

MARK SCHEME for the May/June 2007 question paper

0455 ECONOMICS

0455/02

Paper 2 (Core), maximum raw mark 60

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.

CIE is publishing the mark schemes for the May/June 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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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]
- 3 (a) Concentration on a particular part of production, labour divided into separate tasks, product passed along production line or service conducted by specialist teams, particular training required. [4]
- (b) Maybe part-time, unskilled, no other work available, supplement other income, temporary, nearer home, other non-wage benefits compensate. [6]

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- 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]
- 5 (a) Explanation of the meaning of 'investment' and of 'labour intensive'. [4]
- (b) Discussion of the difference between no limitation on trade and either a restriction or, as in this case, preferential treatment. [6]