

## **MARK SCHEME for the October/November 2006 question paper**

### **0455 ECONOMICS**

**0455/04** Paper 4, 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 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.

The grade thresholds for various grades are published in the report on the examination for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2006 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



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- 1 (a) employment  
multiplier effects (do not expect this term)  
boost to exports  
by encouraging development of new skills  
introducing new technologies  
improved working conditions  
any other valid points, e.g. improvement in infrastructure.  
1 mark each, maximum (4). [4]  
There is no mark for a definition of a multi-national company.
- (b) Analysis of the idea of specialisation and opening markets worldwide, production at lower costs, increased efficiency, more competition, wider choice, lower prices. Note: core candidates are required to know about specialisation at international level but not about comparative advantage. Identification up to 3 marks. Explanation up to 3 marks. [6]  
If candidates only deal with the first sentence, maximum of 4 marks.
- (c) There will be unemployment if clothing manufacture ceases (1), but this could be replaced by manufacture of pharmaceuticals (1), boost exports (1), the great advantage that B has, was that its production was much cheaper than other countries (1). Straight copying: 2 marks maximum. [4]
- (d) One industry is very labour intensive, the other is not. 50,000 currently in medicines, 1.8m currently in clothing.  
  
Occupational immobility of labour. e.g. lack of skills.  
  
Multi-national companies may be wary of locating in Bangladesh, due to possible instability. (Note – we do not expect candidates to demonstrate a detailed knowledge of Bangladesh.) [6]
- 2 (a) Equilibrium: 1 Demand = Supply; 1 no tendency to change; 1 diagram: up to 3 marks.  
Disequilibrium: 1 Demand does not equal Supply; 1 excess Supply; 1 excess Demand; 1 diagram; up to 3 marks. [4]  
(Note – candidates do not have to include a diagram.)
- (b) Increased demand because, for example, of an increase in incomes. 2 diagram (labels and equilibrium 1, shift 1); 2 explanation. Maximum of 4 marks.  
  
Increased supply because, for example, cost reduction. 2 diagram (labels and equilibrium 1, shift 1), 2 explanation. Maximum of 4 marks. [6]  
(Note – if candidates include 2 diagrams, credit the labelling once only.)
- (c) 2 for definition either in terms of formula or in words; 3 for suggested factors. Habit, availability of substitutes, proportion of income. (May get all 3 for one point if sufficiently developed.) [5]
- (d) Knowledge of price elasticity would enable the company to anticipate the effect on its sales and therefore on its revenue and profit if it changed its price; e.g. if it raised its price, sales would fall, but sales revenue and profit would rise if demand were inelastic. 3 explanation of relationship, 2 conclusion. [5]  
(Note – maximum of 3 marks if no reference to holiday towns.)
- 3 (a) Statement of any four factors. e.g. Working conditions, holiday entitlement, lack of appropriate qualifications, travel time, career prospects, fringe benefits. [4]
- (b) Explanation of the sectors. 3 marks. Description of the changes that might occur in the balance between the primary, secondary and tertiary sectors. 3 marks [6]
- (c) Explanation of the meaning of the term – employees, similar trade/service, aim of improving working conditions of employees. [3]
- (d) Up to a maximum of 5 marks for a descriptive account of the relative strengths of trade unions. A further 2 marks can be awarded for either the theoretical context or application to different occupations. [7]

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- 4 (a)** Explanation of construction of retail price index, Basket, base, weight. [6]
- (b)** Candidates should choose any two government aims, listed in syllabus and give a brief explanation of the meaning of these. Full employment, economic growth, redistribution of income, balance of payments stability. 1 identification, 1 explanation in each case. [4]
- (c)** Candidates could explain cost-push inflation or discuss it as a direct consumer price increase. [4]
- (d)** Increased direct taxes, increased interest rates, reduce government expenditure etc. Up to 4 marks for one action thoroughly discussed. [6]
- 5 (a)** Explanation of meaning of resources (up to 2 marks), and the conservation of those resources rather than their use. (**up** to 2 marks.) [4]
- (b)** Beneficiaries could be the developers, the people who will use the development – it might be a shopping precinct, new commercial premises or a housing estate. Employment should increase, neighbouring businesses might benefit, transport providers should benefit. Who would be the beneficiaries up to 3 marks, why they would benefit and particular situations up to 3 marks. [6]
- (c)** Explanation of regulations, licences, taxes. (Note – not all three are required; one or two, if done well, could gain all 3 marks.) [3]
- (d)** Answer could mention externalities from the development, visual intrusion, noise, pollution, destruction of homes, communities, or possible loss of profits to existing businesses from new competition. [7]
- 6 (a)** 3 marks for each pair. (Examples of each pair, 1 mark.) [6]
- (b)** Comment on the need to raise revenue and the uses to which the government puts the revenue. Taxes can also be used to redistribute the income/wealth. Correction of market failure, promotion of macro aims. 1 for identification and up to 2 marks for development per point. Maximum 4 marks for list of points. [6]
- (c)** Effect on prices, growth, employment, exports, imports, migration, incentives, government revenue and spending, saving and investment. Identification alone up to 4 marks. [8]
- 7 (a)** Fixed 1, Variable 1, Average 1, Total 1. [4]
- (b)** Discussion of effect on costs, fixed will increase, if labour is classed as variable it will decrease, uncertain what will happen to total but could assume that the average total cost will decrease because of efficiency. Classification of costs 2 marks, consideration of efficiency of factors 2 marks, conclusion 2 marks. [6]
- (c)** Explanation of different types of integration, horizontal (1), vertical forward (1), vertical backwards (1), conglomerate (1); discussion of possible benefits in terms of cost saving, profit increases, gain in market (6). [10]