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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the November 2005 question paper

0455 ECONOMICS

0455/06 Paper 2

Maximum mark 60

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

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1 **(a)** There was a decline/slump in (advertising) revenue. **[1]**

(b) Candidates should explain the costs with reference to output changes (2). If TV programmes are regarded as the output of the company then reducing the output would save variable costs. Some costs, for example, labour may be classified as either fixed or variable costs depending on the contract (2). The saving from merging departments would probably be a saving in fixed cost. There would now be only one head of department, some saving on equipment and fixed assets (2). Allow examples which might be derived from the information in the text, such as payment of staff, rent of premises etc. **[6]**

(c) The broadcaster lost 20% of its advertising revenue which was 90% of its total revenue. It lost 18% of its revenue. **[1]**

(d) Benefits could be described in terms of the producer or the consumer. Producer gains from increased sales and possible increased profit if the revenue from advertising exceeds the cost. Consumer gains from wider information. Candidates could discuss the difference between informative and persuasive advertising. **[5]**

(e) Candidates could explain that they would need to know the extent of the reduction in spending and the comparison of that saving with the reduced expenditure on advertising. But they could also suggest whether the reduction in programmes might result in a further decline in advertising expenditure. Candidates should recognise the link between costs and revenues in order to determine profit and suggest ways of either reducing cost or increasing revenue.
Max 4 marks if no reference to a TV broadcasting company. **[7]**

2 **(a)** There is a lack of investment because of strong protectionist policies by developed countries; this causes competition from subsidised products;
local producers have no incentive because of cheap imports. **[3]**

(b) Candidates could explain the meaning of economic growth either in terms of an increase in GDP per head or as the rise in income caused by the link between production, employment and spending. (The multiplier though is not on the syllabus but a general understanding of growth is). **[5]**

(c) Description of allocation of resources relying on the price mechanism unhindered by protectionist policies or government intervention. **[6]**

(d) Candidates should comment on possible methods which might include capital expansion, training of labour force, cultivation of extra land, more intensive farming, better irrigation, drainage. **[6]**

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