UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2010 question paper

for the guidance of teachers

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 must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

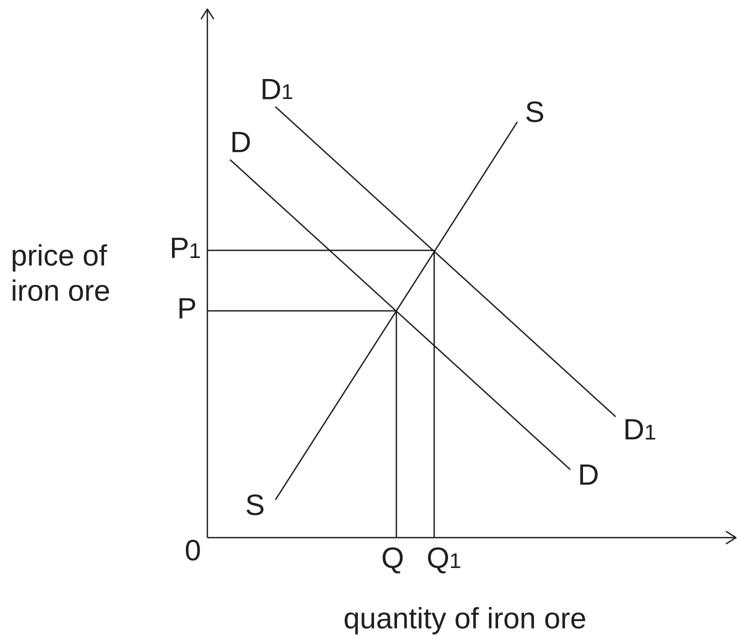
CIE is publishing the mark schemes for the October/November 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 **(a)** 1 mark for definition of the primary sector: extraction and collection of raw materials.
1 mark for definition of the secondary sector: the processing of raw materials into semi-finished and finished goods.
1 mark for definition of the tertiary sector: the production of services.
1 mark for identifying the primary sector is referred to (mining).
1 mark for the secondary sector is referred to (manufacturing). [5]

(b) 1 mark for stating that prices in real terms have been compared to the rate of inflation.
2 marks for recognising that either inflation was greater than the rise in iron ore prices or iron ore prices fell faster than the price level. [3]

(c) 1 mark for the rise in the price of steel was mainly due to higher demand from China.
1 mark for the increase in demand for steel from China was equivalent to either the entire steel output of Germany and/or about half of the output from the United States each year. [2]

(d)



1 mark for labels.
1 mark for shift of demand curve to the right.
1 mark for equilibriums.
1 mark for an increase in demand will raise price.
1 mark for higher price will cause an extension/expansion in supply/increase in quantity supplied. [5]

(e) 1 mark for price is expected to fall.
1 mark for the price of iron ore used to make steel is expected to decline/costs of production are expected to fall.
1 mark for price of rival metals is expected to fall.
1 mark for competitive pressure to lower price.
1 mark for recognising the effect is uncertain.
1 mark for large mining companies have market power to set price.
1 mark for demand may continue to rise.
Note: maximum mark of 4. [4]

(f) Up to 5 marks for considering why such a purchase may lower costs and increase profit:
- recognition that whilst total cost may rise, average cost may fall
- a larger company may be able to take greater advantage of economies of scale
- explanation/examples of economies of scale
- buying out a rival company raises market power
- higher market power may enable a firm to raise price
- lower average cost and higher price will increase profit.

Up to 2 marks for why the purchase may not lower average costs and increase profit:
- the company purchased may be loss-making
- the new company formed may experience diseconomies of scale
- examples/explanation of diseconomies of scale.

Note: maximum mark of 7. [7]

2 (a) 1 mark for it is a measure of inflation.
1 mark for one of the government aims is a low rate of inflation.
1 mark for calculating the price index enables the inflation rate to be compared over time and/or between countries.
1 mark for it can form the basis for interest rate/anti-inflation policy. [3]

(b) 2 marks for 4 reasons.
1 mark for 2 or 3 reasons.

Reasons:
- decreasing demand/confidence
- record discounts on furniture sales
- decreasing food prices
- decreasing gasoline/petrol prices
- previous rises in interest rates
- supermarket price wars
- cuts in energy prices. [2]

(c) 1 mark for weightings are based upon the importance of the item in average expenditure.
1 mark for the greater the proportion spent on an item, the higher the weighting.
1 mark for food and furniture are given different weightings as different proportions are spent on them/a higher proportion of people's expenditure goes on food than on furniture. [3]

(d) 1 mark for a rise in interest rates makes borrowing more expensive.
1 mark for those who have borrowed in the past will have less to spend.
1 mark for there will be a greater incentive to save.
1 mark for previous rises reduced consumer confidence/created concern about future interest rate rises.
1 mark for interest rate rises may reduce spending on less essential items such as furniture.
1 mark for effect of a rise in interest rates may be offset by a fall in prices. [6]