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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the May/June 2008 question paper

0455 ECONOMICS

0455/06 Paper 6 (Alternative to Coursework), maximum raw mark 40

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1 (a) Consider if the company produces and owns facilities in another country. [1]

(b) Size of market, area covered, whether they have organised themselves to operate in large area, whether they were able to raise the necessary finance. [4]

(c) Its deliveries were mainly to rural areas (89%) and on average these covered only 15% of the cost. The implication is that the government wishes to gain more revenue. [2]

(d) (i) 1 mark for labels, 1 mark for shift of supply for tax, 1 mark for shift for subsidy. 1 mark for showing new equilibrium prices, 2 marks for explanation. [6]

(ii) They may not lose business as they may operate in a different area. But even if they keep their business they are likely, initially, to be worse off unless their revenue increases. They may, however, have power to increase their charges and revenue will increase. Whether this happens could depend on the extent of the competition in the industry. They say there is competition and so increases in charges might not be very high.
However, there are also proposals for greater regulation, and for allowing India Post a monopoly over some letters. If these are also implemented then they are likely to be worse off. Candidates should form a conclusion even if that is said to be uncertain. No conclusion, maximum of 7 marks. [8]

2 (a) Definition of GDP, 1 mark. Explain the link between GDP, population and income per head. Rise in GDP might mean a more even distribution of income, but could well mean some groups have a higher income. [4]

(b) Figures are not per head. Population is not given, but it is unlikely that people in China will have a higher income per head. The GDP is not much different but the population is vastly different. [2]

(c) (i) A persistent general increase in the average price level. [3]

(ii) China has the highest growth rate but the lowest inflation. India has the second highest growth rate but the highest inflation. The two countries with the lowest growth rates (Germany and France) do have low inflation rates. So, the same link does not appear in all cases and the evidence is inconclusive. [4]

(d) In Germany and France there is relatively low GDP growth and also relatively high unemployment. This would support the idea but there are only figures for one year, although the figures do compare a change in that year. However, the UK's growth rate is relatively low but the unemployment is not as high as France and Germany. Confusingly though, there is a high growth rate in India but also a high unemployment rate, and China does not have the lowest unemployment rate although the rate of growth is the highest.
Overall, there are no figures for other years which are necessary for a full picture, and even the ones given that show the change in one year do not necessarily support the idea that high GDP leads to low unemployment. [6]

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