

MARK SCHEME for the May/June 2007 question paper

0455 ECONOMICS

0455/04

Paper 4 (Extended), maximum raw mark 80

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.

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 discussions or correspondence in connection with these mark schemes.

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- 1 (a) $36 + 6 = 42 / 5 = 8.4$
Accept $42/4 = 10.5$
If candidates just give a figure of 42, give 1 mark.
Candidates do not need to refer to \$ or to billion.
- (b) Labour, high airport taxes, high ticket taxes, competition, higher fuel prices. [2]
If candidates give just two or three causes, 1 mark.
- (c) Variable cost change with output/service; fuel is variable cost. Labour is usually regarded as variable in texts but some longer term contracts might be regarded as fixed. [4]
- (d) Four factors; capital will probably increase, labour will probably decrease (but accept greater demand for skilled labour), entrepreneurial skills probably no change, land no change (but allow comment on depletion of resources for paper or less offices). Candidates do not need to mention all four factors to get full marks. A reference to the four factors of production will get one mark. [4]
- (e) It could try to reduce costs, either fixed or variable costs. It could try and increase revenue by promoting demand. It could advertise more, but would have to place adverts carefully as its budget will not be extensive. It could see if another company were willing to buy it, or merge with it. It could close down. It could alter its factors of production using more of those which are more efficient. It could change its product mix. It could change the market it was aiming at. Maximum of six marks for one side of the argument only (reducing costs or increasing revenue). Note that this part of the question makes no reference to the airline industry. [8]
- 2 (a) Incorrect. Partnerships are not necessarily two people, they may consist of all the people working in the organisation. Public companies are not owned by the government. Public companies issue shares and are owned by the private sector. [4]
- (b) Small firms usually have many competitors. Competition may well allow reduced prices and wider choice, competition appears to give consumers more of what they want. As a result consumers go to small firms. Small firms can also give personal service and provide specialist products. Small firms may not advertise much and may not reach a large market. They may prefer to remain small. They may not have profit maximising or growth aims. [6]
- (c) Requires brief explanation of any two from the following – horizontal, vertical backward, vertical forward, lateral, conglomerate. [2]
If candidates just list two types of integration without explaining them, 1 mark only.
- (d) A government can influence through taxation, subsidies, regulations, prohibitions, import quotas, training schemes, regulations on land use, building use. [8]

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- 3 (a) Concentration on a particular part of production, labour divided into separate tasks, tasks passed along production line or service conducted by specialist teams, particular skills required. [6]
- (b) Maybe part-time, unskilled, no other work available, supplement other income, temporary, nearer home, other non-wage benefits compensate. [6]
- (c) Proportion of spending and savings differ. On average, a richer person can save a bigger proportion. Types of goods on which income is spent differ, what constitutes a necessity also varies between income groups. Also depends on age of rich and poor person. Saving patterns change as people age. [5]
- (d) To control inflation, manage imports/exports, encourage growth, encourage or redistribute employment or reduce negative externalities. [5]
- 4 (a) A developed country is likely to have a lower birth rate and a lower death rate and therefore a lower natural rate of increase. Migration is likely to be higher from developing to developed countries. Allow comments on health care, literacy rate, female employment. Candidates do not need to include reference to all three influences (birth rate, death rate, migration). [4]
- (b) Occupationally, the structure in developing countries is likely to be based on the primary sector. Some informal employment is not recorded in official statistics, especially in rural areas. Developed countries are likely first to move to the secondary manufacturing sector and then to the service sector. Types of occupation in the service sector will change as the population becomes richer and has more leisure and more income to spend on leisure activities. Numbers in government service may also decline as switch to more market economies. May get informal sector as well but more in cities than in rural areas and not agricultural based. [6]
- (c) Value or amount of product/services produced usually measured as GDP in one year. Candidates do not need to explicitly refer to GDP/GNP. [3]
- (d) Increase in labour may not mean increase in output; depends on the use of other factors and availability of capital. Depends also on availability of jobs, competitive position of country in international trade. Extra labour may mean the government has to pay more in transfer payments which could have an opportunity cost in terms of other government expenditure. But extra labour may increase output, income and growth. Candidates should come to a conclusion. [7]

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- 5 (a) Explanation of the meaning of ‘investment’ and of ‘labour intensive’. [6]
- (b) Discussion of the difference between no limitation on trade and either a restriction or, as in this case, preferential treatment. [6]
- (c) Comment on the idea of keeping some resources for future use, of immediate consumption and growth against reduced growth now, but increased availability of resources in the future. [4]
- (d) Candidates should elaborate on the idea of extra production, extra income, more growth and development and the effect on the balance of payments. [6]
- 6 (a) Explanation of differences in features such as price setting, ownership of resources and motivation. [4]
- (b) Any aims may be chosen. For example, control of inflation may conflict with full employment, growth in incomes may conflict with balance of payments aims, or price stability. A list of the aims, 2 marks only. [6]
- (c) Discussion of reasons for mixed economy in terms of existence of market failure in market economies and bureaucratic difficulties and lack of choice in planned economies. Mixed economies theoretically allow choice and competition, yet deal with externalities and social costs and benefits. [10]
- 7 (a) Inflation still exists so prices have not fallen; they have risen slower than in the previous three years. [4]
- (b) Comment on construction of index, base year, basket of goods, weighting, sampling, measurement. [6]
- (c) Explanation of types of unemployment – regional, structural, frictional, cyclical, seasonal, voluntary, 7 marks.
Candidates should support their choice of the most serious with reasoned comment, 3 marks. [10]