UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the May/June 2012 question paper

for the guidance of teachers

0455 ECONOMICS

0455/31 Paper 3 (Analysis and Critical Evaluation), maximum raw mark 40

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2012 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 **(a)** 1 mark for tariffs/tax on imports.

(b) 1 mark for identifying **one** of the following:

- rise in the exchange rate
- fall in labour productivity
- rise in the price of steel
- monopoly power of Avtovaz.

Up to 1 mark for explaining how the reason would have reduced international competitiveness/raised costs of production. [2]

(c) 1 mark each for each of **two** reasons identified, e.g.

- low corporate tax
- large market
- large government subsidies
- good quality labour force
- access to raw materials
- avoidance of import tax.

1 mark each for each of two explanations. [4]

(d) **(i)** EITHER 2 marks for an increase in the value of exports would be expected to: reduce a current account deficit/increase a current account surplus/improve the current account position/have a beneficial effect on the current account position.

OR 2 marks for a decrease in the value of exports would be expected to: increase a current account deficit/reduce a current account surplus/worsen the current account position/have a harmful effect on the current account position.

1 mark for idea that the current account includes exports and imports/export revenue minus import expenditure.
1 mark for exports bring revenue to the country/credit item.
Note: no marks for just an increase in exports will increase the current account. [2]

(ii) 1 mark for value of exports rises over the period/increases each year.
1 mark for the current account surplus increased over the period/current account was in surplus or favourable or improved throughout the period.
1 mark for recognising that the current account surplus fell/current account became less favourable or worsened between 2009 and 2010.
1 mark for recognising that exports rose by a greater percentage/proportion than the rise in the current account surplus.
1 mark for recognising it is largely the expected relationship.
1 mark for recognising there are items other than exports in the current account e.g. imports. [3]

(e) Up to 5 marks for why it should, e.g. to
- protect its domestic industry/reduce imports of cars/increase demand for Russian
- increase GDP
- protect employment
- improve its current account position
- raise government tax revenue
- encourage MNCs to set up in the country.

Up to 5 marks for why it should not, e.g. it may
- increase inefficiency
- provoke retaliation
- raise the price due to less competition/choice
- reduce the quality due to less competition/choice
- distort comparative advantage
- MNCs may bring disadvantages to the economy, e.g. exploiting labour, creating pollution.

Up to 2 marks for discussing why another policy measure might be more effective.
Maximum of 4 marks for a list or list-like approach. [8]

2 **(a)** 1 mark for each of **two** influences from price, quality and tastes. [2]

(b) **(i)** 1 mark for price is likely to have increased.
1 mark for because supply decreased/tea became more scarce/idea of lower supply.
(Accept a diagrammatic approach.) [2]

(ii) 1 mark for price is likely to have fallen.
1 mark for because supply increased/oversupply/idea of higher supply.
(Accept a diagrammatic approach.) [2]

(c) 1 mark for each of **two** reasons identified e.g.
- risk of unemployment
- disruption to income/earnings
- low wages/fluctuations in wages
- hard physical job/poor working conditions
- fear of change due to possible movement towards more capital intensive methods
- fear of change due to increasing competition from other tea-producing countries.

1 mark for each of **two** explanations e.g.
- Tea pickers may want greater stability/security of employment or income/suffer from greater fluctuations in employment or income/experience seasonal unemployment.
- Tea pickers may be attracted by higher wages in other jobs/explanation of why wages are low in tea picking explanation that low wages result in low living standards.
- Tea picking may have to be undertaken in bad weather conditions or with little capital equipment to help/working conditions may be more favourable in other jobs.
- Workers may lack the skills to adapt to new methods of production/skills required in other jobs are not changing, or new methods of production may result in unemployment.

Note that the explanation marks may be gained either by explaining why the reason identified occurs (e.g. fluctuations in output, increasing competition from tea producers in other countries, falling demand for Kenyan tea) or why other jobs would be more attractive. [4]

(d) 1 mark for small scale of production.
1 mark for little use of capital equipment/labour-intensive method of production.
1 mark for inability to spread fixed cost over a high output/high average fixed cost.
1 mark for increasing output may increase efficiency or productivity/low-scale output inefficient/labour intensive production may be inefficient/capital intensive production may be efficient.
1 mark for inability to take advantage of economies of scale.
Up to 2 marks for describing the types of economies of scale that larger tea producers could experience. [4]

(e) Why it might increase sales, e.g. it may

- increase supply
- lower price
- or award up to 2 marks for the above points if shown in a relevant diagram
- reduce costs of production
- make Kenyan tea more price competitive
- make Kenyan tea farmers more efficient
- allow Kenyan tea farmers to benefit from economies of scale
- provide funds for reinvestment
- improve quality.

Why it might not increase sales, e.g.

- price may not fall below rivals
- a recession may occur in Pakistan
- import restrictions may be imposed by Pakistan
- taste/quality may still favour other countries
- there is a risk that Kenyan tea farmers will become reliant on the subsidy and so become inefficient
- other factors may influence supply e.g. weather conditions may prevent supply increasing
- other tea-producing countries may also subsidise tea production.

Maximum of 4 marks for a one sided approach.
Maximum of 3 for a list or list-like approach. [6]