

Paper 2281/2 – Structured Questions November 2001

1 Syllabus 1, 5

- (a)(i) 2 marks for identifying AngloGold; Gold Fields Ltd.; Kalgold and St Helena as the mines that made a profit after the fall in the price of gold. 1 mark only for identifying two or three of the mines correctly. [2]
- (a)(ii) 1 mark for stating that the number of profitable mines before the fall in the price of gold was five. [1]
- (b) 1 mark for recognising that the short-run effect would be less than the long-run effect because of the need to minimise losses in the short run as compared with the need to at least break even in the long run. The figures only give the costs for each mine; therefore we do not know the likely % fall in production for each mine.
Up to 2 marks for explaining that the profitable mines may have a larger % share of total output than the less profitable mines. [3]
- (c) Up to 2 marks for explaining that capital expenditure is any spending that increases the stock of capital goods.
1 mark for giving an example of capital expenditure in the mining industry, such as coal cutting machine, conveyor belts and ventilation equipment for the mine. [3]
- (d)(i) Up to 4 marks for explaining what is likely to have happened to the level of employment in mining, if the price remained at the new lower level. For example, employment would be likely to fall as it was stated in the passage that production might fall by 10%. Candidates could also discuss whether the mining industry was likely to be capital intensive or labour intensive and they could also consider the extent to which a fall in production might be absorbed by creating idle capital and capacity rather than by making some of the workers redundant. [4]
- (ii) Up to 7 marks for explaining what might have happened to the economy as a whole, if the price had remained at the new lower level. For example, there could be extra unemployment in a number of industries; there could be a need for more government welfare payments; labour could move from mining to other industries and the international trade and the balance of payments of South Africa could deteriorate, especially as gold is one of the country's main exports. [7]

2 Syllabus 1, 3

- (a) Up to 4 marks for explaining the most important features of 'the market system'. These features include the role of the price mechanism in allocating resources, private ownership of factors of production, complete freedom of choice for consumers and the absence of any intervention or activity by the government. [4]

- (b) Up to 3 marks for drawing a correct diagram. 1 mark should be given for correct labels and axes, 1 mark for a shift up to the right of the demand curve, 1 mark for a shift down to the right of the supply curve. Up to 3 marks for giving a correct explanation of these changes, which should explain the final equilibrium price and output. More of the good will be bought and sold on the market, but the price will fall only if the increase in supply is greater than the increase in demand. If the increase in demand is greater than the increase in supply then the market price will rise. [6]
- (c) Up to 5 marks for describing the advantages of relying more on the market system, such as greater choice, an increase in productive efficiency and more incentives for producers to respond to consumers' preferences.
Up to 5 marks for describing the disadvantages of relying more on the market system. These disadvantages might be in the form of market failures caused by externalities, the monopoly power of large companies, inequalities of income and the failure of the market to provide enough of services such as health and education or any services such as defence and law and order. [10]

3 Syllabus 4

- (a) Up to 5 marks for explaining that people need to keep some money in cash and in their current accounts to ensure that they have enough funds available for everyday purchases and to cover any unseen emergencies.
Up to 3 marks only for dealing with the demand for transactions only. [5]
- (b) Up to 5 marks for explaining that low-income earners are likely to save a smaller proportion of their incomes with more spending going on food, housing, heating and lighting and clothing. High-income earners are much more likely to spend a higher proportion of their incomes on items such as travel, holidays, entertainment and eating out.
Up to 4 marks maximum for answers that do not mention the proportion or the percentage of expenditure made by different income earners. [5]
- (c) Up to 10 marks for explaining why some people earn more than other people. Wages and earnings will be determined largely by the demand for and supply of labour, the demand for the final products and the possibility of substituting labour for capital. Reward answers that contain appropriate examples or that recognise that trade unions and the government might also influence the levels of earnings.
Up to 6 marks maximum for answers that do not mention supply and demand, but which contain a good explanation of factors such as the risk of the job, the experience and qualifications needed, the level of responsibility and age and gender differences. [10]

4 Syllabus 7

- (a) Up to 2 marks for defining an invisible export and a visible export. Visible exports are goods that are sold to other countries and invisible exports are services sold to other countries. Up to 2 marks for giving examples of visible and invisible exports that distinguish between the two terms. For example, visible exports could include goods such as motor vehicles, textiles and machinery whereas invisible services could include services such as banking, insurance, air and sea transport and tourism. [4]
- (b) Up to 6 marks for explaining why governments are interested in the balance of payments. For example, if there is a deficit on the current account or if there are unfavourable movements of capital then this has to be paid for by reducing the reserves of the country or by borrowing from other countries. Also a balance of payments deficit is likely to lead to a fall in the price of the country's currency and could also affect the country's international competitiveness. [6]
- (c) Up to 5 marks for discussing whether the situation described in the question might be of concern to the Indian government. It is likely that a country that had a current account deficit in one year followed by a fall in its exports in the subsequent year would be concerned. Other things being equal, money would be leaving the country and the currency would probably be depreciating. The fall in the value of the currency would make imports dearer and reduce further the level of foreign currencies held by that country. It is likely that the Indian government would seek to redress this situation. [5]
- (d) Up to 5 marks for discussing the reasons for fluctuations in the exchange rate of a country. Changes in the exchange rates of a country normally reflect changes in the demand for and supply of that currency, changes in the relative level of interest rates in different countries and the effects of speculation, which leads to the buying or selling of a currency in the short run. Alternatively 1 mark can be awarded for defining exchange rates with little other analysis or discussion. [5]

5 Syllabus 8

- (a) Up to 3 marks for identifying the factors that determine the population growth in a country. 1 mark each for identifying the birth rate, the death rate and net migration. [3]
- (b) Up to 7 marks for explaining what is meant by a developing country. For example, such a country is defined by indicators such as a low GNP per head, a large agricultural sector with smaller secondary and tertiary sectors, a dependence on exports of primary products, low standards of health and education, poor infrastructure, higher birth and death rates and a comparatively fast rate of population growth.

A maximum of 3 marks should be given for a list of indicators with no description or explanation. [7]

- (c) Up to 5 marks for explaining the differences that are likely to be found in the population structure between a developing and a developed country. In a developing country there is a relatively larger proportion of younger people while in a developed country there is a relatively larger proportion of older people. Candidates could also support their explanations by using typical pyramid and beehive diagrams that should be accurately labelled and should show the relative proportions of males and females in each age group in each type of country. [5]
- (d) Up to 5 marks for considering whether the problems arising from overcrowding in cities are similar in developed and developing countries. For example, there is likely to be congestion and pollution in both types of country, but there is also likely to be better basic housing, more infrastructure and greater resources in the developed countries. Candidates could also comment on the relative proportion of a country's population that might be affected by overcrowding. The problems might be similar but the remedies for those problems might be different. [5]

6 Syllabus 5

- (a) Up to 2 marks for defining fixed costs as those costs that do not vary with changes in the level of output.
1 mark each for giving two relevant examples of fixed costs, such as rent, interest payments or insurance. [4]
- (b) Up to 6 marks for discussing how a supermarket can sell a wide range of goods at lower prices than small shops, despite having higher fixed costs. For example, the supermarket can gain lower costs per unit as a result of economies of scale; they have greater buying power that can be used to reduce the prices charged by their suppliers and their very large turnover means that their average fixed costs and average total costs can be reduced to very low levels. [6]
- (c) Up to 3 marks for suggesting three reasons why consumers might prefer to shop at large supermarkets. For example, the supermarket might offer lower prices, easy parking, a wide range of goods and attractive customer loyalty schemes such as bonus points. [3]
- (d) Up to 7 marks for explaining why small shops and businesses still exist despite the growth of supermarkets. Possible reasons for the survival of smaller shops and businesses include greater personal service to customers, a desire for the owner to have personal control of the business, a low level of demand for the product or service, the existence of specialised niche markets and convenient locations and opening hours for customers.

Up to 4 marks only for answers that give a list of reasons without any description or explanation. [7]

7 Syllabus 2. 6, 9

- (a) Up to 4 marks for describing the public sector as that part of the economy in which business organisations are owned and controlled by the state or local authorities. Some credit can be given for relevant examples of public sector businesses. [4]
- (b) Up to 10 marks for discussing why the public sector should provide a good or service. Possible reasons for public sector provision arise from types of market failure, such as the need to control businesses with monopoly power, the existence of externalities, such as pollution or the failure of the market to provide adequate quantities of public and merit goods. (Candidates are not expected to use the terms public and merit goods as they are not contained in the syllabus, but they may be able to describe them adequately.) Candidates should write a detailed answer that makes an assessment of the relative importance of these reasons and that comes to a reasoned conclusion. [10]
- (c) Up to 6 marks for explaining how the provision of goods and services in the public sector might be paid for. These goods and services might be paid for by charges for their use, such as rents for public housing or charges for the services of doctors and dentists. Alternatively, they can be paid for by the payment of direct and indirect taxes or by cross-subsidisation from one service to another. [6]