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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2007 question paper

0455 ECONOMICS

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

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1 (a) (i) Factor of production, person who takes risk in business, combines other factors together. [2]

(ii) Owner of tower in Congo; woman with fish; network owner in Congo; nursery owner; battery owner. [2]

(b) (i) One product needed with another. Cell phone and battery charger. Cell phone and transmitter tower. [2]

(ii) First diagram, single supply curve with shift of demand curve – price rise, movement along supply curve. Diagram, 1 mark; explanation, 1 mark. Second diagram, shift in demand to right, price rises. Diagram, 1 mark; explanation, 1 mark. [4]

(c) Discussion on size of market, amount of capital required, type of organisation required, whether there is a specialist product, personal service, range of market supplied. [5]

(d) Fixed costs do not vary with output. For example, the phone itself. Variable costs vary with output/use. For example, the cost of each phone call. [4]

(e) Need to know what level the profits have been and how profits have changed in recent years in Africa. Need to know projected costs and revenues company expects from increasing investment. Need to know whether company has skilled staff and expects to be able to staff increased operations.
Information that can be used: number of subscribers, 58% increase in cell phone purchases; only 10% have phones, limitation on land line provision; market therefore still very much under-supplied; demand in Nigeria and Congo are useful pieces of information; indications of how various businesses can benefit in seemingly difficult circumstances.
Question to ask is whether the individual stories amount to sufficient information to make a general conclusion. Maximum 8 marks without a conclusion. [10]

2 (a) Quotas are a restriction on the number of imports; other countries had quotas imposed on them, Lesotho did not, so Lesotho was able to trade with limited competition. [3]

(b) Candidates should suggest that this is because costs are low. Any factor cost could be lower than elsewhere but the most likely factor to influence the overall cost is the cost of labour. Machinery is possible but not as likely – it may well be imported, the level of profits may be lower per unit but the larger sales enable overall profit to remain high. Land costs are uncertain. There may also be government subsidies and/or low exchange rates. [3]

(c) It is linked to the rand and therefore, when the rand changes value in terms of other currencies so does the local currency. [2]

(d) Rising exchange rate means local products cost more in other countries, imports are cheaper. Exports therefore may be reduced in number and imports increased. This could worsen the balance of trade, cause less demand for home products, and may affect employment and incomes. [3]

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