

# UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE O Level

## MARK SCHEME for the November 2004 question papers

### 2281 ECONOMICS

2281/02 Paper 2 (Extended), maximum mark 80

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

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November 2004

GCE O LEVEL

MARK SCHEME
MAXIMUM MARK: 80
SYLLABUS/COMPONENT: 2281/02 ECONOMICS (Extended)

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- 1 (a) Up to 3 marks for explaining that low prices might result in lower revenue and lower profits. Therefore producers might be unwilling to produce as much as before. [3]
- (b) Up to 3 marks for explaining that the reduction in supply in the following year is because there has been a decrease in the supply on the market. This is a different time period so the supply for that year will be represented by a shift to the left in the supply curve and a rise in the equilibrium price. 1 mark for the shift in supply and 1 mark for the labels [5]
- (c) (i) 1 mark each for better seeds, better pest control and better irrigation. [3]
- (ii) Seeds are unlikely to affect fixed costs unless research is involved; pest control may be a combination of fixed and variable costs; irrigation improvements are more likely to affect fixed costs. The effect on revenue depends on changes in sales, which depend on possible changes in prices.
- 2 marks for each element but look for an explicit comparison. [6]
- (d) 1 mark each for trade in goods, exports and current account. [3]
- 2 (a) Up to 2 marks for defining the public sector as any business activity owned or controlled by central or local government. 1 mark for any likely occupation [3]
- (b) Up to 5 marks for describing functions of a trade union such as collective bargaining, improving wages, workers' welfare, better social conditions, terms of employment and legal representation.
- Up to 2 marks for a reasoned account of which function is most important. [7]
- (c) 1 mark each for any three suitable reasons connected with wages, hours, fringe benefits, working conditions, promotion, career prospects, travel, etc. [3]
- (d) Up to 7 marks for a discussion of the relative demand for and supply of labour, with explanations of the amount of training, productivity, demand for the final product or service and likely revenue from the sale of the good or service produced. Could also discuss relative strengths of trade unions. [7]
- 3 (a) Up to 2 marks for a definition that distinguishes between a tax on a person or company at source, which cannot be easily avoided and a tax on a good or service that need not be paid if the good or service is not purchased.
- 1 mark each for one correct example of a direct tax and an indirect tax [4]
- (b) 1 mark each for identifying three different types of unemployment, such as seasonal, structural, cyclical and frictional. 1 mark each for explaining how each type of unemployment is caused [6]
- (c) 1 mark each for a description of four macro-economic policy aims, such as full employment, price stability, economic growth, a sound balance of payments and redistribution of income and wealth. Maximum 2 marks for a list [4]

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- (d) Up to 6 marks for discussing whether a rise in taxes could achieve any of the aims. For example higher tax could reduce spending and help price stability, they could affect the distribution of incomes and wealth while taxes on imports might improve the balance of payments. An explanation of the link between the aims and tax rises and a conclusion are required. [6]
- 4 (a) Up to 2 marks each identifying and explaining two issues such as family planning, spread of infection, general sanitation and clean water supplies. (This question has been asked because a number of developing countries now have information about the spread of HIV/Aids as part of the compulsory curriculum of all syllabuses) [4]
- (b) Up to 6 marks for a description of the relative population structures, which may be supported by the standard diagrams. (NB. These are changing because of the reduction in life expectancy due to HIV in Africa. General life expectancy has fallen on average by 10 years in many African countries since the late 1980s. It has fallen by much more than this in some countries. For example from 55 years to 39 years in Botswana) [6]
- (c) (i) Up to 2 marks for explaining opportunity cost. They must have the next best alternative to gain both marks.
- (ii) Up to 2 marks for defining social benefit as private benefit + external benefit. [4]
- (d) Up to 6 marks for a discussion relating the concepts to health care. Reward any relevant examples and any mention of the need for government involvement in many areas of public health. [6]
- 5 (a) Up to 3 marks for explaining the meaning of growth, in terms of GDP or some similar economic indicator. [3]
- (b) Up to 5 marks for a discussion of the effects of economic growth. Benefits could include a higher standard of living, increased incomes and employment and more goods and services. Costs may include higher inflation, balance of payments problems, depletion of resources and more externalities.
- Up to 2 marks for a reasoned conclusion on whether growth is advantageous. [7]
- (c) Up to 4 marks for an explanation of the effect on a company's profits of increased trade, increased exports, cheaper factors inputs and a possible increase in specialisation. [4]
- (d) Up to 6 marks for explaining the link between investment and employment, growth, living standards and increased international competitiveness. [6]

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- 6 (a) Up to 5 marks for explaining that the currency was more stable, implying that it had gained strength and was no longer in a weaker relative position.
- (b) Up to 4 marks for an explanation of changes in exchange rates in terms of demand and supply changes due to trade, relative levels of interest rate and speculation. [4]
- (c) Up to 5 marks for discussing the effects of a strengthening currency such as cheaper imports, dearer exports and less need for support of the currency. [5]
- (d) Up to 6 marks for discussing how exports could be boosted or imports reduced by the use of subsidies, taxes and quotas. Or interest rates could be changed to affect money flows. [6]
- 7 (a) Up to 4 marks for explaining advertising methods that might reach a wide audience such as children's TV, relevant magazines and street hoardings. [4]
- (b) Up to 8 marks for explaining gainers and losers. Companies that gain might include those supplying the film industry or cinemas, those producing ancillary products such as toys, games, books and computer games. Those who would not benefit are companies producing direct alternatives such as other books, films, toys and games until the "fashion" declines. Reward an understanding of competitive and complementary products. [8]
- (c) Up to 8 marks for discussing the benefits of large organisations in terms of efficiency and economies of scale and for commenting on the amount of fixed costs involved, the need for large capital expenditure and expensive market research together with huge distribution, publicity and staff costs. Small companies cannot usually take the risk on all of this, although some small film companies do exist. [8]