

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

November 2003

INTERNATIONAL GCSE

MARK SCHEME

MAXIMUM MARK: 60

SYLLABUS/COMPONENT: 0455/02, 04

ECONOMICS
Paper 2 (Core)
Paper 4 (Extended)



Page 1	Mark Scheme	Syllabus	Paper
	IGCSE EXAMINATIONS – NOVEMBER 2003	0455	2, 4

- 1 (a)** Up to 2 marks for a definition of investment in terms of additions to the stock of capital goods [2]
- (b)** 1 mark for the idea that it is to do with whether they are adjusted for inflation. 2nd mark for correctly stating that it means the figures are not adjusted for inflation. [2]
- (c) (i)** Up to 2 marks for a definition of growth in terms of GDP. [2]
- (ii)** Up to 4 marks for an explanation that investment leads to an increase in productive capacity thereby leading to increases in real output. [4]
- (d)** Up to 6 marks for explaining the benefits of growth, such as increased incomes, employment, and government revenue and a better use of resources. The question only asks for benefits. [6]
- (e)** Up to 4 marks for discussing the importance of agriculture and diamonds, which have both increased substantially. These are part of primary production. Secondary production has declined. The information says nothing about services. It might seem that the primary sector is the most significant but the information is incomplete because it does not give the absolute figures. [3]
- 2 (a)** Up to 2 marks for an explanation of a subsidy and its effect on price and output.
Up to 2 marks for a diagram. (1 for supply shift, one for labels and original curves). [4]
- (b)** Up to 6 marks for a discussion that states that the disease will affect revenues and farmers will not be able to cover their costs and so profits will fall. Extent of the fall will depend on the subsidy. Farmers' costs will also be affected, as they will have to replace the livestock. Candidates could mention the short-term effect and the possible long-term implications. [6]
- (c)** Up to 2 marks for a definition of price elasticity of demand. (1 for idea plus 1 for formula).
Up to 2 marks for explaining the range of values and their meaning, or other relevant information, such as determinants or examples. [4]
- (d)** Up to 6 marks for a discussion of the application of price elasticity of demand to farming. Candidates need to suggest what type of elasticity might be appropriate for particular types of farming and the possible effect on revenues from a change in price with that elasticity. They could also mention the difficulty of finding out what the elasticity actually is. [6]

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- 3 (a) Up to 4 marks for explaining all four factors – land, capital, labour, and enterprise – are involved in the RSPB's action. (Maximum of 2 marks for an unexplained list of factors.) [4]
- (b) Up to 6 marks for a discussion of the increase in tourist trade, employment and incomes against the loss of housing or other amenities. Candidates should consider the overall result by balancing the points 'for' and 'against'. [6]
- (c) Up to 2 marks for a definition of private cost as costs paid by those undertaking the action plus an example, such as the cost of the land. Up to 2 marks for a definition of social benefit in terms of private plus external benefits to others and an example, such as benefits to visitors. [4]
- (d) Up to 6 marks for a discussion of the principle of market failure and a comment on whether the protection of animals and birds falls into one of the categories of market failure. [6]
- 4 (a) (i) Up to 3 marks for an explanation of levels of skills and the extent of available trained labour. [3]
- (ii) Up to 3 marks for an explanation of the meaning of diversification across primary, secondary and tertiary industries, compared with the concentration on primary products in developing countries. (For full marks, there must be some reference to tertiary or services.) [3]
- (b) Up to 4 marks for explaining that people in developing countries will be poorer on average. However, it does not follow that all people are poor. Candidates could comment on the extent of inequality of income distribution with a comparison to the likely situation in developed countries. [4]
- (c) Up to 4 marks for explaining the concentration in agriculture and other primary industries, with some in manufacturing and some in service industries. Many of these jobs will be poorly paid. Could comment on the balance between work in rural areas and the cities. [4]
- (d) Up to 6 marks for a discussion of likely changes in birth and death rates and consequent change in the age balance of the population. Candidates could comment on the development of many more service industries, and – in the past – greater reliance on industrialisation in developed economies. [6]

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- 5 (a) Up to 3 marks for describing tariffs, quotas, regulations, and embargoes. (A list may earn 1 mark provided it contains at least 2 measures.) [3]
- (b) Up to 7 marks for the immediate effect whereby more exports, would probably affect the visible current account, rather than invisibles, and for discussing the long-term effects. National income in poorer countries could rise, with consequent effect on employment, but here may also be increased imports, which would alter the overall position in developing countries. Depends which tariff barriers existed in the first place, and which are abandoned. Candidates could discuss effect on the employment structure, industrialisation and the development and exploitation of resources. (Full marks possible even if candidate discusses only removal of restrictions by developing countries.) [7]
- (c) Up to 10 marks for a discussion of the balance between free trade and protected trade and the advantages of specialisation in terms of efficiency and resource allocation versus the advantages of protection in terms of employment generation, regional development, a more self-sufficient economy, prevention of cheap imports and protection of industry. [10]
- 6 (a) Up to 2 marks for explaining that a retail price index measures the general level of price changes with respect to a base year. (1 mark for stating that the RPI measures the rate of inflation.) [2]
- (b) Up to 8 marks for an explanation of the causes of inflation in terms of demand, cost, monetary and imported inflation. [8]
- (c) Up to 10 marks for discussing why a government might be concerned about the effects of inflation on spending, saving, investment, growth and the balance of payments. [10]
- 7 (a) Up to 4 marks for an explanation of profit maximisation in terms of the difference between costs and revenues. Marginal analysis is not on syllabus but more able students may know it and it can be rewarded. [4]
- (b) Up to 6 marks for discussing the effect on profits of the changes mentioned. For example candidates could debate whether the idea of compensation is a deduction from profits, or whether it is a means of attracting more customers that might increase profits. Certainly we know that the number of customers has increased and so the policy would not seem to be detrimental to the company. But we do not know how profit levels have changed. [6]
- (c) Up to 5 marks for a description of the types of business organisation from partnerships to multi-national companies plus up to 5 marks for a discussion of their likely significance. [10]