CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2012 series

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 **(a)** 2 marks for a sustained rise in the general price level/fall in the value of money.
1 mark for a rise in prices. [2]

(b) 1 mark for yes it does largely support the view.
1 mark for the trend is Japan's general price level falls as its unemployment rises/there is an inverse relationship.
1 mark for total (aggregate) demand may be falling/revenue and profits may be declining/firms may need to cut costs/firms may lower output.
1 mark for a harmful fall in the price level is associated with rising unemployment. [3]

(c) 1 mark for GDP/output/economic growth. [1]

(d) 1 mark for during a period of a harmful fall in the price level, demand for products will be falling.
1 mark for consumers and firms may wait for prices to fall further.
1 mark for consumers may spend less due to unemployment/fear of unemployment.
1 mark for with falling demand, firms are likely to reduce output.
1 mark for firms may need to cut costs of production.
1 mark for with lower output, firms will need fewer capital goods.
1 mark for firms may have less money to spend on capital goods.
1 mark for firms will experience lower profits/lower revenue.
1 mark for expectation of lower profits will reduce firms' ability and willingness to invest. [4]

(e) 1 mark for reference to government spending/form of government spending.
1 mark for reference to taxation.
1 mark for reference to government borrowing/repayment/budget position. [2]

(f) Up to 5 marks for discussing why a central bank should reduce its interest rate, e.g.
- to stimulate growth – reduce cost of borrowing, reduce reward from saving, increase spending, encourage firms to expand their output
- to reduce unemployment – raise demand, encourage firms to increase output, employ more workers
- to improve current account – lower the exchange rate, people move money out of the country's banks to other banks, increase supply of the currency, reduce demand for the currency, reduce export prices, increase import prices, increase export revenue, reduce import expenditure
- to stop the price level falling, to offset the harmful effects of deflation.

(Note: all 5 marks can be gained by commenting on one factor.)

Up to 5 marks for discussing why it should not, e.g.
- may experience inflation – encourage spending, raise total (aggregate) demand, cause demand-pull inflation
- more spending may increase imports and worsen the current account position
- may encourage households and firms to get into debt – people and firms may borrow more than they can afford, may lead to a fall in total (aggregate) demand in the long run
- may put pressure on a fixed exchange rate – may have to sell the currency to keep it at its present rate.

(Note: all 5 marks can be gained by commenting on one factor.)
Up to 4 marks for a list-like response. [8]

2 **(a)** **(i)** 1 mark for saving money/reduced bills. [1]

(ii) 1 mark for reduced CO_2 emissions/improved environment/preserving non-renewable resources. [1]

(b) 1 mark for rules/laws/bans/controls.
1 mark for restrict/influence behaviour of firms and households/a relevant example. [2]

(c) **(i)** 1 mark each for each of two from: rainforests, grasslands, trees, soils, rapeseed oil, sunflower oil, soya, biofuels, coal, solar power. [2]

(ii) 1 mark for reference to the forces of demand and supply.
1 mark for reference to the price mechanism/private sector/consumer sovereignty.
1 mark for reference to the role of profit.
1 mark for explaining how price changes move resources away from unpopular products towards making popular products/producers respond to changes in consumer demand.[3]

(iii) 1 mark for identifying a possible effect.
1 mark for providing a relevant explanation of the price change identified.
(e.g. price may rise due to the decrease in supply/greater scarcity of coal; price may fall due to a decrease in demand/switch to biofuels.)
(Accept a diagrammatic approach.) [2]

(d) 1 mark for recognising the government is trying to encourage the use of biofuels to reduce CO_2 emissions.
1 mark for growing more biofuels may destroy rainforests.
1 mark for recognising that the growth of biofuels can cause CO_2 emissions.
1 mark for concluding that the government intervention may not reduce CO_2 emissions/external costs. [3]

(e) Up to 4 marks for commenting on why it may reduce global CO_2 emissions, e.g.
- Pakistan may switch to other energy sources such as solar power, these may cause CO_2 emissions, reduce negative externalities
- Pakistan's example may encourage other countries to follow their example, resulting in less use of biofuels
- it may mean that Pakistan has reduced its total energy use, reducing its use of biofuels and other fuels.

(Note: all 4 marks can be gained by commenting on one factor.)

Up to 4 marks for commenting on why it may not, e.g.
- Pakistan could switch to another biofuel or to fossil fuels, resulting in no overall change in CO_2 emissions or even an increase
- other countries could increase their consumption of biofuels, Pakistan is a relatively significant user of biofuels but other countries consume more
- there are other causes of CO_2 emissions, including agriculture.

(Note: all 4 marks can be gained by commenting on one factor.)
Up to 3 marks for a list-like response.