

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Ordinary Level

MARK SCHEME for the June 2005 question paper

2281 ECONOMICS

2281/02 Paper 2 (Extended), maximum mark 80

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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*.

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June 2005

GCE Ordinary Level

MARK SCHEME

MAXIMUM MARK: 80

SYLLABUS/COMPONENT: 2281/02

ECONOMICS
(Extended)



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Section A

- 1 (a)** The Netherlands has 0.5% fall in output between April and June, other countries have 0.1% and 0.2%. (1). The Netherlands has also been contracting for the previous 8 months. (1) **[2]**
- (b)** Identification of the letters and brief explanation of the term. **[3]**
- (c)** Expect one example of each type of tax (2) and a comment on whether the tax is levied on a person at source or on earning or on subsequent expenditure. (2) **[4]**
- (d)** Identification of two aims. Falling taxes might help change income distribution, might help income and spending and thus growth, might help production and thus move towards full employment. (6). 3 marks for each one of the two aims but only 2 marks if the aim is only implied. **[6]**
- (e)** To make better use of human resources; it will reduce government expenditure on benefit payments; it might result in less crime; it might encourage economic growth; it will increase national income; it may result in political votes. **[5]**

Section B

- 2 (a)** A quota is a fixed amount of production. A subsidy affects production through a reduction in costs which might result in lower prices or higher profits. Diagram not expected, but could be used. (5). If only quota or subsidy and so no distinction, max of 2 marks. **[5]**
- (b)** 1 for DS curves, 1 for shift of the supply curve downwards, 1 for P and Q labels, 2 for explanation which need only clearly explain the change in equilibrium position if any discussion on profits has been given in **(a)**. If there is no discussion in **(a)** that discussion could occur here. **[5]**
- (c)** Explanation either in terms of proportionate responsiveness of demand or in terms of equation. (simple statement 1, range of values 1, examples 1). **[3]**
- (d)** Comment on changes in price affecting the amount demanded. Up to 4 marks for a comment on how a change in price could affect revenue.
- For a full range of marks it must be recognised that the statement implies that elasticity has increased/demand has become more responsive. Sales decrease with the implication that revenue is affected to a greater extent than in the past. There should be some comparative statement with the response previously expected as the spokesman said the growers were 'no longer in a position...'. This might be due to a change in attitudes towards smoking. **[7]**

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- 3 (a)** Comment on changes in either revenue or costs or both. Could give an example of why revenue or costs might change. (5). Max of 3 on either revenue or costs if no understanding of profits is shown. **[5]**
- (b)** Comment on the possibility of mergers; of general growth through increased sales caused by increased demand/advertising; of increased profits caused by either increased demand or different pricing policies; of growth caused by a change in type of stock or image; of expansion into other areas/products; and a comment on the methods used to obtain finance – profits, borrowing, shares. **[5]**
- (c)** Description of three types of economy that might occur. (6). Max of 4 if no explicit reference to computer industry is made. **[6]**
- (d)** Discussion of possibility of substitution of one factor or another, for example, capital for labour. This may be because of changes in the different costs of factors. Discussion of aim of achieving efficient use of factors in order to increase profits, such as alternative uses of the same factor. (Or possibly increase in sales or market share. Syllabus concentrates on profit as the major aim of the firm). **[4]**
- 4 (a)** Might not be able to get another job, many low paid jobs are unskilled – worker might not be trained to do skilled job: might choose to work part-time and do not mind low pay; might view the job as a temporary measure until a better job is available; might not know of alternative jobs due to lack of information; might be limited by location of work; might be limited in other jobs by age; might work in the informal economy and does not declare earnings for tax. **[5]**
- (b)** Occupational and geographical factors include better conditions, better prospects, location/shorter journey to work, can live in preferred area, shorter hours, size of company, fringe benefits – subsidised meals, health scheme, leisure activities. **[5]**
- (c)** Unions can help in negotiations of wage disputes, provide social amenities, provide legal help, provide protection for worker. **[5]**
- (d)** Can discuss the relative expenditure of older skilled and younger unskilled in terms of likely commitments, long-term debt, level of existing savings, likely absolute level of income both with reference to age and to skill. **[5]**
- 5 (a)** Explanation in terms of the rate at which one currency is exchanged for another currency. **[3]**
- (b)** In Egypt, production and employment likely to fall as not so many goods sold, resulting in reduced income and further effects on employment. In importing country production might switch to home produced goods resulting in an increase in production and employment and income. If demand switches to imports from another country the effect in the importing country will be reduced. Comment on Egypt only with no reference to countries that Egypt has been exporting to, max of 4. **[7]**

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- (c) Should describe the different accounts of the balance of payments. **[4]**
- (d) Should explain what is meant by ‘an improvement’. Usually this is a surplus or a bigger surplus. Could discuss how changes in the price of imports and exports of goods and services might alter the quantity sold and imported and how the balance of revenue for the account might change. This could depend on changes in the exchange rate as well as changes in the cost of production. The overall balance between imports and exports would determine whether there is a negative or positive result in the goods and services account of the balance of payments. Should also comment on the capital transactions and the overall impact on the balance of payments when taken with the trade in goods and services. **[6]**
- 6 (a)** Explanation of resource allocation through price mechanism, use of demand and supply and consumer equilibrium. **[5]**
- (b) Discussion of areas of market failure. This will be expressed in general terms – syllabus mentions the government as a producer of goods and services but does not deal with public and merit goods. **[6]**
- (c) Explanation of regulative controls, general laws preventing sales of items to sections of the community, influence of increase in indirect or direct tax, granting of a subsidy, monopoly regulation. **[9]**
- 7 (a)** Factors including housing, sanitation, infrastructure, range of products available, education, health provision. Note that it is usually presumed that standard of living is lower in developing countries. This may not be true. Population is sometimes not high and housing, consumer choice, education, health provision is better than in developed countries. **[4]**
- (b) Dependence on subsistence farming, lack of secondary or tertiary development, unequal distribution of income, resources unused, population growth not matched by use of resources. **[6]**
- (c) Mention might be made of improvements in infrastructure, health, housing, education or other economic or social indicators. Discussion could involve a comment on the improvement brought by investment by the private sector and/or influence of public sector. The latter could involve subsidies, borrowing from foreign countries (including foreign aid), encouraging multi-nationals, increased expenditure. **[10]**