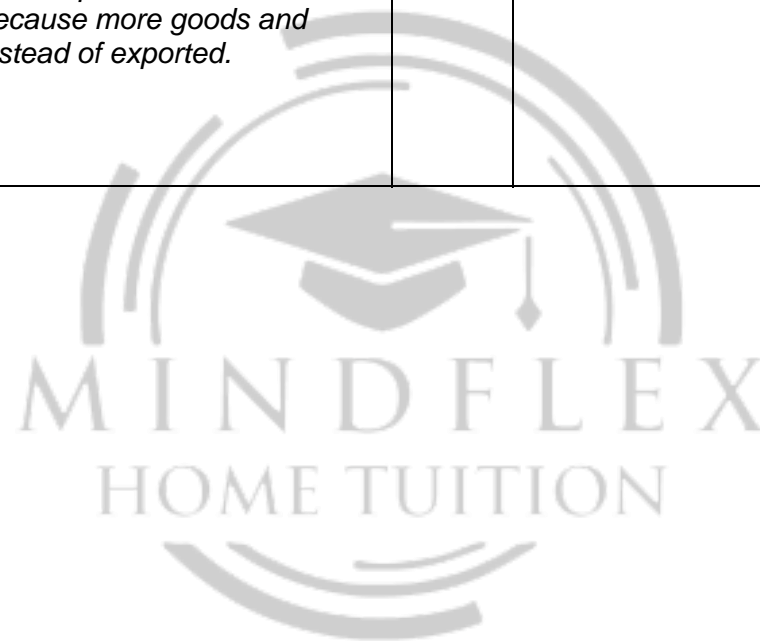
Question	Answer	Marks	Guidance
3(d)	<p>Example of an L1 answer:</p> <p><i>Growth of the primary sector may benefit an economy because it uses renewable and non-renewable resources. It provides the raw materials needed by other sectors. Consumers' demands cannot be fulfilled without the primary sector as it is needed to produce all goods and services. It may not be as beneficial as other sectors as wages are lower and natural resources may eventually become depleted.</i></p> <p>Principal Examiner comment: A few relevant identifications.</p>		



Question	Answer	Marks	Guidance
4(a)	<p>Define tariffs.</p> <p>Tariffs are a tax (1) on imports/exports (1) which increase the price of imported/exported goods (1).</p>	2	
4(b)	<p>Explain <u>two</u> non-tariff methods of protection.</p> <p>Logical explanation which might include: Quotas (1) quantitative restriction on the amount of imports that can enter a country (1). Subsidies (1) grants given to domestic firms to reduce domestic cost of production and reduce demand for imported goods (1). Embargoes (1) total restriction on a certain product from a certain country (1).</p>	4	<p>Also accept other non-tariff barriers such as rules and regulations, exchange controls, etc.</p> <p>One mark for each of two reasons identified and one mark for each of two explanations.</p>
4(c)	<p>Analyse, using a production possibility curve (PPC) diagram, the beneficial effects for a country of the growth of its small and medium-sized firms.</p> <p>Up to 4 marks for the diagram: Axes correctly labelled (1). Initial curve drawn as a curve or downward sloping line to the axes (1). New curve drawn as a curve or downward sloping line to the axes (1). Shift to the right indicated by arrow or lettering (1).</p> <p>Up to 2 marks for coherent analysis which might include: The growth of its small and medium-sized firms will lead to an increase in the number of firms in the economy (1) this will increase productive potential / increase productive capacity / cause economic growth (1).</p>	6	 <p>Also accept a tilt outward of the new PPC curve.</p>

Question	Answer	Marks	Guidance															
4(d)	<p>Discuss whether or not increased international trade can promote economic growth.</p> <p>In assessing each answer, use the table opposite.</p> <p>Why it may:</p> <ul style="list-style-type: none"> increase size of the market for domestically produced goods, increase exports, increase total demand firms can specialise and achieve economies of scale, decrease cost of production, increase demand for goods and services produced domestically increase competitive pressure (1) making firms more efficient (1) increase access to products not available domestically, e.g. raw materials to produce other goods, increase output of an economy (1). <p>Why it may not:</p> <ul style="list-style-type: none"> Increase amount of imports, decrease total demand of the economy domestic firms may not be able to compete causing less revenue, less profits, more unemployment, may result in shortages of e.g. rice in the domestic market make the economy more subject to sudden changes in demand and supply. 	8	<table border="1"> <thead> <tr> <th data-bbox="1256 217 1361 285">Level</th> <th data-bbox="1361 217 1957 285">Descriptors</th> <th data-bbox="1957 217 2058 285">Mark</th> </tr> </thead> <tbody> <tr> <td data-bbox="1256 285 1361 791">3</td> <td data-bbox="1361 285 1957 791">A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td data-bbox="1957 285 2058 791">6–8</td> </tr> <tr> <td data-bbox="1256 791 1361 1094">2</td> <td data-bbox="1361 791 1957 1094">A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td data-bbox="1957 791 2058 1094">3–5</td> </tr> <tr> <td data-bbox="1256 1094 1361 1262">1</td> <td data-bbox="1361 1094 1957 1262">There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td data-bbox="1957 1094 2058 1262">1–2</td> </tr> <tr> <td data-bbox="1256 1262 1361 1362">0</td> <td data-bbox="1361 1262 1957 1362">A mark of zero should be awarded for no creditable content.</td> <td data-bbox="1957 1262 2058 1362">0</td> </tr> </tbody> </table>	Level	Descriptors	Mark	3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8	2	A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	3–5	1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	1–2	0	A mark of zero should be awarded for no creditable content.	0
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4(d)	<p>Example of L2 answer:</p> <p><i>Increased international trade may not benefit a country because the country may be in a trade deficit as the cost of a country's imports exceed the total value of its exports. Consumers may purchase more goods and services from abroad than from domestic firms which may reduce economic growth as they make less profit. The value of the currency may fall eventually because more goods and services are being imported instead of exported.</i></p> <p>Principal Examiner comment: Limited on one side.</p>		



Question	Answer	Marks	Guidance
5(a)	<p>State the rewards for labour and capital.</p> <p>Wages (1) for labour Interest (1) for capital</p>	2	
5(b)	<p>Explain the <u>two</u> types of poverty.</p> <p>Logical explanation which might include: Absolute poverty (1) is when someone cannot afford the basic necessities of life (1) less than \$1.90 per day at PPP (1).</p> <p>Relative poverty (1) is when someone earns less than is needed to participate in the normal activities of society (1) when there is inequality (1).</p>	4	<p>One mark for identifying absolute poverty and one mark for an explanation. One mark for identifying relative poverty and one mark for an explanation.</p>
5(c)	<p>Analyse how firms can benefit from specialisation.</p> <p>Coherent analysis which might include: Improve skills of workers (1) save time (1) lead to invention of new technology (1) increase productivity (1) raise quality (1) decrease average cost of production (1) decrease prices (1) increase demand (1) enable advantage to be taken of economies of scale (1) increase profits (1).</p>	6	

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5(d)	<p>Discuss whether or not supply-side policy measures can reduce unemployment.</p> <p>In assessing each answer, use the table opposite.</p> <p>Why they can:</p> <ul style="list-style-type: none"> • decrease corporation / profit tax, more profits, more investments, more demand for labour, reduction in cyclical unemployment • decrease interest rates, more borrowing, more investment, more demand for labour, reduction in cyclical unemployment • decrease income tax, increase disposable income, more spending / demand for goods and services, more production, increase demand for labour • government subsidies can encourage firms to expand and take on more workers, reduce cyclical unemployment • increase spending on education and training, increase skills / productivity of labour, increase demand for labour, decrease structural unemployment. • provide more information on jobs / job centres, easier for workers to find jobs, decrease frictional unemployment • reduce unemployment benefit to reduce the time workers are between jobs, decrease frictional unemployment. <p>Why they cannot:</p> <ul style="list-style-type: none"> • may be a time lag • more investments could lead to increased technological development, less demand for workers • education programmes not according to market needs 	8	<table border="1"> <thead> <tr> <th data-bbox="1256 236 1361 301">Level</th> <th data-bbox="1361 236 1957 301">Descriptors</th> <th data-bbox="1957 236 2051 301">Mark</th> </tr> </thead> <tbody> <tr> <td data-bbox="1256 301 1361 807">3</td> <td data-bbox="1361 301 1957 807">A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td data-bbox="1957 301 2051 807">6–8</td> </tr> <tr> <td data-bbox="1256 807 1361 1114">2</td> <td data-bbox="1361 807 1957 1114">A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td data-bbox="1957 807 2051 1114">3–5</td> </tr> <tr> <td data-bbox="1256 1114 1361 1278">1</td> <td data-bbox="1361 1114 1957 1278">There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td data-bbox="1957 1114 2051 1278">1–2</td> </tr> <tr> <td data-bbox="1256 1278 1361 1374">0</td> <td data-bbox="1361 1278 1957 1374">A mark of zero should be awarded for no creditable content.</td> <td data-bbox="1957 1278 2051 1374">0</td> </tr> </tbody> </table>	Level	Descriptors	Mark	3	A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.	6–8	2	A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	3–5	1	There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.	1–2	0	A mark of zero should be awarded for no creditable content.	0
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5(d)	<ul style="list-style-type: none"> • privatisation could lead to firms cutting amount of workers • decrease in minimum wage could decrease incentive to work • may be a lack of total demand. <p>Example of L2 answer:</p> <p><i>Supply-side measures such as training and education can help to reduce unemployment as they allow people to become more skilled and therefore increase their opportunities to become hired. Also, when a firm is subsidised by the government, it may have more money to invest in labour, and this would reduce unemployment. Privatisation can also cause a reduction in unemployment, as the private sector may be willing to invest more capital to labour to increase its output and this would reduce unemployment.</i></p> <p><i>On the other hand, supply-side measures may not reduce unemployment, because subsidies given to firms may increase its capital, but this may be used to become more capital-intensive rather than labour-intensive, which would not reduce unemployment. Also, if people are trained and educated, but gain skills that are not demanded, they may remain unemployed and therefore unemployment would not decrease. Privatisation may lead to firms becoming more capital-intensive rather than labour-intensive, and this would not reduce unemployment.</i></p> <p>Principal Examiner comment: Reasonable on both sides.</p>		