

MARK SCHEME for the May/June 2009 question paper
for the guidance of teachers

0455 ECONOMICS

0455/02

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.

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- 1 (a) Explanation in terms of output, employment, GDP. [4]
- (b) Discuss the use of resources, the increase in standard of living, the increase in incomes and well-being. [4]
- (c) Identify two aims with a comment on why they are important. 2 marks for identification, 2 marks for comment on each of the aims. [6]
- (d) Candidates could use the information given to discuss whether there will be enough resources to deal with the population, whether increased labour resource will be matched by capital and land resources, whether there will be unemployment or increased use of natural resources. An entirely one-sided answer gets a maximum of 4 marks. [6]
- 2 (a) Explanation in terms of formula, or description (2). Comment on range of elasticity and the meaning of high and low elasticity (2). [4]
- (b) Comment on the ability to predict what would happen to demand and therefore to income and to profits. Might use knowledge of elasticity of different products to decide which to expand. Might use knowledge of elasticity to help form pricing policy. Link between elasticity/price changes/total revenue. Supply elasticity not required but could allow this. [6]
- (c) Smokers derive a private benefit, but may also incur a private cost in buying cigarettes and in health terms. Non-smokers incur an external cost. Candidates could contrast the net private benefit with the overall net social benefit/cost. After the ban, there will be a reduction in external costs and, therefore, social costs. [6]
- (d) Manufacturers might decide that the low elasticity will mean that demand will be unchanged. They may decide that more people will be persuaded not to smoke, so may need to diversify. They may reduce costs by closing some production units, or try to find other markets where smoking is not prohibited. [4]
- 3 (a) Explanation of factors as means of production (2). Those in the extract are labour, capital and enterprise (2). [4]
- (b) Description of union functions, protect working conditions, be concerned about safety issues, negotiate over wages, sometimes provide education, take active role in collective bargaining, negotiate favourable deals for members with retail/service industries. [6]
- (c) Explanation about proportionate use of capital/machines/automation to other factors, rather than higher proportionate use of labour. [3]

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- (d) Need to discuss the relative demand for labour with and without the automation. The value of some labour may increase if they need to operate specialist machines, and the hours and wages of these workers may change as the union would like. However, for most workers, the unions may be able to negotiate about shorter hours, but it is unlikely that they will achieve this together with higher pay. [7]
- 4 (a) Definition of terms (2), explanation and examples (2), or 1 mark each for vertical back, vertical forward and horizontal with 1 mark for application. [4]
- (b) Any two types may be chosen. Candidates should contrast the size in terms of market, employment, output, the organisation, the structure, the method of raising finance. [6]
- (c) Discussion of benefits of size in terms of economies contrasted with possible diseconomies. Also, discussion for consumer on possible effect on prices, choice, limitation of other possible competitors. Up to 6 marks for discussion of either firm or consumer without a comment on the other element. [10]
- 5 (a) Explanation of term (2), application to example (2). [4]
- (b) Market failure is new to the syllabus. Candidates should define the term, give examples and discuss whether it applies in this case. [6]
- (c) Analysis of the use of regulation, taxation, subsidies. [10]
- 6 (a) Definition of inflation – a persistent (1) increase (1) in the general (1) level of prices (1). [4]
- (b) Explanation of calculation of retail price index. [6]
- (c) May consider using 3 marks for each, or mark as a whole. Will depend on person's situation, whether they consider inflation likely to continue and at what rate may affect savings. Unless incomes rise, spending as a proportion of income will increase, borrowing may increase to match spending or because of anticipated changes in future inflation. [10]
- 7 (a) Distinction between different ways of limiting international trade by quota and by tariff. [4]
- (b) Analysis of possible effects on specialisation of tariffs. [4]
- (c) Analysis of effect of free trade on those who export and those who import in terms of quantity, prices, choice, effect on balance of payments. [6]
- (d) Analysis of reasons for protection and support of home industry and employment with possible changes in incomes if tariffs are abolished. [6]