

**MARK SCHEME for the October/November 2007 question paper**

<b>0455/04</b>	<b>0455 ECONOMICS</b> Paper 4 (Extended), maximum raw mark 80
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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.

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

CIE is publishing the mark schemes for the October/November 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

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- 1 (a) Explanation of land, labour, capital, and enterprise. [4]  
A list of four factors, 2 marks only.  
A list of three factors, 1 mark only.
- (b) More capital and more investment but less labour. [2]
- (c) Explanation of fixed and variable costs. Fixed cost will increase with new technology. Labour may be a fixed or a variable cost but likely delivery staff are thought to be a variable cost. As labour may be replaced by machines, this will decrease. However, if labour is paid more, the overall effect is uncertain. [4]
- (d) Price rises usually cause demand to fall and switch to other substitutes. This may not be thought to be a sufficient increase to cause many to switch to alternative means of communication. Extended candidates could mention price elasticity of demand. [4]
- (e) Only comparison on price is with Italy and Germany.  
No real information about rate of inflation, only a general statement about price comparing well.  
Delivery figures do seem to support the claim that Royal Mail is providing good service (but only comparison is with France).  
Only one delivery a day now, no comparison on that with other countries.  
Statement about investing in training and technology.  
Does say it needs to make profits. Not sure how much will be re-invested.  
The conclusion is uncertain as there is insufficient evidence. [6]  
A maximum of 4 marks for a one-sided answer.
- 2 (a) May employ people from different countries but this is not the definition. Has to operate in different countries. Governments may be involved in multi-national companies but this again is not the definition and most would be privately owned. [4]
- (b) Group of people working together in a similar occupation, promote welfare, safety, negotiate wages. [6]
- (c) Merger, integration, take-over, advertising, internal growth financed through retained profits, share issues, borrowing, marketing and advertising which lead to increased demand.  
Need to consider both internal and external factors to gain the maximum 4 marks. If one or the other is considered, maximum 2 marks. [4]
- (d) Explanation of principle of reduced cost per unit and description of different types of economies of scale. [6]  
Up to a maximum of 4 marks if no reference to the car industry.

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- 3 (a)** Explanation of principle. Must mention 'next best' or 'best' for 2 marks. Application in terms of what might be given up – for example, might get higher pay but give up shorter journey, might give up possible alternative job, might give up holidays by switching employment, 1 mark. [3]
- (b)** Could be a range of non-wage factors, could be amount of skill required, may be a manager or a clerical worker, differences in male and female, extent of union activity, supply of and demand for labour can be mentioned. [7]  
Maximum of 5 marks if not related to a service sector occupation.
- (c)** Comment on long term rather than short term view, reasons for saving – for particular item, for big occasion, to pay previous debts as a precaution. Could comment on overall level of income; higher proportion saved with higher income. [4]
- (d)** Traditionally, lower rates discourages saving and encourages borrowing. Credit card purchases not paid immediately are equivalent to borrowing. There is likely to be an increase in spending on those goods financed by credit cards. This is fairly short term so unlikely to affect savings, but might. Spending might increase if can pay the debt within the four months. Will not affect those who pay everything as the accounts arrive. [6]  
Accept discussion on interest rates.
- 4 (a)** Any three which could be connected with age distribution, birth rate, death rate; occupational distribution; dependency ratios, extent of malnutrition. [3]
- (b)** Comment on validity of using GDP. Difficulties of comparison over time and between countries, problems of informal economy, inflation, income per head, non-economic factors influencing standard of living, exchange rates. [7]
- (c)** External benefits; low income so cannot afford private education; long-term nature of benefit from education for country. [4]
- (d)** Increased skills; increased income; increased productivity; consequent increased growth and development; less reliance on foreign help and support, improved health education and awareness. [6]

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- 5 (a) Concentration on a particular skill, or in this case a particular product, which it is thought the country is better suited to providing. [4]
- (b) Text books will tell you that specialisation will produce greater efficiency. However, this has implications in terms of the human cost of this through loss of income, employment, impoverishment of regions and general disaffection of those who are not involved in the specialised areas. [6]
- (c) Explanation of the three sectors with examples. [3]  
If no examples given, maximum of 2 marks.
- (d) Potential increase in incomes, employment, less reliance on products with greatly variable prices, difficulties of storage and transportation. Better opportunities for economic growth. [7]
- 6 (a) Explanation of allocation through the price system, role of demand and supply, role of consumer sovereignty, lack of government intervention. [4]
- (b) Market economies theoretically allow choice, competition, consumer sovereignty. They also have market failure, no account of externalities, and social benefits and costs. [8]  
Maximum of 5 marks if one-sided.
- (c) Pro: encourage home industry, aid balance of payments, support strategic industries, prevent dumping.  
Con: it counters comparative advantage, interferes with market mechanism and efficiency allocations. [8]  
Maximum of 5 marks if one-sided.
- 7 (a) Explanation of the aim of reducing inequalities in income between groups, promoting economic growth and on controlling the rate of inflation. [6]
- (b) Taxes, indirect, direct. Subsidies, grants, transfer payments. [6]
- (c) Increased spending, employment programmes, encourage exports, trade protection, tariffs, tax changes, interest rate changes. [8]