

MARK SCHEME for the May/June 2008 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.

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- 1 (a)** Alternative products/services (1). Any combination from train, coach, air, car (1). [2]
- (b)** For 10% of travellers in real terms it was cheaper, actual cost higher. Explanation of real. For 90% of travellers it was more expensive or the same in real terms. [4]
- (c)** Definition (1), examples of fixed cost (1), fixed cost overall higher - 50 fixed, 46 variable, (1) but this overall. Not necessarily true for every journey (1). [4]
- (d)** Explanation of subsidy (1). In this case it is a fee taken from GNER but this is not mentioned in the text (1). [2]
- (e)** Passengers increased by 40%, but some had reduction in real terms in fares. Do not know what happened to costs, only know that profits are 4% of revenue in 2005, but have no comparable figure for 1996. Has to give subsidies to other companies, do not know comparable figures for 1996. Also told that competition has increased, do not know effect of revenues and costs and profits. Cannot conclude that profits have risen 40%. Maximum of 6 marks if descriptive with no attempt to arrive at a conclusion. [8]
- 2 (a)** Group of workers linked together usually by a common occupation with the aim of improving or monitoring the welfare of the group, negotiating working conditions, wages, terms of employment, safety practices. [5]
- (b)** Discussion of the factors that influence choice of occupation, with a comment on the relevance and significance of the existence of a union. Conclusion should be given on the relative significance. Maximum of 3 marks for choice of occupation with no reference to trade unions. [5]
- (c)** Role of small enterprises, local market, specialist products, personal service, some have to be just starting at any given time, some declining. [4]
- (d)** Could improve the well-being of the workers so could improve productivity. Could cause wage rises which might cause price rises, could disrupt production which could cause detrimental effects on growth of economy. But without unions, workers could be exploited and in the long term the economy could suffer. Look for response which gives both sides of the argument. Maximum of 4 marks if one-sided discussion. [6]

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- 3 (a) Land, labour – farmer, capital – machines, fertilizers, entrepreneurs – manages enterprise, exporters also takes risks. 2 marks for simple identification of the four factors of production. [4]
- (b) Two diagrams. Labels (1), shift of demand for new pineapple (1), shift of demand for original pineapple (1), explanation including comment on what happens to equilibrium (3). [6]
- (c) Farmers might benefit if there are no price fluctuations. Depends on whether the exporter will still buy same quantity when the market demand falls and also how the agreed price compares with the equilibrium price. [3]
- (d) Candidates should discuss the case for supporting industry/services. Depends on circumstances, maybe new industry, the idea that the consumer merits more of the product/service, to provide employment in an area or, as in this case, subsistence farming or a dependence on one crop. Intervention does not necessarily produce the most economically efficient allocation but this may not be the aim. Maximum of 5 marks if one-sided discussion. [7]
- 4 (a) We do not know absolute figures so it does not mean this. Could award some marks for an attempt to discuss the difference between absolute and percentage figures. It is not certain what the absolute figures will be and the difference in the absolute incomes might mean that the absolute expenditure for each group is closer than the percentages would imply. [4]
- (b) Candidates should state the assumption on which they work. The most likely, although not universal, assumption is that the senior post has a higher income. Description of changes in expenditure patterns which might occur as income rises should then be explained – different types/quality of goods, services. Importance of essential, non-essential items. Meaning of what is essential as income increases. Candidates could also describe the need for savings for the future especially in the case of the new job. They could also mention that spending might be based on assumptions about changes in potential earnings, likely changes in employment, tax changes, interest rates. [6]
- (c) Should explain how an increase in spending can lead to extra income for others, increased employment, increased tax revenue for government, possible effects on balance of payments. (Explanation will be in general terms – multiplier is not on syllabus.) A positive or negative approach can be taken. [4]
- (d) Candidates should answer in terms of demand and supply, training, skill, wages in different sectors – agricultural, manufacturing, services - the perceived 'worth' of the job, public sector versus private sector, male/female differences. Maximum of 4 marks for a descriptive account which makes no reference to demand or supply. [6]

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- 5 (a) Expect one example of each type of tax (2) and a comment on whether the tax is levied on a person at the source of earning or on subsequent expenditure (2). [4]
- (b) Identification of two aims. Falling taxes might help change income distribution, might help income and spending and thus growth, might help production and thus move towards full employment. Maximum of 2 marks if the answer is in terms of an increase in taxation. [6]
- (c) To make better use of human resources, it will reduce government expenditure on benefit payments, it might result in less crime, it might encourage economic growth, it will increase national income and it may result in political votes. [5]
- (d) Comment on the different consequences of unemployment. No more than 3 marks for a list; could give up to 2 marks for identifying and discussing each type of consequence. A positive or negative approach can be taken. [5]
- 6 (a) Brief explanation of the meaning of specialisation in terms of efficient production, more economic use of resources. It can occur with division of labour at an individual level, with regional specialisation in production or at an international level. [5]
- (b) Description of three types of protection - quota, regulation, administrative restriction, embargo, tariff, or subsidies for local industry, granting of special rights, patents. Allow up to 2 marks for explanation of each of the examples. [6]
- (c) Definition relating to provision of resources in/on/under the land/sea. 1 mark for explanation of natural, 1 mark for explanation of resource, 1 mark for example. [3]
- (d) Discussion of exploitation versus conservation. Long term versus short term. Benefit in terms of employment, income, standard of living improvement against depletion of resources. Discussion of whether resources can be renewed. Discussion of whether it might be better to use only particular resources and rely on other countries for provision of products – specialisation. Maximum of 4 marks if one-sided discussion. [6]
- 7 (a) Factors include housing, sanitation, infrastructure, range of products available, education, health provision, GDP per capita. Candidates should choose three factors and write a conclusion about which, if any, is the most reliable. [6]
- (b) It is usually presumed that the standard of living is lower in developing countries. This may not be true. Population is not always high, and housing, consumer choice, education, health provision can be better than in developed countries. Also, some areas/groups in developing countries are extremely wealthy and have a high standard of living because the distribution of income is uneven or because they have control over rich resources. As an average, the generalisation is probably true however, and candidates can explain why. [6]

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- (c) Mention might be made of improvements in infrastructure, health, housing, education or other economic or social indicators. (Up to 5 marks.) Discussion could involve a comment on the improvement brought by investment by private sector and/or influence of public sector. The latter could involve subsidies, borrowing from foreign countries, encouraging multi-nationals, increased expenditure. (Up to 5 marks.) [8]