

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE O Level

MARK SCHEME for the May/June 2006 question paper

2281 ECONOMICS

2281/02

Paper 2 maximum raw 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*.

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- 1 (a) 1 labels, 1 equilibrium (original and new equilibrium), 1 shift in demand, 2 explanations. [4]
- (b) (i) current account, goods/visibles/balance of trade, imports. [4]
- (ii) Worsen the balance of payments account, possible volatility of prices, possible volatility of supply. 1 for Identification, 1 for explanation. [4]
- (c) (i) Rapid expansion of output. [2]
- (ii) Comment on the benefits for employment, wealth, trade, profits, incomes, exports, choice. Comment on the drawbacks, externalities, environmental impact, cultural disruption, possible inflation. Up to 4 marks for only one side. [6]
- 2 (a) Identify the four factors, 2 marks. Explain the four factors, 2 marks. [4]
- (b) Discussion of reasons for small firms: market, finance, service, recently established, location. [6]
- (c) Horizontal 1, vertical 1, backwards 1. [3]
- (d) Explanation and discussion of economies of scale, discussion of economies v. diseconomies. Benefits: greater efficiency, economies of scale, security of supply, help company and consumer. Drawbacks: less competition, higher prices, reduced choice, harm the consumer while diseconomies of scale harm the firm and consumer. Benefits up to 4 marks, Disadvantages up to 4 marks, to a maximum of 7 marks. [7]
- 3 (a) Explanation in terms of limited resources compared with unlimited wants, choice between resources (2 marks).
Next best alternative forgone (2 marks). [4]
- (b) Identification of factors: location, pay, working conditions, holidays, career prospects, size of company, type of work (4 marks). With suggested discussion about availability of possible jobs and trade-off of these factors with reference to alternative jobs expressed in terms of next best alternative (2 marks). [6]
- (c) Analysis of likely changes as career progresses, or as person switches occupations, takes more responsibility, possible changes in fortunes of company. 1 for Identification, 1 for Explanation. [4]
- (d) Discussion of availability of people for job in terms of skill, training; discussion of demand for product or service and willingness of consumers to purchase product or service. Comparison using appropriate examples. Max. 4 marks for purely descriptive approach, with no reference to demand and supply. [6]
- 4 (a) 41 100 (1 mark), decrease (1 mark), (42 600 — 1500), working (1 mark), up to a maximum of 2 marks. [2]
- (b) Preference for part-time employees, more flexibility, lower cost, fewer rights. Decline in agriculture and manufacturing because of changed competitiveness, changing demand patterns, growth of services because of rise in incomes, changing technology. Identification 4 marks; Explanation 4 marks. [8]
- (c) Statement seems inconsistent because the unemployment rate fell to the lowest for 23 years but total employment decreased. One is an absolute figure, the other is a proportion of the working population. Working population could decrease but within that the % employed could increase. [3]
- (d) Government will have to give extra support to unemployed in transfer payments, resources are unused, and growth in the economy is restricted, social problems increase causing again extra expenditure for the government, exports could decline. Knowledge of particular issues up to 4 marks, Discussion up to 2 marks per point. [7]

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- 5 (a) Comment on the difference between government control and ownership and private control and ownership, public sector embraces goods/services and the provision of services, transfer payments, grants, subsidies, sources of finance. The two sectors have different aims and methods of working.
- (b) Discussion of bureaucracy, lack of incentive, inefficiency, lack of choice, lack of competition, possible political intervention. Identification of disadvantages up to 4 marks, discussion up to 2 marks per point. [7]
- (c) External costs, noise, pollution, destruction of property, changing environment around the airport, loss of property values. [4]
- (d) Understanding of taxes (2 marks). Comparison of fairness, efficiency, incidence. (4 marks) Reasoned conclusion (2 marks) - up to maximum of 6. [6]
- 6 (a) Real GDP per head, life expectancy, literacy, doctors per thousand, hospital beds per thousand, access to water supply, etc. 1 for each indicator up to a max of 4, plus 1 for development of each. (So max. 4 for a list.) [8]
- (b) Description of different methods of limiting trade: subsidies, tariffs, embargoes, quotas and regulations. 1 for each mentioned up to a max. of 3, plus 1 for development of each, but total max. 5. [5]
- (c) Discussion of relative worth of free trade encouraging specialisation, efficiency or protection to encourage development of particular industries or home demand. Explanation of comparative advantage.
- Justifications for trade protection, e.g. maintaining employment, infant industries, strategic arguments, balance of payments, etc.
Up to 4 for one side only. [7]
- 7 (a) Recognition that developing countries have higher rate of natural increase. (1 mark) Death rates have fallen faster than birth rates; birth rates are significantly higher than in developed countries, whereas death rates are only somewhat higher than in developed countries. (2 marks) Comment on reasons for these different BRs and DRs, e.g. tradition, lack of contraception, poverty, lack of education (2 marks). [5]
- (b) Comment on possible concerns about famine, fall in living standards, overcrowding, need to conserve resources, unemployment. (1 mark per point plus 1 for each development.) [4]
- (c) Comment on the distribution between primary, secondary, tertiary with increased emphasis on tertiary and relative decline in primary. Dependence on secondary may vary according to the availability of resources.
Understanding of sectors 2 marks, understanding of changes between sectors 3 marks. [5]
- (d) Relatively less might be spent on education of younger people. Compulsory saving for pensions. Raising of retirement age. Care of elderly transferred to the private sector. Some changes in tax structure might be required to pay for the changes in expenditure. There may need to be increased productivity and a policy on encouraging younger skilled immigrants. Increased public expenditure on healthcare. (1 each for identification up to max 3, plus up to 2 for discussion of each point, all within overall max of 6.) [6]