Cambridge O Level

Cambridge Assessment International Education
Cambridge Ordinary Level

ECONOMICS **2281/22**

Paper 2 Structured Questions **October/November 2017**

MARK SCHEME

Maximum Mark: 90

Published

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Cambridge Assessment International Education

Question	Answer	Marks	Guidance
1(a)	**Identify, from the extract, two aims of government policies.** Price stability / low inflation / stopping inflation rate rising above target (1) full employment / low unemployment (1).	**2**	

Question	Answer	Marks	Guidance
1(b)	**Explain <u>two</u> problems caused by inflation.** 1 mark each for each of two problems identified: • worsen current account position • redistribution of income • uncertainty • menu costs • shoe leather costs • inflationary noise • fiscal drag • higher unemployment • money may cease to carry out its functions • lower demand / lower output / lower economic growth • lower purchasing power / fall in the value of money • lower standards of living / higher cost of living. 1 mark each for each of two explanations: • export prices will rise – reduce international competitiveness • lenders / those on fixed incomes may lose and borrowers may gain • lack of certainty may discourage investment • cost of changing e.g. price labels • cost of moving money around in search of highest interest rate • confusion caused by not being able to work out change in relative prices • people's income being dragged into higher tax brackets • costs of production may increase, causing firms to reduce the number of workers they employ • during periods of hyperinflation, money may cease to be generally acceptable • cost-push inflation will reduce total demand • purchasing power will fall if incomes rise by less than prices	4	Fall in the value of the currency on its own is too vague – must make clear reference to internal value.

Question	Answer	Marks	Guidance
1(c)(i)	**Calculate, using information from the extract, the percentage fall in the global price of a barrel of oil in 2015** 45% (2) Correct working i.e. \$54 / \$120 × 100 (1)	**2**	
1(c)(ii)	**Calculate, using information from the extract, the consumer prices index in China at the end of 2015.** 102.51 (2) Correct working i.e. 100.5 × 2 / 100 + 100.5 or 2.01 (1)	**2**	Accept 102.5

Question	Answer	Marks	Guidance
1(d)	**Analyse why an increase in unemployment might cause an increase in government spending.** It may increase government spending on unemployment benefits (1) the unemployed may suffer worse health (1) this may increase government spending on healthcare (1) if crime rises, the government may spend more on law and order (1). To reduce unemployment, the government may adopt expansionary fiscal policy / policy to stimulate the economy / policy to increase economic growth (1) to increase total demand (1) to create more jobs (1). Government may provide subsidies to firms (1) to encourage them to increase output and employment (1). Government may spend more on education (1) to increase skills of workers (1) reduce structural unemployment (1). Unemployment may increase poverty (1) leading to more spending on other benefits (1). Government may employ more workers in the public sector (1) to reduce unemployment / will increase wage bill (1). Government may spend on infrastructure (1) to raise labour mobility (1).	**5**	Maximum of 3 marks for a list-like approach.

Question	Answer	Marks	Guidance
1(e)	**Discuss whether the supply of workers for unskilled jobs will be high in a country.** Up to 3 marks for why it might: Levels of education and training may be low (1) in some developing countries there is a relatively high illiteracy rate (1) workers may lack skills/qualifications (1). Unskilled jobs may provide good non-wage benefits (1) example e.g. short working hours (1). The supply may be high due to immigration of unskilled workers / high population (1) attracted by wages that are higher than the countries they come from (1). Most workers may be employed in the primary sector (1) which may offer largely unskilled jobs (1). May be high unemployment (1) so some skilled workers may have to apply for unskilled jobs (1). May be high unemployment benefit (1) discourages incentive to work (1). Up to 3 marks for why it might not: Unskilled jobs are likely to be relatively poorly paid (1) wage rate is a key influence on jobs workers select (1). Unskilled jobs may offer poor working conditions (1) example e.g. hard manual work (1). Unskilled workers may emigrate to other countries (1) if wages/working conditions are better in other countries (1). Work may be capital-intensive (1) requiring high skills (1).	**5**	

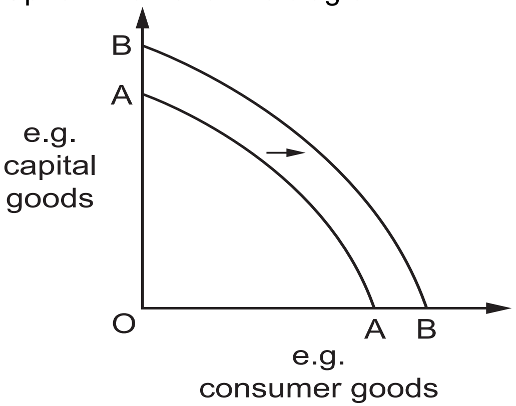
Question	Answer	Marks	Guidance
1(f)	**Explain, using information from the extract and Fig. 1, what happened to the market for food in 2015.** The diagram shows supply increasing (1) price falling (1) demand extending / more food / higher quantity (1) costs of production falling due to lower transport costs (1) inelastic supply (1) inelastic demand (1).	4	
1(g)	**Discuss whether a decrease in income tax would reduce deflation.** Up to 4 marks for why it might: A reduction in income tax will increase disposable income (1) may raise consumer expenditure (1) may raise investment (1) increase total demand (1) higher demand may encourage firms to raise prices / demand-pull inflation (1). Up to 4 marks for why it might not: Consumers may not spend more / may save more (1) if concerned about the future (1) if expect prices to be lower in the future (1). A decrease in income tax may not reduce deflation caused by lower costs of production (1) e.g. advances in technology / investment may continue pushing down the price level (1). A decrease in income tax may reduce government spending (1) higher consumer spending may be offset by lower government spending (1). May act as incentive to work (1) may increase productivity / efficiency (1) lower costs of production / increase total (aggregate) supply (1). Consumers may spend on imports (1).	6	

Question	Answer	Marks	Guidance
2(a)	**Define 'average costs'.** Total cost divided by output (2). Cost per unit / average fixed cost plus average variable cost (1).	2	
2(b)	**Explain <u>two</u> factors that would increase the supply of entrepreneurs in an economy.** 1 mark each for each of two factors identified: • rise in education • reduction in corporation tax / tax holidays • increase in subsidies for business/entrepreneurs • reduction in the rate of interest • privatisation / move to market economy • immigration • reduction in barriers to entry / deregulation • economic boom / high level of economic activity • improved legal framework / reduction in crime 1 mark each for each of two explanations given: • rise in education will develop the skills needed to be an entrepreneur • reduction in corporation tax will increase financial return from being an entrepreneur • subsidies may make it easier / cheaper to start-up a business • a lower rate of interest will make it cheaper to borrow to start up a business / increase expectation of higher demand • privatisation / move to market economy will increase the opportunities to set up new firms • a relatively high proportion of immigrants tend to set up their own businesses • lower barriers to entry / deregulation would make it easier to set up new firms • economic boom / high level of economic activity may increase the expectation that firms will be profitable • improved legal framework / reduction in crime would be likely to make entrepreneurs feel more confident.	4	

Question	Answer	Marks	Guidance
2(c)	**Analyse how the market for a product would be affected by a reduction of the tax on the product combined with a fall in the price of a complement.** Reducing the tax will lower costs of production (1) increase supply – *written or drawn* (1). A complement is a product bought to use with another product (1) a fall in its price would increase demand for this product – *written or drawn* (1). Effect on price is uncertain (1) would depend on relative size of changes (1). Quantity would rise – *written or drawn* (1).	**6**	

Question	Answer	Marks	Guidance
2(d)	**Discuss whether low unemployment in a country will encourage multinational companies (MNCs) to set up there.** Up to 5 marks for why it might: Low unemployment may indicate a strong economy / economic growth (1) high incomes (1) a high level of demand (1) may expect to be able to sell a large amount in the country (1) make a high profit (1). Low unemployment may mean high tax revenue (1) government spending on education may be high (1) improving quality of workers (1) spending on infrastructure e.g. roads may be high (1) lower MNCs' costs of production (1). Production may be capital-intensive (1) and so labour shortages may not be a significant problem (1). Other benefits may be greater than higher labour costs (1) e.g. not having to pay an import tariff (1). Up to 5 marks for why it might not: There may be difficulty in recruiting workers (1) may be a shortage of skilled workers (1) may increase trade union power (1) may have to pay high wages (1) which would increase costs (1) lower profits (1). Low unemployment may create demand-pull inflation (1) and cost-push inflation (1) this may make it relatively expensive to produce in the country (1).	**8**	

Question	Answer	Marks	Guidance
3(a)	**What is a possible opportunity cost of working?** Opportunity cost is the (next) best alternative forgone (1). Opportunity cost is leisure / education / retirement / raising a family (1).	2	
3(b)	**Explain <u>two</u> reasons why older workers tend to earn more than young workers.** 1 mark each for each of two reasons identified: An older worker (or vice versa): • may have gained more qualifications • may have received more training • may have gained experience • may have been promoted • length of service. 1 mark each for each of two explanations given: • a more qualified worker can apply for a better paid job • a better trained worker will have more choice of occupation • more experience is likely to increase productivity/skills • over time a worker may become better at doing the job • in some jobs there are regular increases in pay.	4	Some candidates may answer from the perspective of younger workers earning less than older workers.

Question	Answer	Marks	Guidance
3(c)	**Analyse, using a production possibility curve diagram, how an increase in labour productivity will affect an economy.** Up to 4 marks for the diagram:  Axes correctly labelled (1). Original production possibility curve / straight downward sloping line drawn to the axes (1). New PPC (1). Indication of shift to the right – arrow or labelling (1). Up to 2 marks for written explanation: An increase in labour productivity increases the quality of labour (1) increases output per worker hour / efficiency (1) increases productive potential / cause economic growth (1).	6	

Question	Answer	Marks	Guidance
3(d)	**Discuss whether the rich in one country will save more than the rich in another country.** Up to 5 marks for why they might: The rich in one country may save more if they have more income than the rich in another country (1) people tend to save more as income rises (1) greater ability to save (1). The interest rate may be higher in the country (1) greater financial return from saving / save more / spend less (1). There may be more tax incentives in the country to encourage saving (1) i.e. interest rates earned not taxed or taxed at a lower rate (1). There may be a greater fear of a recession (1) rich expecting their income to be lower in the future / risk of losing their jobs (1). Up to 5 marks for why they might not: The rich in the country may be more optimistic about the future / may have greater job security (1) which will encourage them to spend a higher proportion of their income (1). There may be more of a culture of saving in another country (1). There may be more / greater range of financial institutions in another country (1) encouraging more saving there (1). The total number of the rich may be higher in another country (1) so even if, on average, the rich save more in the country, total saving may be higher in another country (1). There may be higher inflation / greater expectation of higher inflation in the future (1) encouraging higher spending now (1).	**8**	

Question	Answer	Marks	Guidance
4(a)	**Name <u>two</u> factors of production used in making cars.** 1 mark each for each of two factors identified: • car workers / labour • car factory / capital • car firm owner / entrepreneur • water/land	**2**	
4(b)	**Explain how <u>two</u> methods of trade protection may reduce imports.** 1 mark each for each of two methods identified: • tariffs • quotas • embargoes • exchange control • voluntary export restraint (VER) • quality standards • subsidies • expensive paperwork 1 mark each for each of two explanations given: • tariffs – tax on imports will raise price of imports which may reduce demand • quotas – a limit on imports will restrict quantity of imports that can be purchased • embargo – a ban on imports will reduce quantity imported to zero • exchange control – a limit on availability of foreign currency will make it difficult to get the currency to buy imports • VER – agreements between governments to restrict exports to each other • quality standards – making it difficult / expensive to achieve requirements • subsidies – given to domestic producers to make them internationally competitive expensive paperwork – increase the costs of exporting to the country	**4**	

Question	Answer	Marks	Guidance
4(c)	**Analyse the social costs created by car production and car use.** Social costs are private costs plus external costs (1). Private costs are the costs to the car firm/buyers of cars (1) example: e.g. wages paid to workers / price paid for the cars (1). External costs are likely to exist in the form of costs to third parties (1) firms/buyers will not take them into account (1) examples: e.g. air pollution / noise pollution / congestion (up to 2).	**6**	Maximum 4 marks if no reference to cars.

Question	Answer	Marks	Guidance
4(d)	**Discuss whether demand for cars is likely to increase in the future.** Up to 5 marks for why it might: Rising incomes (1) people may switch from other forms of transport e.g. bus travel / can afford to buy cars (1). Price may fall (1) cars become more affordable (1). Advances in technology (1) increasing availability of hybrid / electric cars / raise quality (1) any other relevant cause of a fall in price (1). Population is increasing (1) creating more potential buyers (1). Greater availability of bank loans / credit (1) cars may be purchased using bank loans (1). More effective advertisements (1) persuading people to buy more cars (1). Up to 5 marks for why it might not: Other forms of transport may become cheaper (1) example of a substitute (1). Concern for the environment may increase (1) causing people to walk or cycle (1). Prices of complements may rise (1) e.g. petrol / car parking charges / road tolls / inner city charges (1). Governments may increase taxes on car travel / impose restrictions on car use (1) to reduce external costs (1). There may be a global recession / higher unemployment (1) reducing people's confidence in buying cars (1).	**8**	Maximum of 4 marks for a list-like approach.

Question	Answer	Marks	Guidance
5(a)	**What is meant by a labour-intensive industry?** An industry which has a high proportion of labour compared with the proportion of other factors of production used (2). An industry which uses a large amount of labour (1).	2	
5(b)	**Explain <u>two</u> reasons why a country may stop exporting a product.** 1 mark each for each of two reasons identified: • may be a shortage of the product in own country • may want to conserve resources • may be a fall in demand from other countries • may want to switch resources to another product • may lose international competitiveness • trade restrictions may be imposed on the product by trading partners • may be an appreciation of the currency. 1 mark each for each of two explanations: • may want to sell the product on the home market to prevent a shortage pushing up price • there may be concerns that e.g. deposits of gold are running out • exports can only be sold if there is a market for them / exports may have risen in price / may have fallen in quality • other products may have become more profitable and so resources may be switched away from the product • other countries may have discovered resources / improved the training of their workers giving them a cost advantage • there may be a tariff imposed which may make the product uncompetitive / an embargo may be imposed on the product stopping other countries importing it • a higher exchange rate will raise the price of exports which may make this product uncompetitive.	4	

Question	Answer	Marks	Guidance
5(c)	**Analyse the effects of an increase in unemployment on inflation.** A rise in unemployment may reduce incomes (1) lower spending (1) lower total demand (1) lower demand-pull inflation (1). A rise in unemployment may reduce rises in wages / lead to a fall in wages (1) reduce costs of production (1) reduce cost-push inflation (1). A rise in unemployment will reduce tax revenue (1) this could cause the government to reduce subsidies (1) this could increase costs of production (1) causing cost-push inflation (1).	**6**	

Question	Answer	Marks	Guidance
5(d)	**Discuss whether having a relatively small population is an advantage or a disadvantage for an economy.** Up to 5 marks for why it might be an advantage: A small population may mean that resources will last over a longer time period (1) enabling economic growth to continue (1). There may be less environmental damage (1) less risk of overcrowding (1). There may be fewer dependents (1) smaller proportion of children and elderly people (1) which can increase income per head (1) and may reduce the need for some forms of government spending (1). May be less imports (1). Up to 5 marks for why it may be a disadvantage: There may not be enough workers / low labour force (1) to take advantage of resources (1) low output (1) low tax revenue (1) reduces government ability to spend (1). The size of the market for the country's products may not be large enough / low total (aggregate) demand (1) less ability to take advantage of economies of scale (1) may be less attractive to MNCs (1). May be less exports (1).	**8**	Reward but do not expect reference to the optimum population size.

Question	Answer	Marks	Guidance
6(a)	**Identify <u>two</u> influences on the size of a country's population.** 1 mark each for each of two influences identified: • birth rate • death rate • migration.	**2**	Accept as influences, factors that would affect size of population.
6(b)	**Explain <u>two</u> causes of an increase in living standards.** 1 mark each for each of two causes identified: • rise in income / fall in poverty / fall in unemployment / rise in employment • improvements in education • improvements in healthcare • increase in leisure time. 1 mark each for each of two causes explained: • higher incomes will enable people to buy more goods and services • improvements in education will enable people to earn higher incomes / make more efficient life choices • improvements in healthcare will increase life expectancy • increase in leisure time will give people the opportunity of follow leisure activities / suffer less pressure.	**4**	

Question	Answer	Marks	Guidance
6(c)	**Analyse how an increase in the rate of interest could increase unemployment.** Rise in the rate of interest may discourage borrowing / increase cost of borrowing (1) increase saving (1) decrease spending (1) decrease total demand (1) lower demand may decrease output (1) encourage firms to make workers redundant (1). Rise in the rate of interest may increase firms' costs of production (1) this may encourage firms to reduce their output (1). Rise in the rate of interest may increase the exchange rate (1) higher exchange rate may decrease exports and increase imports (1) decrease domestic production (1).	**6**	

Question	Answer	Marks	Guidance
6(d)	**Discuss whether a government should increase tax rates during a recession.** Up to 5 marks for why it should: To prevent tax revenue falling (1) lower output may reduce profits (1) lower revenue from corporation tax (1) a recession will lower incomes (1) reduce income tax revenue (1) reduce revenue from indirect taxes (1). Higher tax revenue could be used to implement policies to stop the recession (1) government may be able to spend on supply-side policy measures (1) example (1). A higher tax on imports / import tariff (1) may encourage some consumers to switch to buying domestic products (1) reverse fall in output/employment (1). May want to redistribute income (1) progressive taxes could be increased (1) and tax revenue used to help the poor (1) who may be particularly harmed by a recession (1). Up to 5 marks for why it should not: Higher tax rates may reduce disposable income (1) reduce consumer expenditure (1) may reduce investment (1) lower consumer expenditure and investment would lower total demand (1) this may reduce output further (1). Higher tax rates may discourage MNCs from setting up in the country (1) this may mean it will take longer to get out of a recession (1). Higher tariffs may provoke retaliation (1) reduce both imports and exports (1).	**8**	Accept a counterargument i.e. the government should instead reduce tax rates during a recession.

Question	Answer	Marks	Guidance
7(a)	**Define 'specialisation'.** The concentration/focus (1) on one task/product / what they are best at (1).	2	
7(b)	**Explain <u>two disadvantages</u> that workers may experience from specialising.** 1 mark each for each of two disadvantages identified: • risk may not find another job easily • not finding where key strengths lie • limited skills • boredom • demotivation • increased risk of being replaced by machines • disruption caused by absent fellow workers. 1 mark each for each of two explanations of the disadvantages: • workers may not find it easy to transfer their skills to another job should they lose their jobs / risk of long term unemployment • concentrating on a particular task may mean that workers do not find out what they are best at • performing the same task each day can become tedious • breaking down a process into its separate parts may make it easier to mechanise • workers may feel less appreciated • may have to cover for absent colleagues / example of impact on the workers.	4	

Question	Answer	Marks	Guidance
7(c)	**Analyse how a country could reduce its reliance on imports.** Replacing imports with domestic products (1) by producing more domestic products / reducing price of domestic products / raising quality of domestic products (1) It could subsidise domestic producers (1) help infant industries to grow (1) replacing imports with domestic products (1). It could place trade restrictions on imports (1) example: e.g. tariffs (1) reason why restriction could reduce imports e.g. tariff could make imports more expensive (1). It could keep its exchange rate low (1) e.g. by buying the currency (1) keeping import prices high (1). It could use supply-side policy (1) e.g. increase spending on education (1) to improve the quality of output (1) reduce costs of production (1) make domestic products more competitive (1).	**6**	

Question	Answer	Marks	Guidance
7(d)	**Discuss whether producing more food will increase living standards.** Up to 5 marks for why it might: Producing more food may lower the price of food (1) due to economies of scale (1) making it more affordable (1) increasing the availability/quality of food people can consume (1) reducing poverty (1) increasing life expectancy (1). Providing more food may create jobs (1) increase exports / reduce imports (1) increasing output / GDP (1) increasing incomes / GDP per head (1) allowing people to buy more goods and services (1). Up to 5 marks for why it might not: May lead to over-consumption of food (1) obesity (1) healthcare problems caused (1). Intensive farming methods may create external costs (1) e.g. river pollution arising from fertilisers spread on the land (1). Agricultural jobs may be low skilled (1) low paid (1). Those producing more food may lack the appropriate resources to produce it (1) and as a result may produce low quality food (1) high priced food (1). Increased food production may lead to an over-supply of food (1) with the extra output remaining unsold (1) may cause diseconomies of scale (1). There may be an opportunity cost involved (1) relevant example (1) fewer capital goods may be produced (1) which could lower potential economic growth (1) and so living standards in the future (1). Crops may be destroyed / damaged (1) by climate conditions / disease (1).	**8**	