

TOPICAL PAST PAPERS

IGCSE Economics (0455) Paper 2
[Structured questions]

Exam Series: February/March 2018 - October/November 2024

Format Type B:
Each question is followed by its answer scheme



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Introduction

Each Topical Past Paper Questions Workbook contains a comprehensive collection of hundreds of questions and corresponding answer schemes, presented in worksheet format. The questions are carefully arranged according to their respective chapters and topics, which align with the latest IGCSE or AS/A Level subject content. Here are the key features of these resources:

1. The workbook covers a wide range of topics, which are organized according to the latest syllabus content for Cambridge IGCSE or AS/A Level exams.
2. Each topic includes numerous questions, allowing students to practice and reinforce their understanding of key concepts and skills.
3. The questions are accompanied by detailed answer schemes, which provide clear explanations and guidance for students to improve their performance.
4. The workbook's format is user-friendly, with worksheets that are easy to read and navigate.
5. This workbook is an ideal resource for students who want to familiarize themselves with the types of questions that may appear in their exams and to develop their problem-solving and analytical skills.

Overall, Topical Past Paper Questions Workbooks are a valuable tool for students preparing for IGCSE or AS/A Level exams, providing them with the opportunity to practice and refine their knowledge and skills in a structured and comprehensive manner. To provide a clearer description of this book's specifications, here are some key details:

- Title: Cambridge IGCSE Economics (0455) Paper 2 Topical Past Papers
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Contents

| | | |
|----------|--|------------|
| 1 | The allocation of resources | 7 |
| 2 | Microeconomic decision makers | 21 |
| 3 | Government and the macroeconomy | 69 |
| 4 | Economic development | 165 |
| 5 | International trade and globalisation | 327 |

Chapter 1

The allocation of resources

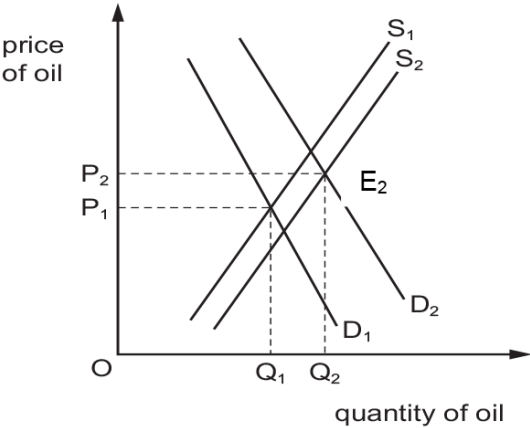
1. 0455_m19_qp_22 Q: 7

Indian Railways is a state-owned enterprise, owned and operated by the Ministry of Railways. There is currently only one privately-owned railway line in India. The market for rail travel is influenced by changes in the markets for other forms of transport. For instance, changes in the supply of oil and petrol influence the market for car travel.

- (a) Define *a market*. [2]
- (b) Explain **two** reasons why the supply of a raw material such as oil may rise in the future. [4]
- (c) Analyse, using a demand and supply diagram, how the market for oil would be affected when the demand for oil increases by more than the supply of oil. [6]
- (d) Discuss whether or not car travel will increase in the future. [8]

Answer:

| Question | Answer | Marks |
|----------|---|-------|
| (a) | Define a market. An arrangement that brings buyers and sellers into contact / products are bought and sold (2). Buyers (1) sellers (1). Example of the purchase and sale of products (1). | 2 |

| Question | Answer | Marks |
|----------|---|----------|
| (b) | <p>Explain <u>two</u> reasons why the supply of a raw material such as oil may rise in the future.</p> <ul style="list-style-type: none"> <input type="checkbox"/> New supplies may be discovered (1) after investment searching for them (1) <input type="checkbox"/> Price may rise (1) giving suppliers a profit incentive to supply more (1) <input type="checkbox"/> Advances in technology / cuts in wages (1) may reduce costs of obtaining the raw material (1) <input type="checkbox"/> Government subsidies (1) providing finance to search for oil / greater incentive to increase output (1) | 4 |
| (c) | <p>Analyse, using a demand and supply diagram, how the market for oil would be affected when the demand for oil increases by more than the supply of oil.</p> <p>Up to 4 marks for the diagram: Axes correctly labelled – price and quantity or P and Q (1). Demand and supply curves correctly labelled D_1 and S_1 (1). Demand and supply curves shifted to the right D_2 and S_2 (1). Equilibrium – shown by lines e.g. $P_2 Q_2$ or at point e.g. E_2 (1).</p> <div style="text-align: center;">  </div> <p>Up to 2 marks for written comments: More of the product will be traded / quantity will rise (1). Price will be higher (1).</p> <p><i>Note: Do not reward analysis marks for description of diagram e.g. price changes from P_2 to P_1 or quantity changes from Q_1 to Q_2.</i></p> | 6 |

| Question | Answer | Marks |
|----------|--|----------|
| (d) | <p>Discuss whether or not car travel will increase in the future.</p> <p>Up to 5 marks for why it might: Price of cars may fall (1) encouraging more people to buy cars (1). Price of petrol may fall (1) making it cheaper to run a car/petrol is a complement to cars (1). Population may increase (1) more potential drivers (1). More roads may be built (1) reduce time of car journeys (1). People may live further from work (1) requiring longer journeys (1). Driverless cars (1) may enable more people e.g. those with poor eyesight to use cars (1). Income may rise (1) enabling people to buy and use more cars (1).</p> <p>Up to 5 marks for why it might not: Price of substitute travel may fall (1) e.g. due to government subsidising rail travel (1). Taxes on car travel may rise (1) raising the cost of car travel (1). Parking charges may increase (1) parking is a complement to car travel (1). Congestion may rise (1) increasing travel time (1). Greater concern about the environment (1) may encourage some people to switch to more environmentally friendly forms of transport (1).</p> | 8 |

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2. 0455_w21_qp_21 Q: 3

The island of Borneo is famous internationally for its rainforests which can bring many benefits, both private and external. However, the economy is heavily dependent on a finite resource, oil. The discovery of oil reserves in other parts of the world led to a significant fall in the world price of oil. This affected producers of oil in Borneo.

- (a) Define *finite resource*. [2]
- (b) Explain the difference between private and external benefits. [4]
- (c) Analyse, using a demand and supply diagram, the effects on the world price of oil of the discovery of new reserves of oil. [6]
- (d) Discuss whether or not the fall in the price of a product is a disadvantage to an economy. [8]

Answer:

| Question | Answer | Marks | Guidance |
|----------|---|-------|--|
| (a) | Define finite resource. A resource is an aid to production (1) which is limited in supply (1) it cannot be replaced over time / fast enough / will run out (1) to keep pace with consumption (1). | 2 | No mark for an example |
| (b) | Explain the difference between private and external benefits. Logical explanation which might include: Private benefits are enjoyed by the producer (1) and consumer (1) first and second parties (1) of a product, example e.g. revenue for the producer / satisfaction for the consumer (1). External benefits are enjoyed by a third party (1) not directly involved in the production (1) or consumption process (1) example (1) | 4 | Maximum 3 marks for only explaining 1 type of benefit. |
| (c) | Analyse, using a demand and supply diagram, the effects on the world price of oil of the discovery of new reserves of oil. (6) Up to 4 marks for the diagram: Axes correctly labelled – price and quantity or P and Q (1). Original demand and supply curves correctly labelled (1). New supply curve shifted to the right (1). Equilibriums – shown by lines P1, P2 / Q1, Q2: or marking the equilibrium points E1 and E2 (1). Up to 2 marks for written comments: Discovery of new oil will enable an increase in supply (1) price will be lower (1). | 6 | |

| Question | Answer | Marks | Guidance | | | | | | |
|----------|--|-------|---|-------|-------------|-------|---|---|-----|
| (d) | Discuss whether or not the fall in the price of a product is a disadvantage to an economy. In assessing each answer, use the table opposite. Why it might be a disadvantage: <ul style="list-style-type: none"> It depends on size of fall in price and elasticity of demand for the product It depends upon the importance of the product to the economy / how dependent on it If demand is price inelastic, decrease in total revenue e.g. basic items / necessity, cannot cover the costs, firms may go out of business, less employment opportunities Less profits, discourages investment, reduces economic growth Less export revenue, may increase current account deficit Fall in price may be due to cheaper imports, domestic firms lose out. The product may be a demerit good which previously was overconsumed. If the product is part of a deflationary situation, there could be recession / unemployment | 8 | <table border="1"> <thead> <tr> <th>Level</th> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>3</td> <td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td>6–8</td> </tr> </tbody> </table> | Level | Description | Marks | 3 | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 |
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| Question | Answer | Marks | Guidance | | |
|----------|--|-------|----------|--|-------|
| (d) | <p>Why it might not be a disadvantage:</p> <ul style="list-style-type: none"> • Depends on size of fall and whether it is short or long term • If demand is elastic, increase in total revenue e.g. luxury goods / many substitutes • Increase choices and affordability of product – better living standards • Fall in the price of a raw material may lower cost of production, reducing inflation and increasing economic growth • The product may be a merit good which previously was under-consumed • It may make a basic necessity more affordable – low income groups may be better off • It may be the result of an increase in productivity / a government subsidy • It may make the product more internationally competitive, improving the current account position. | | Level | Description | Marks |
| | | | 2 | A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. | 3–5 |
| | | | 1 | There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. | 1–2 |
| | | | 0 | A mark of zero should be awarded for no creditable content. | 0 |

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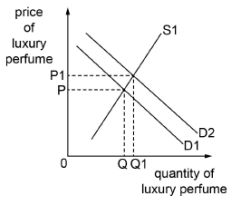
3. 0455_s22_qp_22 Q: 3

In 2019, France produced inside its production possibility curve (PPC). France exports a wide range of its products. It is the world's top exporter of luxury perfume and the 7th largest exporter of soap. Changes in technology affect the products people produce and buy. The French government plans to upgrade its infrastructure for all households to have internet access.

- (a) Define a *production possibility curve*. [2]
- (b) Explain why demand for soap is more price-inelastic than demand for a luxury brand of perfume. [4]
- (c) Analyse, using a demand and supply diagram, how an increase in income will affect the market for a luxury brand of perfume. [6]
- (d) Discuss whether or not the public sector should be responsible for the supply of all internet services. [8]

Answer:

| Question | Answer | Marks | Guidance |
|----------|--|-------|------------------------|
| (a) | Define a production possibility curve. A diagram showing maximum output / possible combinations (1) of two types of products / of capital and consumer goods (1) with given resources / given technology / in a given time period (1) shows opportunity cost (1). | 2 | Nothing for a diagram, |
| (b) | Explain why demand for soap is more price-inelastic than demand for a luxury brand of perfume. Logical explanation which might include: Soap is more essential / necessary than a luxury brand of perfume (2) OR soap is a necessity (1) luxury brand of perfume does not have to be purchased / not essential / a want (1). Soap has fewer substitutes than a luxury brand of perfume (2) OR soap does not have close substitutes (1) whereas a luxury brand of perfume may have close substitutes (1). Soap is likely to take up a smaller proportion of income than a luxury brand of soap (2) OR soap is likely to take only a small proportion of income (1) whereas a luxury brand of perfume is likely to take up a large proportion (1). It is harder to delay the purchase of soap than the purchase of a luxury brand of perfume OR the purchase of soap cannot be delayed (1) while the purchase of a luxury brand of perfume can be (1). | 4 | |

| Question | Answer | Marks | Guidance |
|----------|--|-------|--|
| (c) | Analyse, using a demand and supply diagram, how an increase in income will affect the market for a luxury brand of perfume. Coherent analysis which might include: Up to 4 marks for the diagram: D and S diagram: Axes correctly labelled – price and quantity or p and q (1). Original demand and supply curves correctly labelled (1). New demand curve shifted to the right (1). Equilibriums – shown by lines or equilibrium points (1). Up to 2 marks for written analysis which might include: Luxury perfume will be more affordable / greater purchasing power / luxury perfume will take a smaller proportion of income / more will be demanded at the same price (1) price will rise / quantity traded will increase (1). | 6 |  <p>Written analysis An increase in income will cause an increase in demand for luxury perfume is not sufficient for a mark. Reward but do not expect reference to a luxury brand of perfume being a normal good.</p> |

| Question | Answer | Marks | Guidance | | | | | | |
|----------|---|-------|--|-------|-------------|-------|---|--|-----|
| (d) | Discuss whether or not the public sector should be responsible for the supply of all internet services. In assessing each answer, use the table opposite. Why it might: <ul style="list-style-type: none"> government may charge a low price enable poor to gain access to the internet, help children with education government may base decisions on social costs and benefits government can control what is on the internet may be more able to take advantage of economies of scale avoidance of wasteful duplication government may take a longer-term view on investing. Why it might not: <ul style="list-style-type: none"> opportunity cost – could have spent the money on e.g. healthcare private sector may invest more private sector may be more efficient / have lower costs of production profit incentive may encourage private sector to raise quality private sector may make decisions quicker. | 8 | <table border="1"> <thead> <tr> <th>Level</th> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>3</td> <td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td>6–8</td> </tr> </tbody> </table> | Level | Description | Marks | 3 | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 |
| Level | Description | Marks | | | | | | | |
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| Question | Answer | Marks | Guidance | | |
|----------|--------|-------|----------|--|-----|
| (d) | | | 2 | A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. | 3–5 |
| | | | 1 | There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. | 1–2 |
| | | | 0 | A mark of zero should be awarded for no creditable content. | 0 |

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4. 0455_s20_qp_22 Q: 2

The Indian government has declared that the country, now a major car producer, will sell only electric cars by 2030. The government wants to reduce external costs, some of which are caused by petrol and diesel cars. Demand for electric cars is currently relatively low and price-elastic. The government, however, thinks that it will not need to subsidise the production of electric cars to achieve its target.

- (a) Define *external costs*. [2]
- (b) Explain **two** influences on whether demand for a product is price-elastic or price-inelastic. [4]
- (c) Analyse, using a demand and supply diagram, how a subsidy given to producers could affect the market for electric cars. [6]
- (d) Discuss whether cars should be produced by the private sector or the public sector. [8]

Answer:

| Question | Answer | Marks |
|----------|---|----------|
| (a) | <p>Define external costs.</p> <p>Harmful effects (1) on third parties (1). Social costs – private costs (1).</p> | 2 |
| (b) | <p>Explain <u>two</u> influences on whether demand for a product is price-elastic or price-inelastic.</p> <p>Logical explanation which might include: Availability of substitutes (1) close substitutes will be likely to result in demand being price-elastic (1). Whether the product is a luxury or necessity (1) luxuries tend to have elastic demand/necessities tend to have inelastic demand (1). Proportion of income spent on the production (1) demand tends to be inelastic if a small proportion is spent on it/ elastic if a high proportion is spent on it (1) Whether the purchase can be postponed (1) if so, demand is likely to be elastic, if not inelastic. Addictiveness of the product (1) addictive products are likely to have inelastic demand (1). Time period (1) demand tends to become elastic over time (1).</p> | 4 |
| (c) | <p>Analyse, using a demand and supply diagram, how a subsidy given to producers could affect the market for electric cars.</p> <div data-bbox="363 1064 949 1579" style="text-align: center;"> </div> <p>Up to 4 marks for the diagram: Axes correctly labelled – price and quantity or p and q (1). Demand and supply curves correctly labelled (1). Supply curve shifted to the right (1). Equilibriums – shown by lines P1 and P2 / Q1 and Q2 or equilibrium points E1 and E2 (1).</p> <p>Up to 2 marks for coherent analysis which might include: A subsidy encourages firms to produce more/equivalent to a reduction in costs (1). Price will fall/quantity traded will rise (1).</p> | 6 |

| Question | Answer | Marks | | | | | | | | | | | | | | | |
|----------|---|-------|-------------|-------|---|--|-----|---|--|-----|---|--|-----|---|---|---|---|
| (d) | <p>Discuss whether cars should be produced by the private sector or the public sector.</p> <p>In assessing each answer, use the table below.</p> <table border="1" data-bbox="347 398 1270 1182"> <thead> <tr> <th data-bbox="347 398 459 443">Level</th> <th data-bbox="459 398 1161 443">Description</th> <th data-bbox="1161 398 1270 443">Marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="347 443 459 801">3</td> <td data-bbox="459 443 1161 801">A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other but, overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td data-bbox="1161 443 1270 801">6–8</td> </tr> <tr> <td data-bbox="347 801 459 1003">2</td> <td data-bbox="459 801 1161 1003">A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td data-bbox="1161 801 1270 1003">3–5</td> </tr> <tr> <td data-bbox="347 1003 459 1104">1</td> <td data-bbox="459 1003 1161 1104">There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td data-bbox="1161 1003 1270 1104">1–2</td> </tr> <tr> <td data-bbox="347 1104 459 1182">0</td> <td data-bbox="459 1104 1161 1182">A mark of zero should be awarded for no creditable content.</td> <td data-bbox="1161 1104 1270 1182">0</td> </tr> </tbody> </table> <p>Why cars should be produced by the private sector:</p> <ul style="list-style-type: none"> • may be a more competitive market and so prices may be lower • profit incentive may raise efficiency and encourage firms to produce what consumers want and keep costs low • may be higher investment which could improve quality and lower costs • may be easier to raise finance as can sell shares • may be forced to be efficient as may not be supported by the government <p>Why cars should be produced by the public sector:</p> <ul style="list-style-type: none"> • a private sector monopoly may abuse market power and may restrict supply and raise price • public sector firm to charge low prices/prices below cost for cheap cars to help the poor • public sector firms may take into account external costs and benefits/welfare • the state may have more financial resources and be able to invest on a larger scale. | Level | Description | Marks | 3 | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other but, overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 | 2 | A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. | 3–5 | 1 | There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. | 1–2 | 0 | A mark of zero should be awarded for no creditable content. | 0 | 8 |
| Level | Description | Marks | | | | | | | | | | | | | | | |
| 3 | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other but, overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 | | | | | | | | | | | | | | | |
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| 0 | A mark of zero should be awarded for no creditable content. | 0 | | | | | | | | | | | | | | | |

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5. 0455_m19_qp_22 Q: 6

Botswana has a number of conservation projects. These are thought to provide a social benefit to local communities. Botswana has a mixed economic system with tax revenue as a percentage of GDP at 27% in 2017. Some Botswanan economists suggest that the country should move towards a market economic system, taking care to avoid market failure.

- (a) Define *social benefit*. [2]
- (b) Explain **two** advantages of conserving natural resources. [4]
- (c) Analyse how taxation could reduce market failure. [6]
- (d) Discuss the advantages and disadvantages of a market economic system. [8]

Answer:

| Question | Answer | Marks |
|----------|--|----------|
| (a) | <p>Define <i>social benefit</i>.</p> <p>The total benefit to society of an economic activity or external benefit + private benefit (2). A beneficial effect on society (1).</p> | 2 |

| Question | Answer | Marks |
|----------|---|----------|
| (b) | <p>Explain <u>two</u> advantages of conserving natural resources.</p> <ul style="list-style-type: none"> <input type="checkbox"/> resources will last longer / decrease rate of depletion (1) future generations will be able to benefit from the resources (1) <input type="checkbox"/> economic growth / development may be more sustainable (1) income may be generated over time / value may rise in the future (1) <input type="checkbox"/> over use of natural resources (1) may cause external costs (1) <input type="checkbox"/> tourism may increase (1) increase export revenue / employment (1). | 4 |
| (c) | <p>Analyse how taxation could reduce market failure.</p> <p>Monopolies may be taxed (1) if they exploit their market power (1) by charging high prices (1). Production and consumption that generates external costs may be taxed (1) example (1) this will turn an external cost into a private cost (1) increase costs of production (1) reduce output (1). Tax revenue can be used to e.g. subsidise products with external benefits (1) example (1).</p> | 6 |
| (d) | <p>Discuss the advantages and disadvantages of a market economic system.</p> <p>Up to 5 marks for why it might: In theory, there is consumer sovereignty (1) consumers determine what is produced (1) firms will respond to changes in demand (1). Prices may be low (1) quality may be high (1) high efficiency (1) due to competition (1) and the profit motive (1) A variety of products may be produced / there may be choice (1).</p> <p>Up to 5 marks for why it might not: Poor consumers will have little influence on what is produced (1) as they have little purchasing power (1). Monopolies may develop (1) which may charge high prices (1) and produce low quality (1). Products that provide external benefits will be under-produced (1) so under-consumed (1) example of such a product (1). Products that cause external costs will be overproduced (1) and so overconsumed (1) example of such a product (1).</p> | 8 |

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6. 0455_w19_qp_22 Q: 5

In May 2017, the price of olive oil rose by more than 10%. This was caused by a drought in Greece, Italy, Spain and Tunisia, the major producing countries. Global supply was forecast to fall by 14% in 2017. Demand for olive oil fell in Europe, but rose in a number of other countries including Australia, Brazil and China. Some basic food items, including bread and rice, are taxed in some countries but are subsidised in other countries.

- (a) Identify **two** examples of land used in growing agricultural crops. [2]
- (b) Explain why the concept of price elasticity of supply (PES) may be useful to a government in deciding whether to subsidise the production of a product. [4]
- (c) Analyse why the demand for a product may be higher in one country than in another country. [6]
- (d) Discuss whether or not the government should influence the production of basic food items, such as bread or rice. [8]

Answer:

| Question | Answer | Marks | Guidance |
|----------|---|-------|---|
| (a) | <p>Identify <u>two</u> examples of land used in growing agricultural crops.</p> <ul style="list-style-type: none"> <input type="checkbox"/> soil <input type="checkbox"/> water <input type="checkbox"/> natural fertiliser <input type="checkbox"/> seeds <input type="checkbox"/> weather | 2 | Note: land on its own is insufficient, but the area of land or farmland can be rewarded. |
| (b) | <p>Explain why the concept of price elasticity of supply (PES) may be useful to a government in deciding whether to subsidise the production of a product.</p> <p>A subsidy is aimed at increasing supply / lowering price (1). If supply is elastic, supply will change by a greater (1) percentage (1) than price. Should subsidise production of the product (1). If supply is inelastic, supply will change by a smaller (1) percentage (1) than price. Should not subsidise production of the product (1).</p> | 4 | Note: supply change is greater/smaller than price change (1) supply changes by a greater/smaller percentage than price (2) |
| (c) | <p>Analyse why the demand for a product may be higher in one country than in another country.</p> <p>Incomes may be higher (1) allowing people to buy more of the product (1). There may be a larger population (1) more potential buyers (1). The product may be more to the taste of people in that country (1) example e.g. falafel is popular in the middle east (1). The product may be more heavily advertised (1) which may increase the attractiveness of the product (1). Price may be lower (1) due to lower costs of production / government subsidy / lower (indirect) taxes (1). Price of substitutes may be higher (1) example (1). Credit may be more available / interest rate lower (1) making it easier for people to borrow to buy the product (1).</p> | 6 | |

| Question | Answer | Marks | Guidance |
|----------|--|-------|---|
| (d) | <p>Discuss whether or not the government should influence the production of basic food items, such as bread or rice.</p> <p>Up to 5 marks for why it should: The poor may spend a higher proportion of their income on food (1) a subsidy on food (1) may reduce poverty (1) lower indirect tax may reduce poverty (1) lower price (1) basic food items / bread / rice may be regarded to be a basic necessity (1) There may be market failure (1) bread may be overconsumed (1) this may cause obesity (1) a tax will raise price (1) this may discourage demand for basic food items / bread / rice (1) reduce obesity (1) it may also reduce wastage (1). Regulation may be needed (1) to ensure the basic food / bread / rice is produced under clean conditions / with safe ingredients (1). Basic food items / bread / rice may be produced by a monopoly (1) which could use its power to restrict supply (1) push up price (1) regulation may be need to prevent this (1). Demand for basic food items / bread / rice may be inelastic (1) firms may take advantage of this to push up price (1).</p> <p>Up to 5 marks for why it should not: Market forces may produce an efficient output (1) the profit motive (1) may encourage producers to respond to changes in consumer demand (1) surpluses and shortages will be eliminated by changes in prices (1). There may be a high level of competition in the industry (1) encouraging producers to make basic food items / bread / rice of a high quality (1). An indirect tax will be regressive (1) fall more heavily on the poor (1). A subsidy will involve an opportunity cost (1) example (1). Reducing an indirect tax will lower tax revenue (1) lowering government's ability to spend on e.g. healthcare (1). Government discouragement of production of basic items may result in more being imported (1) which will harm the balance of payments (1).</p> | 8 | Reward but do not expect reference to price controls. |

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Chapter 2

Microeconomic decision makers

7. 0455_m21_qp_22 Q: 3

In the Netherlands in 2018, there were 1.3 bicycles per person and the world's largest underground bicycle parking area was built in the capital city. Land is scarce in city centres, where most cycling takes place. Demand for bikes in the Netherlands is price-inelastic. Only a few people in the Netherlands borrow money to buy bikes. The government encourages cycling by spending on both bike parking areas and leisure cycle parks.

- (a) Identify **one** difference between land and labour. [2]
- (b) Explain **two** reasons why demand for a product may be price-inelastic. [4]
- (c) Analyse why households in one country may borrow more than households in another country. [6]
- (d) Discuss whether or not a government should encourage more people to cycle. [8]

Answer:

| Question | Answer | Marks | Guidance |
|----------|--|-------|--|
| (a) | Identify <u>one</u> difference between land and labour. Land is a natural resource (1) labour is a human resource / people (1). Reward for land is rent (1) reward for labour is wages (1). Land is likely to be more geographically immobile than labour (2). Land may be more occupationally mobile than labour (2). Land may be in more fixed supply / scarcer than labour (2). | 2 | For human resource / people not accepting workers. Accept raw materials for natural resource, |
| (b) | Explain <u>two</u> reasons why demand for a product may be price-inelastic. Logical explanation which might include: Lack of close substitutes (1) not able to switch to other products if the price of the product rises (1). A necessity (1) difficult to do without (1). Takes up a small part of income (1) change in price will not be significant (1). Addictive (1) people find it difficult to stop consuming it (1). New trend (1) brand loyalty being enforced by advertising (1). Time / short period of time (1) may take time to find an alternative (1). | 4 | One mark each for each of two reasons identified and one mark each for each of two explanations. |

| Question | Answer | Marks | Guidance | | | | | | | | | |
|----------|---|-------|--|-------|-------------|-------|---|---|-----|---|--|-----|
| (c) | <p>Analyse why households in one country may borrow more than households in another country.</p> <p>Coherent analysis which might include: A lower interest rate (1) reduces the cost of borrowing (1). Financial institutions may have more funds available to lend in one country (1) making it easier to borrow (1). Households / financial institutions may be more confident that they can repay (1) employment / income may be rising in one country (1). Borrowing may be more socially acceptable in one country (1) people may not mind getting into debt (1). Younger households (1) may be less worried about debt (1). Rise in unemployment / fall in GDP / recession in one country / lower income (1) may result in borrowing to buy basic necessities (1). Inflation (1) borrowers will gain if the rate is higher than the rate of interest (1).</p> | 6 | <p>Accept an approach that analyses why households in the other country borrow less.</p> <p>A maximum of 3 marks for a list-like approach. This might be in the form of e.g. lower, interest rate, more confidence and more culturally acceptable to borrow. Or In the form of e.g. difference in interest rates, differences in confidence, differences in cultural acceptability of borrowing.</p> | | | | | | | | | |
| Question | Answer | Marks | Guidance | | | | | | | | | |
| (d) | <p>Discuss whether or not a government should encourage more people to cycle.</p> <p>In assessing each answer, use the table opposite.</p> <p>Why it should:</p> <ul style="list-style-type: none"> • reduce external costs • improve the environment • improve people's health • reduce traffic congestion • may reduce need to import petrol <p>Why it should not:</p> <ul style="list-style-type: none"> • may involve costs e.g. building cycle paths • may result in unemployment in car industry • may lead to more imports of bicycles • market forces will result in the most efficient allocation of resources <p>Example of an L3 answer <i>External benefits are benefits enjoyed by the third party who are neither involved in production or consumption of goods and services. The private benefit of cycling, enjoyed by cyclists, is their fitness will increase. But government can enjoy a more healthy labour force which means it can result in better quality of goods and services, which can be exported to increase export revenue. Moreover, cycling increases fitness, which could also mean that the government will not have to spend more on healthcare. This finance can be used somewhere else, like infrastructure. Lastly, increased cycling would mean that pollution levels will decrease, which not only promotes sustainability, but also reduces external costs such as traffic and noise.</i></p> | 8 | <table border="1"> <thead> <tr> <th>Level</th> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>3</td> <td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td>6–8</td> </tr> <tr> <td>2</td> <td>A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td>3–5</td> </tr> </tbody> </table> | Level | Description | Marks | 3 | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 | 2 | A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. | 3–5 |
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| Question | Answer | Marks | Guidance | | |
|----------|--|-------|----------|--|-------|
| (d) | <p><i>However, if cycling is promoted, the government will have to build cycling parks and parking, increasing the costs and opportunity cost as same money could be used for retraining and reskilling. In addition, if the land is used for cycling parks, opportunity cost will be high as land is scarce, and it could be used for housing. Finally, since cycles are 2-wheelers, they are less safe than cars. So, chances of accidents rises. This means the government will have to spend more on healthcare, which can reduce a budget surplus. Less cars may be bought and lower car production could increase unemployment.</i></p> <p><i>Example of an L2 answer</i> <i>If people in Netherlands buy cycles to commute, external costs such as pollution will be lower which means people will fall less ill and less money will be needed for healthcare. Lower pollution in a country means that tourists might also be attracted. If more people bought cycles in a country like Netherlands there will be less congestion on roads which might improve productivity.</i> <i>However, if the government does encourage cycling, it means that they will also have to spend building leisure parks and bike paths across the country which might outweigh costs such as pollution. Sale of low-priced cycles means that the government might also generate less indirect tax e.g. VAT, decreasing the surplus of the government.</i></p> <p><i>Example of an L1 answer</i> <i>They should as cars are polluting the world. If people are riding bikes it is good for their health and there will be fewer accidents and they will lose weight. But the government will have to build cycle parks and this will cost money.</i></p> | | Level | Description | Marks |
| | | | 1 | There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. | 1–2 |
| | | | 0 | A mark of zero should be awarded for no creditable content. | 0 |

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8. 0455_s22_qp_21 Q: 5

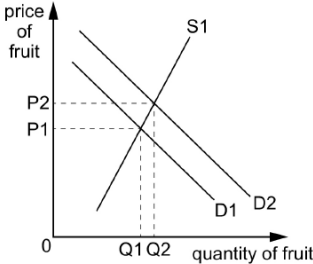
Singapore is a high-income country with a shortage of land and labour. Singapore is often given as an example of a market economy. The Singaporean government does, however, intervene in the economy. For example, it encourages its population to eat two servings of fruit and two servings of vegetables per day.

- (a) Identify the reward to labour and the reward to land. [2]
- (b) Explain how an increase in a worker's income can affect their mobility of labour. [4]
- (c) Analyse, using a demand and supply diagram, how a greater awareness of the health benefits of eating fruit will affect the market for fruit. [6]
- (d) Discuss whether or not a market economic system benefits an economy. [8]

Answer:

| Question | Answer | Marks | Guidance |
|----------|--|-------|----------|
| (a) | <p>Identify the reward to labour and the reward to land.</p> <p>Wages (1) rent (1).</p> | 2 | |

| Question | Answer | Marks | Guidance |
|----------|--|-------|---------------------------------------|
| (b) | <p>Explain how an increase in a worker's income can affect their mobility of labour.</p> <p>Logical explanation which might include:</p> <p>An increase in income will enable a worker to spend more on their education (1) increasing occupational mobility (1). Higher income will make housing more affordable (1) increasing geographical mobility (1). Higher income will make high-tech products more affordable (1) enabling a worker to be better informed (1) increasing both occupational and geographical mobility (1). Higher incomes may discourage a worker from changing jobs / may be content with current job (1) may be satisfied with income level (1) reducing geographical and occupational mobility (1). Higher incomes make it easier to afford car / use public transport (1) increases geographical mobility (1).</p> | 4 | No marks for causes of higher income. |

| Question | Answer | Marks | Guidance |
|----------|---|-------|---|
| (c) | <p>Analyse, using a demand and supply diagram, how a greater awareness of the health benefits of eating fruit will affect the market for fruit.</p> <p>Coherent analysis which might include:</p> <p>Up to 4 marks for D & S diagram: Axes correctly labelled—price and quantity or p and q (1). Original demand and supply curves correctly labelled (1). New demand curve shifted to the right (1). Equilibriums—shown by lines P1 and Q1 and P2 and Q2 or equilibrium points E1 and E2 (1).</p> <p>Up to 2 marks for written analysis which might include: Greater awareness of health benefits will encourage more people to eat / demand fruit (1) Raise price / raise quantity traded (1).</p> | 6 | <p>Note</p>  <p>Note: Axes do not have to be labelled price of fruit and quantity of fruit to get mark. No marks for stating price changes from P1 to P2 or quantity changes from Q1 to Q2. To get first mark in written analysis they must refer to fruit.</p> |

| Question | Answer | Marks | Guidance | | | | | | |
|----------|---|-------|--|-------|-------------|-------|---|--|-----|
| (d) | <p>Discuss whether or not a market economic system benefits an economy.</p> <p>In assessing each answer, use the table opposite.</p> <p>Why it might:</p> <ul style="list-style-type: none"> profit incentive and competition may increase efficiency wage differentials may encourage effort price may be low and quality high country's products may be internationally competitive economic growth may be high consumer choice may be high consumer sovereignty may be high <p>Why it might not:</p> <ul style="list-style-type: none"> risk of market failure public goods will not be provided demerit goods are overconsumed and merit goods and under-consumed problem of pollution and other external costs unemployment may be high as lack of co-ordination some countries may lack the support structures e.g., legal system to enforce property rights to allow market forces to work efficiently. monopolies can be created | 8 | <table border="1"> <thead> <tr> <th>Level</th> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>3</td> <td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and / or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td>6–8</td> </tr> </tbody> </table> | Level | Description | Marks | 3 | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and / or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 |
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| Question | Answer | Marks | Guidance | | |
|----------|--------|-------|--------------|--|--------------|
| (d) | | | Level | Description | Marks |
| | | | 2 | A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. | 3–5 |
| | | | 1 | There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. | 1–2 |
| | | | 0 | A mark of zero should be awarded for no creditable content. | 0 |

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9. 0455_w22_qp_22 Q: 2

The economic problem results in choices and opportunity cost. People have to decide what job to do and where to live. In recent years Australia has recruited teachers from a number of countries including Canada, the UK and the US. Most of these teachers specialise in a single subject.

- (a) Define *opportunity cost*. [2]
- (b) Explain the economic problem and why it is always likely to exist. [4]
- (c) Analyse why the wages of all teachers may increase. [6]
- (d) Discuss whether or not a teacher would benefit from specialisation. [8]

Answer:

| Question | Answer | Marks | Guidance |
|----------|---|----------|----------|
| (a) | Define <i>opportunity cost</i>. The (next) best alternative / choice (1) forgone / sacrificed (1). | 2 | |
| (b) | Explain the economic problem and why it is always likely to exist. Logical explanation which might include: The economic problem is finite / limited resources (1) and infinite / unlimited wants / wants exceed resources (1) scarcity (1). It is always likely to exist as wants grow faster than resources / wants are increasing (1) there will never be enough resources to produce all the products people would like to have (1). People are living longer / population is increasing (1) more resources are needed / some resources are being depleted (1). | 4 | |

| Question | Answer | Marks | Guidance | | |
|----------|---|----------|----------|---|-------|
| (c) | <p>Analyse why the wages of all teachers may increase.</p> <p>Coherent analysis which might include: The wages of teachers may increase if demand for teachers rises (1) derived (1) this may be because there are more children to educate / rise in population size (1) smaller class sizes / children staying in education longer (1) teachers being more productive / skilful (1). A decrease in supply will increase wages (1) this may be due to a rise in qualifications needed (1) long period of training (1) rise in wages in other occupations / need to compete with other occupations (1) need to compete with wages paid to teachers in other countries / recruit from higher paying countries (1). Bargaining power of teachers may increase (1) more teachers may belong to trade unions (1) may be more prepared to take strike action (1) wages may be raised to keep up with inflation / maintain real wages (1). Government policy may favour teachers (1) e.g. there may be an increase in school leaving age / increase provision of education (1). Increase in minimum wage (1).</p> | 6 | | | |
| Question | Answer | Marks | Guidance | | |
| (d) | <p>Discuss whether or not a teacher would benefit from specialisation.</p> <p>In assessing each answer, use the table opposite.</p> <p>Why it might:</p> <ul style="list-style-type: none"> • may be trained more quickly • become more skilled / productive • may be in higher demand • may be better paid • may increase chance of promotion <p>Why it might not:</p> <ul style="list-style-type: none"> • subject may become less popular • may become bored teaching the same subject • if lose job, may find it difficult to get another job • may spend a long time developing the specialisation • may not get the opportunity to move into another subject. | 8 | Level | Description | Marks |
| | | | 3 | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 |
| | | | 2 | A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. | 3–5 |
| | | | 1 | There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. | 1–2 |
| | | | 0 | A mark of zero should be awarded for no creditable content. | 0 |

_____ compiled by www.examinent.com _____

10. 0455_m20_qp_22 Q: 2

The main industries in the Seychelles, an island country in the Indian ocean, are tourism and fishing. The price elasticity of supply of fish is affected by the relatively short time that fish can be stored. Economic goods and free goods play a role in both fishing and tourism. With rises in the skills of workers and an increase in enterprise, GDP per head has increased by more than seven times over the last fifty years.

- (a) State the formula for calculating the price elasticity of supply (PES). [2]
- (b) Explain how opportunity cost is different for economic goods and free goods. [4]
- (c) Analyse, using a production possibility curve (PPC) diagram, the effect of an increase in enterprise on an economy. [6]
- (d) Discuss whether or not skilled workers are always paid more than unskilled workers. [8]

Answer:

| Question | Answer | Marks | Guidance |
|----------|---|-------|--|
| (a) | <p>State the formula for calculating the price elasticity of supply (PES).</p> <p>$\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}$ (2).</p> <p>OR</p> <p>Percentage change in quantity supplied divided by percentage change in price (2).</p> | 2 | |
| (b) | <p>Explain how opportunity cost is different for economic goods and free goods.</p> <p>Logical explanation which might include:</p> <p>Economic goods have an opportunity cost (1) resources are used to produce them / resources have alternative uses / if resources are used to produce one economic good, they cannot be used to produce another good / in limited supply (1).</p> <p>Free goods do not have an opportunity cost (1) resources are not used to produce them / there is no restriction on their supply (1).</p> | 4 | One mark for each of two differences identified and one mark for each explanation. |

| Question | Answer | Marks | Guidance |
|----------|--|-------|----------|
| (c) | <p>Analyse, using a production possibility curve (PPC) diagram, the effect of an increase in enterprise on an economy.</p> <p>Up to 4 marks for the diagram:</p> <p>Axes correctly labelled (1).</p> <p>Initial curve drawn as a curve / downward sloping line to the axes (1).</p> <p>New curve drawn as a curve / downward sloping line to the axes (1).</p> <p>Shift to the right indicated by arrow or lettering (1).</p> <p>Up to 2 marks for coherent analysis which might include:</p> <p>Enterprise is a factor of production / resource (1) there will be more risk takers / decision makers / firms (1) more enterprise increases productive capacity / potential / maximum output that can be produced / causes economic growth (1).</p> | 6 | |

| Question | Answer | Marks | Guidance | | | | | | | | | | | | |
|----------|---|-------|---|-------|-------------|-------|---|---|-----|---|--|-----|---|---|---|
| (d) | <p>Discuss whether or not skilled workers are always paid more than unskilled workers.</p> <p>In assessing each answer, use the table opposite.</p> <p>Why they might be:</p> <ul style="list-style-type: none"> skilled workers may be in shorter supply as they may require training and qualifications skilled workers may be in inelastic supply and demand for them may be inelastic skilled workers may be in higher demand as they will be more productive skilled workers may have stronger bargaining power skilled workers may be more likely to work in the tertiary sector Skilled workers may be more mobile. <p>Why they might not be:</p> <ul style="list-style-type: none"> skilled workers may have less experience and may be in less promoted positions skilled workers may be in declining industries skilled workers may place more importance on non-wage factors when deciding what jobs to do skilled workers in poorer countries may have lower wages than some unskilled workers in richer countries. <p>Example of a Level 3 answer: <i>Skilled workers may be paid more than unskilled workers as they have more qualifications and/or experience, so demand may be high compared to supply. Supply could be low due to long training required to learn skills, so the labour market would be more competitive and skilled workers higher paid. Demand for the products skilled workers provide may be higher, so their pay could be higher due to higher derived demand. Also, they may belong to stronger trade unions which have more bargaining power to negotiate for higher pay.</i></p> | 8 | <p>Accept responses from the viewpoint of why unskilled workers may be paid more.</p> <table border="1"> <thead> <tr> <th>Level</th> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>3</td> <td>A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes.</td> <td>6–8</td> </tr> </tbody> </table> | Level | Description | Marks | 3 | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 | | | | | | |
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| (d) | <p><i>It is also possible that unskilled workers could be higher paid. This is because their work may be dangerous, e.g. miners, so the supply of workers willing to do the job may be lower and firms have to pay more to attract workers. Long working hours (less leisure time) and poor working conditions mean unskilled workers may be higher paid, and if the work is boring and very few people are willing to do the job. For example, cleaners in the US are paid much higher wages than cleaners in India as the number of people willing to accept a job as a cleaner in the US is very low. There is even a possibility that unskilled workers could be paid higher than skilled workers.</i></p> <p>Principal Examiner comment: This is a strong L3 response. It is a two-sided answer with depth and logical links. For example, the candidate links qualifications and experience to demand for and supply of workers, as well as linking demand for workers with demand for the products they produce. The candidate discusses some of the key influences on wage determination.</p> | | <table border="1"> <thead> <tr> <th>Level</th> <th>Description</th> <th>Marks</th> </tr> </thead> <tbody> <tr> <td>2</td> <td>A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td>3–5</td> </tr> <tr> <td>1</td> <td>There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td>1–2</td> </tr> <tr> <td>0</td> <td>A mark of zero should be awarded for no creditable content.</td> <td>0</td> </tr> </tbody> </table> | Level | Description | Marks | 2 | A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. | 3–5 | 1 | There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. | 1–2 | 0 | A mark of zero should be awarded for no creditable content. | 0 |
| Level | Description | Marks | | | | | | | | | | | | | |
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| 0 | A mark of zero should be awarded for no creditable content. | 0 | | | | | | | | | | | | | |

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11. 0455_s20_qp_22 Q: 3

A number of countries are withdrawing high value banknotes. For instance, Singapore plans to stop issuing its \$10 000 note. High value notes were originally intended to act as a convenient store of value. Central banks are concerned some notes are now being used illegally. The Singapore Police Force and the Monetary Authority of Singapore (its central bank) were trying to recruit more workers in 2017. It was expected that the central bank would raise the rate of interest in 2018.

- (a) State **two** functions of money, other than a store of value. [2]
- (b) Explain **two** advantages banknotes have as a form of money. [4]
- (c) Analyse the influences on the mobility of workers. [6]
- (d) Discuss whether or not a central bank should raise the rate of interest. [8]

Answer:

| Question | Answer | Marks |
|----------|--|----------|
| (a) | <p>State <u>two</u> functions of money, other than a store of value.</p> <p>One mark each for two from: medium of exchange, measure of value (unit of account) and standard of deferred payments.</p> | 2 |
| (b) | <p>Explain <u>two</u> advantages banknotes have as a form of money.</p> <p>Logical explanation which might include: Generally acceptable (1) people are prepared to accept them in exchange for products and to settle debts (1). Portable (1) banknotes are light to carry around (1). Divisible (1) notes of different denominations (1). Recognisable (1) notes have distinct features on them known to the population (1). Limited in supply (1) the central bank prints a set number of notes (1). Homogeneous (1) all banknotes of the same value are identical (1).</p> | 4 |
| (c) | <p>Analyse the influences on the mobility of workers.</p> <p>Coherent analysis which might include: Occupational mobility is influenced by education (1) the more qualifications workers have (1) the more choice of jobs they will have (1). Occupational mobility is influenced by training (1) the more skills workers have (1) the easier they will find it to switch jobs (1). Geographical mobility is influenced by the price/availability of housing (1) The cheaper/more available housing is (1) the easier will workers find it to work in other areas (1). Geographical mobility is influenced by family ties (1) people may be reluctant to move because children are at school/partners have job in a particular area (1). Mobility between countries will be influenced by immigration controls (1).</p> | 6 |

| Question | Answer | Marks | | |
|--|---|----------|--|-------|
| (d) | Discuss whether or not a central bank should raise the rate of interest. | 8 | | |
| | In assessing each answer, use the table below. | | | |
| | Level | | Description | Marks |
| | 3 | | A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other but, overall, both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes. | 6–8 |
| | 2 | | A reasoned discussion which makes use of economic information and clear analysis to evaluate economic issues and situations. The answer may lack some depth and development may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question. | 3–5 |
| | 1 | | There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding. | 1–2 |
| 0 | A mark of zero should be awarded for no creditable content. | 0 | | |
| <p>Why it should:</p> <ul style="list-style-type: none"> • to reduce demand-pull inflation as a higher interest rate may encourage to spend less as it may discourage borrowing and encourage saving • to reduce borrowing if people and firms are building up unsustainable debt • to raise the exchange rate if there is downward pressure on a fixed exchange rate • to reduce a current account deficit if it is thought that lower spending will reduce imports and may discourage exports. <p>Why it should not:</p> <ul style="list-style-type: none"> • it may increase cyclical unemployment by reducing total (aggregate) demand • it may reduce the economic growth rate as it may discourage investment due to the higher cost of borrowing to purchase capital goods • it may raise the exchange rate and make exports less price competitive. | | | | |

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