CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2015 series

2281 ECONOMICS

2281/12 Paper 1 (Multiple Choice), maximum raw mark 30

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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International Examinations

Question Number	*Key*	*Question Number*	*Key*
1	**B**	16	**D**
2	**C**	17	**A**
3	**A**	18	**A**
4	**C**	19	**C**
5	**B**	20	**C**
6	**C**	21	**B**
7	**A**	22	**D**
8	**A**	23	**B**
9	**B**	24	**D**
10	**A**	25	**C**
11	**B**	26	**D**
12	**C**	27	**D**
13	**A**	28	**A**
14	**A**	29	**B**
15	**B**	30	**D**

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Question Number	*Key*	*Question Number*	*Key*
1	**D**	16	**B**
2	**D**	17	**A**
3	**C**	18	**D**
4	**D**	19	**C**
5	**D**	20	**A**
6	**C**	21	**A**
7	**A**	22	**A**
8	**A**	23	**C**
9	**A**	24	**A**
10	**C**	25	**B**
11	**D**	26	**B**
12	**D**	27	**D**
13	**B**	28	**B**
14	**B**	29	**B**
15	**B**	30	**D**

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2281 ECONOMICS

2281/22 Paper 2 (Structured Questions), maximum raw mark 90

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1 (a) Using information from the extract, calculate what percentage of Mexico's labour force was employed in the tertiary sector in 2012. [2]

65% (2)
100% – 35%/62% + 1% + 2% (1)

Also accept: 62.64% (2)
12% – 1% = 11.88%
26% – 2% = 25.48%
100% – 37.36%

(b) Using information from the extract, explain <u>two</u> benefits of free trade for Mexican firms. [4]

One mark each for each of two benefits identified:

- ability to buy raw materials from abroad/a wide choice of sources for imported raw materials (1)
- a large market/a large international market in which to sell their products (1)

One mark each for each of two explanations given:

- raw materials may be of higher quality or lower price/reduce firms' costs of production (1)
- a large market may increase potential revenue/increase profits/allow greater advantage to be taken of economies of scale (1)

Note: explanation marks dependent on identification marks.

(c) (i) Explain why people in countries with a higher GDP per head have a longer life expectancy than people in countries with a lower GDP per head. [2]

- higher income is likely to mean better nutrition (1)
- people will be able to afford more/better quality healthcare (1)
- higher income is likely to mean better housing (1)
- higher income is likely to mean better education (1)
- higher income may raise living standards (1)
- countries with higher incomes may have better sanitation (1)
- higher income may increase government tax revenue (1) and so greater ability to provide good quality healthcare (1)

Note: any of these points may be developed for the second mark e.g. better healthcare can reduce the illnesses people experience.

(ii) Using Table 1, comment on whether the information supports the view that countries with a higher GDP per head have a longer life expectancy than countries with a lower GDP per head. [3]

One mark for decision:

- yes/generally yes (as an overall judgement)

One mark for supporting evidence e.g.:

- Canada has highest income and longest life expectancy

- the four countries with the highest GDP per head (Canada, Portugal, Mexico and Peru) have the longest life expectancy

One mark for conflicting evidence e.g.:

- South Africa has a higher GDP per head than Bangladesh but a lower life expectancy
- Peru has lower GDP per head than South Africa but a longer life expectancy
- Bangladesh does not follow the trend

(d) Using information from the extract, explain <u>two</u> reasons why emigration from Mexico has fallen. [4]

- improved economic performance/expected to be one of the top ten economies (1) likely to increase employment opportunities/incomes (1)
- higher incomes/reduced poverty (1) improved living standards (1)
- improved healthcare/longer life expectancy (1) improved quality of life (1)
- falling unemployment in Mexico/rising unemployment in USA (1) increased employment opportunities/living standards in Mexico (1)

(e) Discuss whether rises in costs of production in China will benefit the Mexican economy. [5]

Up to 3 marks for why it might:

- price of Chinese exports may increase (1) this may make Mexican exports/Mexican products relatively more price competitive (1) Mexico may be able to capture some of China's share of foreign markets/domestic firms may gain (1) improve current account/balance of payments position (1) reduce unemployment (1) increase GDP (1)
- may encourage Chinese MNCs to set up in Mexico to take advantage of lower costs (1) may raise GDP in Mexico (1) increase employment in Mexico (1)

Up to 3 marks for why it might not:

- imports from China will be more expensive (1) if there are not domestic substitutes (1) this may cause inflation in Mexico (1) due to higher raw material costs (1) and less pressure on domestic firms to keep prices low (1)
- any Chinese MNCs based in Mexico may experience lower profits/losses in plants in China (1) this may lead to a reduction in investment in their plants in Mexico (1) and/or cause them to raise prices in Mexico to compensate for their losses in China (1)
- costs may rise in China but these may reflect higher quality (1) if quality of Chinese products does rise, demand for Chinese products may remain high (1)

(f) Explain <u>two</u> ways in which a monopoly differs from perfect competition. [4]

- many firms in perfect competition (1) but only one in monopoly (1)
- barriers to entry into and exit from the industry in monopoly(1) none in perfect competition but high in monopoly (1)
- perfectly competitive firms are price takers (1) whereas monopolists are price makers (1)
- homogeneous product in perfect competition (1) whereas unique in monopoly (1)
- perfect information in perfect competition (1) but not monopoly (1)

Note: maximum of 2 marks for two or more characteristics identified with no explicit comparison.

(g) Discuss whether selling a state monopoly, such as Pemex, to the private sector would benefit consumers in Mexico. [6]

Up to 4 marks for why it might:
- may introduce more competition (1) this may lower prices (1)
- may provide a greater profit incentive (1) this may raise efficiency (1) encourage firms to produce what consumers want (1) lower costs of production (1)
- may increase investment (1) this could improve the quality of products (1)
- firms knowing they will not be supported by the government (1) may be forced to be more efficient (1)
- may be easier to raise finance (1) can sell shares (1)

Up to 4 marks for why it might not:
- a private sector monopoly may abuse market power (1) may restrict supply (1) raise price (1) reduce quality (1)
- private sector firms are unlikely to charge prices below cost to help poor consumers (1)
- private sector firms may not take into account external costs and benefits/welfare (1) so they may under or over-produce (1)
- the state may have financial resources (1) be able to invest on a larger scale (1).

2 (a) Define 'resources'. [2]

- factors of production/inputs (1) used to produce goods and services (1)
- identification of type of factor of production – land (natural resource), labour (human resource), capital, entrepreneur (1)

(b) Explain how international travel may create external costs. [4]

- external costs are harmful effects (1) imposed on third parties (1) social costs minus private costs (1)
- reason why international travel may cause negative externalities e.g. planes burning fuel creating carbon dioxide (1)
- examples of external costs caused by international travel e.g. air pollution, noise pollution, visual pollution, congestion, damage to wildlife and damage to the health of those not travelling (up to 2 marks)

(c) Analyse how an increase in international travel may influence incomes. [6]

- likely to increase incomes (1)
- more jobs are likely to be created in the tourist/travel industry (1) previously unemployed people who gain jobs will now have an income (1) people already in the industry may gain higher wages (1)
- more jobs are likely to be created in industries linked to the tourist/travel industry e.g. insurance, banking, retailing (1)
- the increased spending of people in the tourist/travel industry (1) is likely to increase demand for a range of other goods and services (1) leading to higher employment and incomes in other industries (1)
- increases geographical mobility of labour (1) workers can move in search of higher incomes (1)
- more people visiting a country may raise government tax revenue (1) enabling the government to pay higher wages to workers in the public sector (1).

- holidays/business at home may be a substitute for holidays/business abroad (1) if e.g. more people holiday abroad, incomes at home may fall due to fall in demand for domestic holidays (1).

(d) Discuss whether demand for international travel is likely to continue to increase. [8]

Up to 5 marks for why it might:
- if incomes rise (1) international travel is a luxury good (1) business travel as well as tourism is likely to rise (1)
- if the price of international travel falls (1) demand is likely to rise/extend (1)
- a rise in population (1) more people to travel (1)
- a fall in the price of complements (1) for instance, hotel prices (1)
- people may travel for a better future (1) in search of better employment opportunities (1)

Up to 5 marks for why it might not:
- incomes may fall (1) there may be a global recession (1)
- price may rise (1) causing a contraction in demand (1)
- population may fall (1) fewer people to travel (1)
- a rise in the price of complements (1) for instance taxi fares to airports/holiday insurance (1)
- accidents or fear of terrorism may dissuade people from travel (1)
- rise in availability of substitutes e.g. Skype, videoconferencing (1)

3 (a) Define 'supply'. [2]

The willingness (1) and ability to sell a product/good(s) or service(s) (1)
The idea of making a product available/putting it on the market/producing a product (1)

(b) Explain <u>two</u> ways a government could influence the price of a product. [4]

One mark each for each of two ways identified:
- a subsidy
- a tax/indirect tax/tariff
- the setting of a maximum price
- the setting of a minimum price
- changing the price of product produced by the public sector

One mark for each of two explanations:
- a subsidy will be likely to lower price (as a payment is given to producers)
- a tax/tariff will be likely to raise prices (as an extra cost is imposed on firms)
- a firm would not be able to charge more than a maximum price
- a firm would not be able to charge less than a minimum price
- the government may produce a range of products e.g. energy

(c) Analyse why demand for a product may become more price-elastic. [6]

- there may be closer substitutes (1) making people more willing to switch between products (1)
- the price may rise (1) as products more expensive, people become more sensitive to price changes (1)

- the product may become less of a necessity/more of a luxury (1) this would mean a change in price would have more impact on demand (1)
- the product may be taking up a larger proportion of people's income (1) this would mean that a change in the price would be more noticeable (1)
- the product has become less addictive (1) this would mean that people will become more willing to alter their demand (1)
- it may become easier to postpone buying the product (1) this would mean that a rise in the price of the product would cause a greater percentage fall in demand (1)
- a longer time period (1) gives people more time to find substitutes (1)

Note: maximum of 3 marks for a static approach e.g. luxuries, and products with a high number of substitutes, and products whose purchase would take up a large proportion of income would be likely to have elastic demand.

(d) Discuss whether the wages of all workers will increase during a period of economic growth. [8]

Up to 5 marks for why they might:

- output will be increasing (1) this will raise demand for labour (1) putting upwards pressure on wages (1)
- higher demand for labour will reduce unemployment (1) this will increase competition for workers (1) firms may have to raise wages (1) to attract workers (1) unions will have stronger bargaining power (1)
- higher output will increase the wages paid to workers on piece-rates (1) pay linked to output (1)
- economic growth may be associated with higher profits/higher revenue (1) increasing firms' ability to pay higher wages (1)

Up to 5 marks for why they might not:

- whilst total demand may be increasing (1) demand for certain products/skills may be falling (1) structural unemployment may lower the bargaining power certain group of workers (1)
- economic growth may arise due to advances in technology/higher investment (1) this may increase the demand for skilled workers relative to unskilled workers (1) this may reduce the wages of unskilled workers (1)
- economic growth may be combined with inflation (1) workers' wages may not rise in line with inflation (1)
- some workers may have long term contracts with set wages (1) it may take time for their wage rates to adjust (1)
- the supply of some workers may increase by more than others (1)
- economic growth is likely to involve change (1) workers who are geographically or occupationally immobile may have to stay in low paid jobs (1)
- may just increase employment (1)

4 (a) Define 'productivity'. [2]

Output per worker/factor (1) per hour/time period (1)

Note: second mark is dependent on the candidate gaining the first mark.

(b) Explain <u>two</u> reasons why productivity may increase. [4]

One mark each for each of two reasons identified:
- improved education/training
- increased investment /advances in technology
- increase in wages
- increase in monetary rewards
- shorter working hours
- higher unemployment
- greater specialisation

One mark for each of two explanations given:
- improved education/training may raise skills and more skilled workers can produce more
- increased investment /advances in technology – more up to date capital goods are likely to produce more
- increase in wages may motivate workers to work harder
- provision of e.g. a free car/good pension scheme may motivate workers to work harder
- shorter working hours may mean that workers may have more energy
- higher unemployment may mean that those who retain their jobs may be more the more skilled workers
- greater specialisation may make workers more efficient

(c) Analyse why a country may have a high HDI value. [6]

- a good healthcare system/high spending on healthcare (1) high investment in hospitals (1) will increase people's life expectancy (1)
- a good education system/high spending on education (1) high income/more schools enabling families to send their children to school for a number of years (1) positive attitudes to education (1) may lead to higher mean/expected years of schooling (1)
- a high level of total demand (1) good quality of resources/high productivity (1) sound economic policies (1) can result in a high GDP per head/high income (1)

Note: no marks for just stating the three components of the HDI – must relate to an increase in HDI.

(d) Discuss whether a country would benefit from having full employment. [8]

Up to 5 marks for why it might:
- efficient use of resources (1) working at full capacity/producing on the production possibility curve (1) making as much output as possible/increase output (1) high living standards (1) low poverty (1)
- low spending on unemployment benefits (1) high tax revenue (1) government spending on other areas e.g. healthcare and education can increase (1)
- government policy measures do not have to be used to lower unemployment (1) they can concentrate on other areas e.g. a balance on the current account of the balance of payments (1)
- may reduce crime rates (1) lower government spending on e.g. prisons (1)

Up to 5 marks for why it might not:
- productivity may fall (1) the last people employed may not be as skilled (1)

- inflation may occur (1) shortage of workers can raise wages (1) cause cost-push inflation (1) high incomes will lead to high demand (1) cause demand-pull inflation (1)
- firms may find it difficult to expand (1) as hard to recruit extra workers (1) supply constraint (1) rising demand with a supply constraint may result in more imports (1) worsening the current account position (1)
- resulting high incomes may increase demand for imports (1) which may cause a current account/balance of payments deficit (1)
- full use of resources may result in environmental damage (1) depletion of natural resources (1)

5 (a) Define 'medium of exchange'. **[2]**

A form of money (1) that is used to buy and sell products (1) generally acceptable (1)

(b) Explain <u>two</u> ways in which a central bank differs from a commercial bank. **[4]**

- it is one of the functions of a central bank to issue notes and coins (1) a commercial bank is usually not allowed to issue notes and coins (1)
- the customers of the central bank are commercial banks and the government (1) people and firms are the customers of commercial banks
- the central bank implements monetary policy (1) commercial banks are affected by monetary policy (1)
- the central bank is government owned (1) commercial banks are usually in the private sector (1)

(c) Analyse how an increase in the money supply may cause inflation and a fall in saving. **[6]**

- an increase in the money supply may increase spending (1)
- may increase the circular flow (1)
- spending may increase by more than output (1)
- too much money chasing too few goods (1) causing demand-pull inflation/monetary inflation (1)
- people may spend more now before prices rise (1) also less income may be available to save with higher prices (1)
- the rate of interest may rise by less than inflation (1) and so people will lose by saving (1)
- an increase in the money supply usually reduces the rate of interest (1) a lower interest rate reduces the incentive to save (1)

(d) Discuss whether price stability should be a government's main economic aim. **[8]**

Up to 5 marks for why it might:
- price stability is the avoidance of fluctuations in the price level
- price stability can lessen the chance of purchasing power being eroded (1) meaning people will be able to buy fewer goods and services with the same amount of money (1) protecting living standards (1)
- price stability can give firms confidence (1) this will encourage them to invest (1)
- price stability can give people confidence (1) this will encourage them to save (1)
- price stability can increase international competitiveness (1) improve the current account position (1)

- price stability can discourage people and firms from acting in ways that will cause inflation (1) e.g. asking for wage rises (1)
- price stability can encourage MNCs to set up in the country (1) creating output and employment (1)
- price stability can benefit those on fixed incomes (1) as their purchasing power will not be eroded (1)
- price stability reduces menu costs (1) firms will not have to change prices so frequently (1)
- price stability lowers shoe leather costs (1) firms will not have to move money in search of the highest interest rate (1)

Note: candidates may approach this by examining the problems of inflation e.g. inflation may discourage MNCs setting up in the country.

Up to 5 marks for why it might not:

- inflation can have benefits (1) may stimulate output (1) if demand-pull inflation (1) may reduce debt burden (1) may cut real wage bill (1)
- policy measures designed to reduce inflation may cause unemployment/slow economic growth (1) e.g. high interest rates may discourage spending and investment (1) lower demand (1)
- pursuing other aims may bring benefits (Up to 2 marks for identifying other aims). Up to 2 marks for developing another aim e.g. economic growth can create employment (1) raise living standards (1)
- what should be the main aim will be influenced by the level of economic activity (1) e.g. if unemployment is very high that may be causing significant problems (1)

6 (a) Define 'capital good'. [2]

A human-made good (1) used to produce other goods and services (1) example e.g. machinery (1).

Note: do not accept money as an example.

(b) Explain <u>two</u> reasons why a country's export revenue might increase when export prices rise. [4]

One mark each for each of two reasons identified:

- inelastic demand for exports
- fall in exchange rate
- increase in demand
- rise in investment
- removal of trade restrictions abroad
- inflation in other countries

One mark each for each of two reasons given:

- inelastic demand for exports would mean demand falling by less than the rise in price
- fall in exchange rate would make exports relatively cheaper
- demand may increase as a result of e.g. a rise in incomes abroad
- rise in investment may make exports more quality competitive
- removal of trade restrictions abroad may make exports cheaper in foreign markets
- prices may rise by more in other countries

(c) Analyse how a government could increase the surplus on the country's current account of the balance of payments. [6]

- reduce the value of the currency (1) lower export prices (1) raise import prices (1) increase demand for exports (1) decrease demand for imports (1)
- impose trade protection (1) e.g. a tariff would increase the price of imports (1) which is likely to reduce the demand for imports (1)
- subsidise domestic output (1) lower price of exports (1) increase demand for exports (1) lower demand for imports (1)
- increase income tax (1) lower demand for imports (1) put pressure on domestic firms to export due to lower demand at home (1)
- improve education and training (1) raise productivity (1) cut costs of production (1) make domestic products more internationally competitive (1)
- reduce inflation (1) may make domestic products more internationally competitive (1)

(d) Discuss whether new airports should be built and operated by governments or the private sector. [8]

Up to 5 marks for why governments should:

- more likely to take into account social costs and benefits/welfare (1) will not base decisions just on private costs and benefits (1) will consider external costs and benefits (1) e.g. lowering pollution (1)
- a government may set price relatively low (1) in order to allow more people to use it (1) to lower costs for domestic firms (1) to increase international competitiveness (1)
- a government may have the finance available (1) tax revenue (1)

Up to 5 marks for why the private sector should:

- may be more efficient (1) keep costs low (1) quality high (1) due to the desire to make a profit (1)
- may have experience of building and operating an airport (1) increase efficiency (1)
- a government spending money on an airport involves an opportunity cost (1) if the private sector builds and operates an airport, the government can spend money on other areas (1)

7 (a) Identify <u>two</u> characteristics of a developed country. [2]

1 mark for **each** of **two** of the following e.g.:

- high GDP per head/high average income
- high living standards
- high life expectancy/low death rate
- high proportion of the labour force in the tertiary sector/low proportion in the primary sector
- low infant mortality rate
- high labour productivity
- high level of saving
- high investment
- high level of literacy
- low birth rate
- good infrastructure
- good healthcare

Note: do not accept high GDP.

(b) Explain two reasons why people may spend most of their income. [4]

One mark each for each of two reasons identified:
- low income
- low interest rate
- may be confident about the future
- may be a lack of sound financial institutions in the country
- tax rates
- high cost of living/inflation/fear of inflation/ low prices

One mark each for each of two explanations given:
- buying basic necessities may take up most of the income of the poor
- low interest rate would mean it is not financially rewarding to save
- if people expect higher income in the future, they may start spending more now
- a lack of sound financial institutions in the country may mean that people may not have the ability or willingness to save
- high tax rates may mean low disposable income and so people have to spend a high proportion to buy necessities/cut in tax rates may allow people to spend a higher proportion of total income
- high cost of living/inflation would mean people would have to spend more to purchase products or fear of inflation may encourage people to spend more now or low prices may encourage people to spend more

(c) Analyse how an increase in investment may increase a country's economic growth rate. [6]

- higher investment adds to total demand (1) higher demand for capital goods will encourage the capital goods industry to produce more (1)
- higher investment can enable firms to take advantage of advanced technology (1) raise productivity (1) reduce costs of production (1) lower costs can reduce prices (1) lower prices can raise expenditure (1) this will encourage firms to raise output (1)
- higher investment in education/training (1) can raise labour productivity (1) increase productive capacity (1)
- higher investment in healthcare (1) can raise labour productivity (1) reduce absenteeism (1)
- higher investment on infrastructure (1) can facilitate greater production by lowering costs (1)
- higher investment can increase international competitiveness (1) raising demand for domestically produced products (1)
- higher investment will increase the amount of goods and services that can be produced (1) increasing productive capacity (1)

(d) Discuss whether fiscal policy measures will reduce poverty. [8]

Up to 5 marks for why they might:
- increased government spending on education and healthcare (1) can raise people's skills (1) increase their opportunity to gain employment (1) raise earning potential (1) this may be financed by increased taxation (1)
- increased government spending will add to total demand (1) this will encourage firms to produce more (1) increasing employment (1)

- increased government spending on benefits (1) can raise the income of some of the poor (1) increase ability to buy basic necessities (1)
- lower indirect taxes (1) will provide the poor with the opportunity to buy more products (1)
- lower direct taxes (1) may increase consumer expenditure and investment (1) creating job opportunities (1) increase incentive to work (1)
- government subsidies (1) may lower prices faced by the poor (1) increase output (1) create jobs (1)

Up to 5 marks for why they might not:

- increased government spending and lower taxes may benefit the rich more (1) this will increase relative poverty (1)
- reduced government spending may lower demand (1) reduce output (1) increase unemployment (1)
- increased taxation may lower demand (1) reduce spending power of the poor (1) may act as a disincentive to work (1).
- expansionary fiscal policy can cause inflation (1) this can reduce the purchasing power of the poor (1)

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1 **(a) Using information from the extract, calculate the number of people living in poverty in Rwanda in 2012.** **[2]**

- 5.04 m or 5 040 000 (2)
- 42% of 12 m or 42 / 100 × 12 m (1)

(b) Explain how in a country such as Rwanda, an increase in government spending on education and healthcare could reduce poverty. **[5]**

- spending on education should raise the skills of workers (1) increase productivity (1) raise employment opportunities (1) increase earnings (1)
- spending on healthcare should increase productivity (1) reduce time away from work due to illness (1) enable people to work to a higher age (1) increase earnings (1)
- access a basic necessity (1) spending on education/healthcare would increase access to a basic necessity of life in today's society (1)

(c) Using information from the extract, explain <u>one</u> reason why the average age of Rwanda's population may increase in the future. **[2]**

- improved/increased healthcare (1) could reduce infant mortality and death rate/increase life expectancy (1)
- net inward migration (1) the average age of migrants may be higher than those originally born in the country (1)
- improved/increased education (1) could lead to better planning/reduction in birth rate

(d) Using Table 1, comment on whether economists would expect to see the relationship shown between the migration rate and the economic growth rates. **[4]**

- Yes, they would/it does support (1)
- Up to 2 marks for evidence from the table e.g. Macau with net immigration of +3.5 had the highest economic growth of 10.00% and South Africa with net migration of –6.2 had the lowest economic growth rate of 2.6%.
- Up to 2 marks for an explanation of the relationship e.g. high economic growth leads to higher inward migration because more jobs are available

(e) Using information from the extract, explain whether agriculture in Rwanda is capital-intensive or labour-intensive. **[2]**

- labour-intensive (1)
- little investment/farmers lack equipment (1)

(f) Discuss whether concentrating on products with inelastic demand will benefit farmers. **[5]**

Up to 3 marks for why it might:

- will be able to raise price (1) demand will fall by a smaller % (1) raise revenue (1)
- inelastic demand suggest a lack of competitors (1) gives farmers more market power (1)
- specialisation can increase efficiency (1) raise output (1)
- provides a steady source of income (1) even with changes in prices (1)

Up to 3 marks for why it might not:
- Risk of demand decreasing (1)
- PED can change over time (1) may become more elastic in the long run (1)
- PED may not have been calculated accurately (1)
- Demand is influenced by more than price (1) e.g. the products may become less popular as income rises (1)
- Rwandans cannot afford to buy (1) if prices of staple products rise too much (1) which in the longer term could reduce farmers' income
- Farmers may concentrate on too narrow a range of crops (1) and could be adversely affected by poor weather (1)
- If prices become too high (1) this may result in imports (1) reducing the revenue to local farmers (1)

(g) Using information from the extract, explain <u>two</u> reasons why the price of food in Rwanda may fall. [4]

- Reduction in tariffs on imported food (1) directly reduces the price of some food items (1) increase competitive pressure on Rwandan farmers to keep price of food low (1)
- Increased productivity in farming (1) due to improved education/government policy measures (1) lower costs of producing food (1)

(h) Discuss whether an increase in borrowing by households and firms in a country will benefit its economy. [6]

Up to 4 marks for why it might:
- households may borrow to spend on their education or healthcare or the education or healthcare of their children (1) this may raise productivity (1) increasing international competitiveness (1) improving the current account position (1)
- firms may borrow money to invest (1) this may increase output (1) raise employment (1)
- increase in demand (1) leads to higher output (1) and reduced unemployment (1)

Up to 4 marks for why it might not:
- households may borrow to buy imported products (1) worsen the current account position (1)
- increase in spending may cause inflation (1) if close to or at full employment (1)
- households and firms who borrow may get into debt (1) firms may go out of business (1) households who get into debt will be able to spend less in the future (1)

2 (a) Define 'average revenue'. [2]

Total revenue divided by (1) quantity sold/output (1)
Price (1)

(b) Explain <u>two</u> reasons why luxury products often have elastic demand. [4]

- take up a large proportion of people's income (1) means any change in price is significant (1)
- the purchase of luxury products can be postponed (1) not necessary to buy luxury products now/not a regular purchase/does not have to be purchased (1)
- some luxury products may have close substitutes (1) this would mean a rise in the price of the luxury product would cause consumers to switch to the substitute (1)

(c) Analyse how a perfume producer could make the supply of its product more price elastic. [6]

- price elastic supply (PES) means that a percentage change in price will cause a greater percentage change in supply/PES is greater than 1 (1)
- investing in new capital equipment (1) should mean firms have more productive equipment (1) speed up the production process (1) make supply more responsive to changes in price (1)
- increasing storage facilities (1) increasing the shelf life of the perfume (1) if price rises, perfume can be taken out of storage to meet the higher demand (1)
- improve supply chain (1) source from different countries/providers (1)

(d) Discuss whether a firm would make more profit from producing in a foreign market rather than exporting to that market. [8]

Up to 5 marks for why it might:

- cheaper transport costs (1) may be significant if the foreign market is large or a long distance from the country (1)
- may be able to hire workers at a lower wage rate (1) employ more productive workers (1) may be able to purchase cheaper raw materials (1)
- may have closer contact with foreign consumers (1) more awareness of changes in demand in the market (1) may overcome any resistance to foreign produced products (1)
- may gain government subsidies to set up in the country (1)
- may get round import restrictions (1) this would enable them to sell products more cheaply in the foreign market (1)
- locally based means better understanding of market (1) and can react more quickly to changes in demand (1)

Up to 5 marks for why it might not:

- having some of its production in a foreign market rather than producing it all at home may mean branches are smaller (1) may mean less advantage can be taken of economies of scale (1) for instance, technical economies of scale (1)
- there may be some problems co-ordinating the branches (1) this could raise costs of administration (1)
- a firm may be able to gain subsidies from its own government to export (1)
- costs may be higher in a foreign market (1) e.g. rent may be higher (1)
- higher costs of opening up production in another country (1) may reduce profits in the short run (1)

3 (a) **Define 'market economy'.** **[2]**

- consumers determine what is produced/consumers are sovereign (1)
- resources are allocated by price mechanism/driven by market forces of demand and supply (1)
- absence of government intervention (1)

(b) **Explain <u>two</u> external costs that could arise from people overeating.** **[4]**

Up to 2 marks for defining an external cost:
- social costs minus private costs (1)
- harmful effects (1) imposed on third parties (1)

Up to 4 marks for relating concept to overeating:
- overeating can result in healthcare problems (1) this imposes a burden on the healthcare system (1) reducing healthcare resource available for those who do not overeat/rising tax payments on those who do not overeat (1)
- overeating can result in healthcare problems (1) reducing labour productivity (1) lowering quality and quantity of output (1)
- overeating can result in more litter (1) extra costs of collection/landfill/recycling (1) fewer resources for merit goods

(c) **Analyse <u>three</u> reasons why the demand for chocolate may rise in the future.** **[6]**

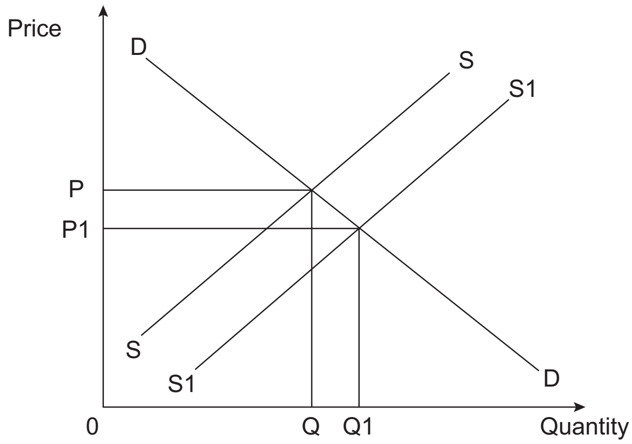
- a fall in price (1) increases willingness and ability to buy a product (1)
- a rise in income (1) increase ability of people to buy the product/chocolate is something of a luxury product (1)
- a rise in the price of a substitute e.g. sweets (1) people will switch away from the substitutes towards chocolate (1)
- a rise in population (1) more people to consume chocolate (1)
- an advertising campaign (1) making chocolate more popular (1)
- change in preferences/tastes (1) towards chocolate (1)

(d) Discuss whether a government subsidy to producers will reduce market failure. [8]

Up to 5 marks for why it might:

- a subsidy to producers is a payment designed to encourage production (1)
- it will reduce costs of production (1) increase supply (1) lower price (1) cause demand to rise (1)
- if there is under-consumption of the product/the product is a merit good, it can reduce market failure (1)
- if the product generates external benefits, a subsidy can reduce market failure (1)

Note: Accept an accurate diagram for 3 marks: correct labelling (1) shift in supply curve to right (1) new equilibrium shown (1)



Up to 5 marks for why it might not:

- producers may not pass on the subsidy to consumers (1) so demand may not rise (1)
- a subsidy given to products that are over-consumed (1) will make the market failure worse (1) by increasing supply and consumption of the product (1)
- a subsidy involves an opportunity cost (1) government revenue could be used for other purposes which might reduce market failure more (1)
- a subsidy may be ineffective (1) if wrong level of subsidy is applied (1)

4 (a) Define 'public limited company'. [2]

- sells shares to the general public (1)
- has limited liability (1)
- in the private sector (1)

(b) Explain <u>two</u> reasons for the differences in the size of firms in the same industry. [4]

- share of the market (1) firms that sell more products will be producing on a larger scale (1)
- age of the firm (1) firms that have just started in the industry are likely to be smaller (1)
- access to financial capital (1) firms that can borrow or sell shares more easily are likely to be larger (1)
- goal of owners (1) some owners may want to keep their firm small in order to maintain control and avoid stress (1)

(c) Analyse why a firm may decide to change the proportion of capital and labour it employs. [6]

- a change in the relative price of capital and labour (1) if wages increase, firms may seek to employ more capital (1)
- a change in the productivity of resources (1) improved education, for instance, may increase the skills of workers (1) advances in technology (1) may rise the productivity of capital goods (1)
- availability of resources (1) difficulty of recruiting labour may encourage a firm to seek capital substitutes (1)
- government incentives (1) a government may provide tax incentives/subsidises to firm to spend on capital goods/hire workers (1)
- recession leads to firms laying off workers (1) as they are variable costs (1)

Note: A maximum of 3 marks for a static approach to analysis of why a firm may be capital or labour intensive.

(d) Discuss whether a large firm is likely to sell its products at a lower price than a small firm. [8]

Up to 5 marks for why it might:
- may be more able to take advantage of economies of scale (1) examples e.g. buying, technical, managerial, risk bearing due to lower average costs (up to 3) may be able to charge a relatively low price and still make a significant profit (1)
- a large firm may have captured most of the market and gained monopoly power (1) this may mean it has profit to spend on research and development/investment (1) lowering costs (1)
- a large firm may be a nationalised industry (1) may charge a low price in order to ensure everyone can afford it (1)

Up to 5 marks for why it might not:
- a small firm may be in a more competitive market (1) pressure from rivals to keep price down (1)
- a small firm is less likely to experience diseconomies of scale (1) e.g. less likely to experience problems with control and poor labour relations (1) as a result may experience lower average costs (1)
- a small firm may combine with other small firms to take advantage of some economies of scale (1) e.g. buying raw materials together/farms sharing a combine harvester (1)
- a small firm may be closer to its markets (1) reducing transport costs (1)
- a large firm may have monopoly powers/have a large share of the market (1) and therefore sell at a higher price due to lack of competition (1)

5 (a) Define 'labour'. [2]

- human effort/physical and mental effort/workers/workforce (1) used in producing goods and services (1)

(b) Explain why a rise in employment would benefit trade unions. [4]

- more workers is likely to raise membership (1)
- will increase subscriptions/fees/revenue (1)
- likely to strengthen bargaining power (1)
- more difficult for employers to replace workers/employers more anxious to retain workers (1)
- higher employment is likely to raise demand (1) higher demand may increase firms' profits and so possibly their willingness to pay higher wages (1)

(c) Analyse how trade union action could cause inflation. [6]

- trade unions may press for higher wages (1) if successful would increase wage rates (1) this would increase costs of production (1) leading to cost-push inflation (1)
- trade unions might engage in strike action (1) this would increase firms' costs (1) leading to cost-push inflation (1)
- higher wages may increase workers' purchasing power (1) this could lead to higher demand (1) resulting in demand-pull inflation/a wage-price spiral (1)
- trade union action may restrict supply (1) lower supply may push up prices (1)

(d) Discuss whether inflation would cause unemployment. [8]

Up to 5 marks for why it might:
- inflation may make the country's products less internationally competitive (1) export prices may rise relative to import prices (1) this may reduce demand for the country's products (1) causing cyclical unemployment (1)
- if inflation is caused by rises in wages/increases in costs of production (1) firms may make workers redundant to reduce costs (1) higher costs may force firms out of business causing unemployment (1)

Up to 5 marks for why it might not:
- inflation rate may be below rival country's inflation rates (1) increasing international competitiveness (1) increasing demand for the country's products (1) reducing cyclical unemployment (1)
- a low level of demand-pull inflation/stable inflation (1) may encourage firms to expand (1) reducing unemployment (1)
- frictional and structural unemployment may fall despite inflation (1) if, for instance, information about job opportunities/labour mobility increase (1)

6 (a) Define 'quota'. [2]

- A limit/restriction (1) on imports/exports (1)

(b) Explain the structure of the current account of the balance of payments. [4]

- trade in goods (visibles)
- trade in services (invisibles)
- income flows (primary income)
- current transfers (secondary income)

1 mark for good explanation of each section

- good explanation of two sections and identification of one other section (4)
- good explanation of two sections; or a good explanation of one section and identification of the other three sections (3)
- identification of four sections (2)
- identification of two/three sections (1)

(c) Analyse why it would be expected that a rising current account surplus would lead to an appreciation in the country's foreign exchange rate. [6]

- current account surplus involves more money coming into the country than going out (1)
- appreciation means a rise in the value of a currency (1)
- demand for the peso may be increasing (1) as more pesos would be being purchased to e.g. buy Argentinian exports (1) higher demand would tend to push up price (1)
- supply of the peso may be decreasing (1) as less pesos may be sold to e.g. buy imports (1) lower supply will tend to push up price (1)

(d) Discuss whether a government should try to prevent a depreciation in the country's currency. [8]

Up to 5 marks for why it should:
- a depreciation can cause inflation (1) price of imported raw materials will rise (1) increasing costs of production (1) causing cost-push inflation (1) firms lose competitive edge (1)
- may lower living standards (1) as people will not be able to afford to buy as many imports (1)
- to prevent a fall in the value of the currency a central bank may have to use reserves to buy the currency (1) would involve an opportunity cost (1) or raise interest rate (1) which could reduce demand (1) cause lower output/employment (1)
- currency may initially have been undervalued (1)

Up to 5 marks for why it might not:
- may improve the current account position (1) lower export prices may increase export revenue (1) higher import prices may reduce import expenditure (1)
- higher import prices may increase demand for domestically produced products (1) may increase output (1) and employment (1) higher demand for the country's products (1) may encourage firms to expand and take on more workers (1)
- currency may initially have been overvalued (1)

7 (a) Identify <u>two</u> influences on the amount households spend. [2]

1 mark <u>each</u> for <u>two</u> of the following:
- income/benefits
- wealth
- confidence
- rate of interest savings
- age structure
- taxation
- size of family/household

(b) Explain why tax revenue may fall during a recession. **[4]**

- lower incomes (1) will mean less income tax revenue (1)
- firms are likely to earn less profit (1) so less corporation tax revenue (1)
- less spending (1) so less indirect tax revenue (1)
- government may decide to cut tax rates (1) to stimulate the economy (1)

(c) Analyse how a cut in government spending may reduce a country's HDI ranking. **[6]**

- lower government spending may reduce total demand (1) lower demand may reduce output (1) lowering GDP per head (1)
- lower government spending on healthcare may reduce the quality and availability of healthcare (1) reducing life expectancy (1)
- lower government spending on education (1) may reduce the years of education children will receive/mean and expected years of schooling (1)

(d) Discuss whether use of monetary policy will increase economic growth. **[8]**

Up to 5 marks for why it might:

- a cut in the rate of interest (1) may increase borrowing (1) reduce saving (1) increase spending/demand (1) encourage firms to produce more (1) stimulate investment (1) increase productive capacity (1)
- a rise in the money supply (1) may increase demand (1) encouraging firms to produce more (1)
- a devaluation of the currency (1) may increase demand (1) as export prices fall and import prices rise (1) encouraging firms to produce more (1)
- a sound monetary policy may increase confidence (1) which may increase investment (1) e.g. an inflation target (1) may encourage people and firms to believe inflation will be low (1)

Up to 5 marks for why it might not:

- a rise in the rate of interest (1) may discourage borrowing (1) increase saving (1) reduce spending/demand (1) encouraging firms to reduce output (1) reduce investment (1) reduce productive capacity (1)
- a reduction in the money supply (1) may reduce demand (1) encouraging firms to reduce output (1)
- a revaluation of the currency (1) may reduce demand (1) as exports prices rise and import prices fall (1) encouraging firms to produce less (1)
- an expansionary monetary policy may cause inflation (1) this may reduce output in the longer term as domestic products will be less internationally competitive (1)
- other policies might be more effective (1) example (1)
- the effects of monetary policy might be offset by other factors (1) e.g. a global recession (1)