UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS International General Certificate of Secondary Education

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for the guidance of teachers

0455 ECONOMICS

0455/21

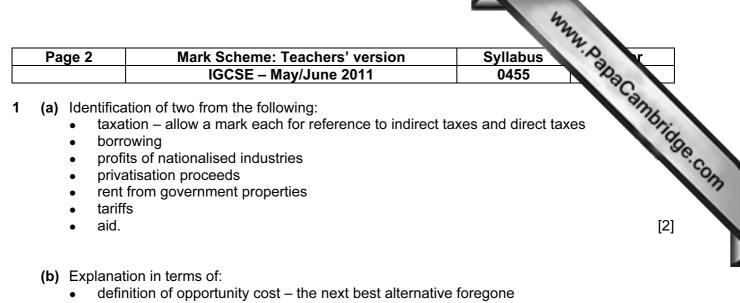
Paper 2 (Structured Questions), maximum raw mark 80

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, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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- the money could have been spent on other things
- especially given what we are told about the extent of poverty in the city
- and the existence of slum areas.

2 marks for a definition/understanding of opportunity cost and 2 marks for appropriate application from the case study. [4]

- (c) Diagram:
 - axes (P and Q or W and N) and curves (D and S) correctly drawn and labelled (1)
 - shift of demand curve to the right correctly drawn and labelled (1)
 - change in equilibrium price and equilibrium quantity (both up) clearly shown (1).

Explanation of what is shown in the diagram (3). If only describes what is in the diagram a maximum of one mark. [6]

- (d) Possible economic advantages:
 - improvement to roads/railways/bridges will enable the economy to benefit from improved transport links
 - a doubling of the number of hotel rooms will enable the city to attract more tourists, increasing aggregate demand
 - leading to an improvement in the standard of living
 - improved sports facilities will also enable it to attract various sporting events, again increasing demand
 - jobs will be created, leading to a reduction in unemployment.

Possible economic disadvantages:

- the city will still be struggling from poverty, crime rate and slums
- this could deter tourists from coming to the area
- it could also deter inward investment
- such as multi-national companies locating there
- any relevant opportunity cost
- benefits might only be temporary
- creates pollution/congestion
- diversion of resources from elsewhere in Brazil
- the future debt/taxation burden.

A one-sided answer can gain no more than 5 marks. Need two advantages and two disadvantages to get all 8 marks.

age 3 Mark Scheme: Teachers' version Syllabus	Page 3
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 Advantages of a market system: resources are allocated through the price mechanism ('invisible hand' consumers said to be sovereign economy is very responsive to changes in consumer demand choice is provided for competition and the profit motive promote efficiency incentive for entrepreneurs to produce. 	1 • () • (• (• (

- 2 (a) Advantages of a market system:
 - resources are allocated through the price mechanism ('invisible hand')
 - consumers said to be sovereign
 - economy is very responsive to changes in consumer demand
 - choice is provided for
 - competition and the profit motive promote efficiency
 - incentive for entrepreneurs to produce.

A maximum of 3 marks if only one advantage is described. Need at least two advantages for all 6 marks. [6]

- (b) Causes of market failure:
 - merit goods under-consumed (don't need to use that term)
 - demerit goods over-consumed (don't need to use that term)
 - public goods not provided (don't need to use that term)
 - information failure
 - existence of externalities
 - some people have more influence in a market than others
 - existence of monopolies.

[6]

- (c) Advantages of government intervention:
 - indirect taxes to discourage consumption of demerit goods (don't need to use that term)
 - subsidies to encourage consumption of merit goods (don't need to use that term)
 - taxation to finance expenditure on public goods (don't need to use that term)
 - regulations to control private producers, e.g. on pollution and monopolies having market dominance.

Limitations of government intervention:

- consumption of demerit goods (don't need to use that term) might be discouraged, but unlikely to end completely given inelastic demand, e.g. for cigarettes and alcohol
- consumption of merit goods (don't need to use that term) might be encouraged, but still a limit to extent of increase in consumption
- available finance to provide public goods (don't need to use that term) might be limited/restricted, especially if a large budget deficit
- regulations may not be adequately policed/enforced.

A one-sided answer can gain no more than 5 marks. A maximum of 7 marks if no understanding of 'always'.

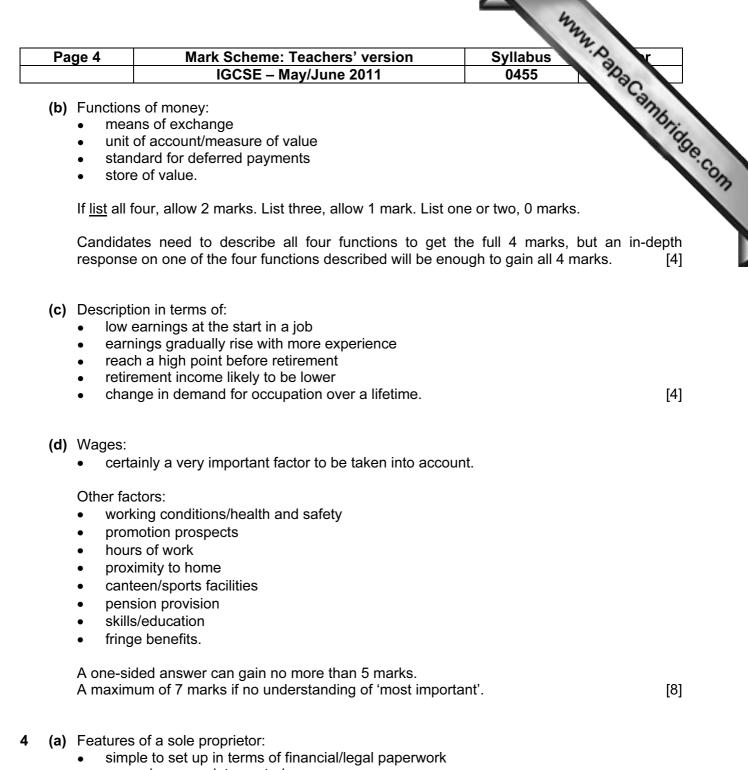
(a) Role of commercial banks: 3

- accept deposits
- lend to customers
- enable customers to make payments
- travellers cheques/foreign currency
- deposit important documents
- source of financial advice.

A list-like answer will gain a maximum of 2 marks.

[4]

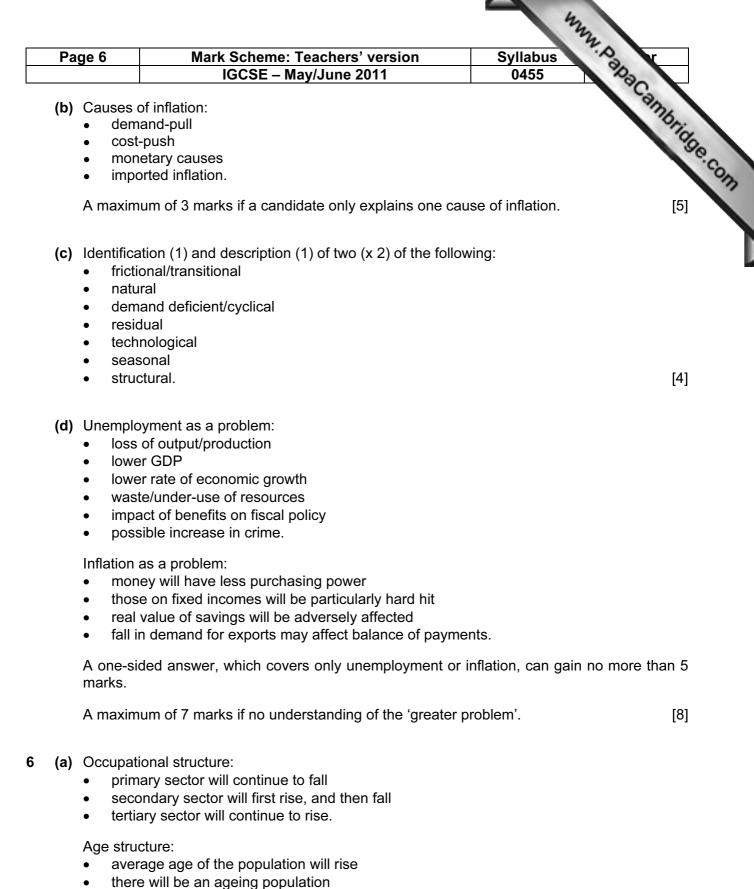
[8]



- owner has complete control
- all profits go to the owner
- unlimited liability
- difficulty in obtaining finance to expand.

A maximum of 2 marks if only one feature is described. Can gain all 4 marks if describes any two features. [4]

Pa	ge 5	Mark Scheme: Teachers' version	Syllabus Syllabus
		IGCSE – May/June 2011	0455 23
(b)	 can l this s still r busin could in a aspe limite A list-like The question 	tion in terms of: be up to 20 partners in a business should enable more finance to be raised no need to disclose the accounts publicly iness will be able to expand d take advantage of economies of scale legal organisation, this would enable differe ects of the law ed liability partnership (LLP). e answer can gain no more than 2 marks. estion does explicitly refer to a legal organisatio ext can gain no more than 3 marks.	
(c)	 there there all fir there perfe price all fir abno run, 	eristics of perfect competition: e are a large number of sellers e are a large number of buyers rms produce an identical or homogeneous produ e are no barriers to entry or exit ect knowledge e taker rms have access to the same information ormal/supernormal/subnormal profits can only b only normal profits are made.	e made in the short-run; in the long-
	A list-like	e answer can gain no more than 2 marks.	[4]
(d)	 price outp norm In favour abno 	r of perfect competition: e will tend to be lower than in monopoly out will tend to be higher than in monopoly nal profits only will be made in the long-run. r of monopoly: ormal/supernormal profits can be used to finance e size can lead to economies of scale and lower	•
	A one-sid	ded answer can gain no more than 5 marks.	[8]
(a)	period of	tent or sustained (1) increase (1) in the general f time (1). ust be some reference to prices to gain all three	
	An answ marks.	ver which focuses on the decline in purchasir	ng power can gain no more than 2 [3]



• comments on BR and DR implying impact on age structure are worth 1 mark.

Geographical structure:

- there will be a movement out of the rural areas
- and into the urban areas.

There are broadly 2 marks for each section, but mark the answer out of a total of 6 marks, e.g. it is likely that candidates will write more in (i) than the other 2 parts. There is, however, a maximum of 4 marks if only two sections are answered. [6]

Page 7	Mark Scheme: Teachers' version	Syllabus	
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h) Evaloant	on in torma of		
<i>,</i> ,	on in terms of:		live in high
	ent basis of production, e.g. primary v tertiary		"Tic
	of living will influence wages; some areas may	y be more expensive to	live in So
othe	s, e.g. in the capital city		
 some 	e areas may be less well served by infrastructure	e, e.g. transport	
 differ 	ences in quality of education in different areas		
	union membership/power may be greater in	some areas. affecting	the level of
 trade 			
		C	
wage	es	-	
wage ● multi		-	[6]

- government policy to encourage firms to locate in certain areas
- this could be through grants/subsidies/tax holidays
- policies to attract multi-nationals in certain areas
- improvements in education/training in certain areas
- encouragement given to banks in certain areas to lend to firms
- investment in certain areas, e.g. to improve transport links.

Answers which focus only on raising living standards nationally are limited to 3 marks.

Answers must address 'most effective' to get more than 5 marks. [8]

- 7 (a) Causes of a change in a country's exchange rate:
 - a change in the demand for a currency on the foreign exchange market
 - a change in the supply of a currency on the foreign exchange market.

Allow factors that would cause a change in demand or supply even if the words demand and supply are not used. [2]

- (b) Explanation in terms of:
 - the fall in the value of the exchange rate will have the effect
 - of making exports less expensive
 - and imports more expensive
 - if the demand for both is price elastic, this should increase the demand for exports
 - and decrease the demand for imports
 - this should encourage production of exports and increase employment
 - it will also encourage production of domestic goods to replace the imports
 - the PED, however, may not be elastic.

A maximum of 4 marks if no consideration of PED.

- (c) Any two from:
 - trade in goods (visible account)
 - trade in services (invisible account)
 - income
 - current transfers.

[4]

[6]

			2.
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(d) Yes, if:

- it is due to an improvement in the visible account, e.g. an increase in exports would likely lead to an increase in employment
- Cambridge.com it is due to an improvement in the invisible account: an increase in tourists coming to t country would most likely lead to an increase in employment.

Not necessarily, if:

- it is due to an increase in wages earned by residents working abroad
- it is due to an increase in investment income, such as dividends
- it is due to a charitable donation received from abroad.

A one-sided answer can gain no more than 5 marks.

An answer which fails to come to an appropriate conclusion can gain no more than 7 marks. [8]