Past-paper walk-through

Factors of production ▪ 1.2

eXercise

Questions in this set

- 0455/11 J25 Q2 ▪ 1 mark
- 0455/21 J25 Q3 ▪ 20 marks
- 0455/22 M25 Q3 ▪ 20 marks
- 0455/11 N24 Q2 ▪ 1 mark
- 0455/11 N24 Q26 ▪ 1 mark
- 0455/13 N24 Q2 ▪ 1 mark

Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- // separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = "or words to that effect" – the wording need not match.

Question 2

0455/11 J25 ▪ Q2 ▪ 1 mark

2 Sonia owns a takeaway food delivery service. She decides to expand the firm, buying more vans and hiring additional drivers.

Which factors of production were changed?

A capital and labour

B capital and land

C enterprise and capital

D labour and land

Solution 2

Answer: **A**

Why

- Vans are man-made aids to production, so they are capital.
- Drivers supply human effort, so they are labour.
- So expanding this way uses more capital and more labour.

Question 3

0455/21 J25 ▪ Q3 ▪ 20 marks

3 In recent years, the quantity of Latvia's factors of production has changed. Since 2008, its capital has increased and its land has not changed significantly, but its labour force and its enterprise have decreased. Enterprise and conditions of supply can affect firms' prices. In 2022, the Latvian Government increased the country's national minimum wage (NMW). Its NMW did, however, remain one of the lowest in the European Union.

(a) Identify the rewards to capital and land. [2]

(b) Explain two causes of a decrease in enterprise in an economy. [4]

(c) Analyse how changes in conditions of supply can affect a firm's prices. [6]

(d) Discuss whether or not a rise in a national minimum wage will harm an economy. [8]

(a) (a) Identify the rewards to capital and land. [2] **[2]**

Question 3

(b) (b) Explain two causes of a decrease in enterprise in an economy. [4] **[4]**
(c) (c) Analyse how changes in conditions of supply can affect a firm's prices. [6] **[6]**
(d) (d) Discuss whether or not a rise in a national minimum wage will harm an economy. [8] **[8]**

Solution 3

(a)

Mark scheme

- Identify the rewards to capital and land.
- ▪
- Interest 1
- ▪
- rent 1
- 2 If just names the two rewards, they can be in any order.

Solution 3

(b) Mark scheme

- Explain two causes of a decrease in enterprise in an
- economy.
- Logical explanation which might include:
- ▪
- Decrease in profit / increase in corporate income
- (corporation) tax (1) increase in interest rates for
- borrowing (1) reduce financial incentive to become an
- entrepreneur (1).

Solution 3

- ▪
- Reduction in education (1) reduce those with the skills
- to become entrepreneurs (1).
- ▪
- Reduction in immigration / reduction in population 1
- reduce the number of people who can become
- entrepreneurs (1).
- ▪
- Entrepreneurs move abroad (1) better prospects / less
- tax (1).

Solution 3

- ▪
- Reduction in the retirement age (1) reduces supply of
- potential entrepreneurs (1).
- ▪
- Recession / war (1) firms may go out of business /
- reduces willingness to take risks / reduces confidence /
- certainty (1).
- ▪
- Increased government regulation (1) excessive rules
- may discourage entrepreneurs (1).

Solution 3

- ▪
- Nationalisation of an industry / growth of monopolies 1
- removal of entrepreneurs (1).
- 4 One mark each for each of two causes identified and one
- mark each for each of two explanations.
- If more than two causes given, consider the first three.
- MAX of two marks if not identifying what changes.
- 0455/21
- May/June 2025
- Guidance

Solution 3

(c) Mark scheme

- Analyse how changes in conditions of supply can affect
- a firm's prices.
- Coherent analysis which might include:
- ▪
- Increase in costs of production (1) due to rise in wages /
- raw material costs / capital goods costs / tariffs (1) raise
- price (1) to maintain profit (1).
- ▪

Solution 3

- Natural disasters (1) can create a shortage (1) raise
- price (1).
- ▪
- Changes in weather (1) good weather can create a
- surplus in supply e.g. agriculture (1) prices fall (1) or
- poor weather can create a shortage (1) prices rise 1
- ▪
- Increase in indirect tax / corporate income (corporation)
- tax (1) a firm may pass this onto consumers as higher
- prices (1) especially if demand is inelastic (1).

Solution 3

- ▪
- Government subsidies to firms (1) reduce the cost of
- production (1) the firm may be able to gain the same
- revenue and profit (1) with a lower price (1).
- ▪
- Discovery of new source of raw materials (1) enabling
- the firm to supply (1) more at a lower price (1).
- ▪
- Advances in technology (1) example (1) could lower
- costs of production (1) reducing price (1).

Solution 3

- ▪
- Improvements in education and training (1) raise
- productivity (1) lower prices (1).
- 6 Only allow one mark for reference to a rise in price and one
- mark for reference to a fall in price.
- MAX 4 marks if not identifying change in conditions of
- supply.
- 0455/21
- May/June 2025
- Guidance

Solution 3

(d) Mark scheme

- Discuss whether or not a rise in a national minimum
- wage will harm an economy.
- In assessing each answer, use the table opposite.
- Why it might:
- ▪
- increase unemployment if firms cannot afford to pay
- higher wages
- ▪

Solution 3

- higher unemployment would reduce total demand
- ▪
- lower total demand would reduce output
- ▪
- tax revenue may fall, and expenditure on state benefits
- may rise
- ▪
- if higher wages are paid, there may be inflation.
- Why it might not:
- ▪

Solution 3

- reduce poverty as raise the income of the low-paid
-
    -
- encourage more people to enter the labour force
-
    -
- increase productivity as workers may be more
- motivated
-
    -
- encourage firms to train workers to gain better return
-
    -
- may be set below the existing equilibrium wage level.

Solution 3

- 8 Accurate diagram can achieve Level 1.
- Level
- Description
- 3
- A reasoned discussion which accurately
- examines both sides of the economic
- argument, making use of economic
- information and clear and logical
- analysis to evaluate economic issues
- and situations. One side of the

Solution 3

- argument may have more depth than
- the other, but overall both sides of the
- argument are considered and
- developed. There is thoughtful
- evaluation of economic concepts,
- terminology, information and/or data
- appropriate to the question. The
- discussion may also point out the
- possible uncertainties of alternative
- decisions and outcomes.

Solution 3

- 6–8
- 2
- A reasoned discussion which makes
- use of economic information and clear
- analysis to evaluate economic issues
- and situations. The answer may lack
- some depth and development may be
- one-sided. There is relevant use of
- economic concepts, terminology,
- information and data appropriate to the

Solution 3

- question.
- 3–5
- 0455/21
- May/June 2025
- Guidance
- 8
- Level
- Description
- 1
- There is a simple attempt at using

Solution 3

- economic definitions and terminology.
- Some reference may be made to
- economic theory, with occasional
- understanding.
- 1–2
- 0
- A mark of zero should be awarded for
- no creditable content.
- 0
- 0455/21

Solution 3

- May/June 2025
- Guidance

Question 3

0455/22 M25 ▪ Q3 ▪ 20 marks

3 Estonia's factors of production are employed in a range of industries including education. In 2022, the country experienced a shortage of teachers. The government increased teachers' wages to attract workers from other industries. Two of Estonia's other industries are building and clothing. Estonia's clothing industry has firms of different sizes. Estonia's firms were affected in 2022 by the government increasing the money supply.

(a) Define factor of production. [2]

(b) Explain two reasons why building workers may not become teachers. [4]

(c) Analyse how a small firm can compete successfully with a large firm in the same industry.

[6]

(d) Discuss whether or not an increase in the money supply will benefit an economy. [8]

Question 3

(a) (a) Define factor of production. [2] **[2]**
(b) (b) Explain two reasons why building workers may not become teachers. [4] **[4]**
(c) (c) Analyse how a small firm can compete successfully with a large firm in the same industry. [6] **[6]**
(d) (d) Discuss whether or not an increase in the money supply will benefit an economy. [8] **[8]**

Solution 3

(a)

Mark scheme

- Define factor of production.
- A resource / input (1) used to produce goods and services / used in the
- production process (1).
- 2 No marks for examples.

Solution 3

(b) Mark scheme

- Explain two reasons why building workers may not become
- teachers.
- Logical explanation which might include:
- May lack skills (1) occupationally immobile (1).
- May not have the necessary qualifications / may not have sufficient
- education / may lack training / may lack willingness or ability to undertake
- training (1).
- May be paid more as building workers (1) a more physically demanding /

Solution 3

- more dangerous job (1) enjoy a higher standard of living as building
- workers may be in more demand than teachers (1).
- May be geographically immobile (1) unable to move to where the
- teaching jobs are (1).
- May not like the working conditions experienced by teachers (1) e.g. may
- want flexible working hours / less stress (1).
- May be unaware of job vacancies (1) information failure (1).
- May lack job vacancies (1) demand for teachers may fall (1).
- May enjoy working outside / gain more job satisfaction from working as a
- builder (1) benefit of fresh air (1).

Solution 3

- 4 One mark each for each of two reasons
- identified and one mark each for each of two
- explanations.
- If more than two reasons given, consider the
- first three.
- 0455/22
- February/March 2025
- Guidance

Solution 3

(c) Mark scheme

- Analyse how a small firm can compete successfully with a large
- firm in the same industry.
- Coherent analysis which might include:
- It may provide a personal service / customised service (1) specialist
- product / unique product (1) catering for a niche part of the market (1).
- It may build up a relationship with customers / develop consumer loyalty /
- have a good reputation (1) more aware of their customers' requirements
- (1) good location (1) may be easy to manage (1).

Solution 3

- It may be subsidised by the government / given a government grant 1
- may be charged a lower rate of (corporate income) tax (1) more revenue
- / lower cost (1) this could enable it to charge a low / competitive price (1).
- It may have a good relationship with workers / good communication with
- staff (1) increase their motivation 1
- May be innovative (1) produce a high quality product (1).
- It may be more flexible (1) responding quickly to changes in market
- conditions (1).
- A large firm may experience diseconomies of scale (1) example of a
- diseconomy of scale (1) higher average cost / higher cost of production

Solution 3

- (1) higher prices (1).
- 6 Two relatively easy marks to gain are ‘lower
- prices’ and ‘higher quality’.
- 0455/22
- February/March 2025
- Guidance

Solution 3

(d) Mark scheme

- Discuss whether or not an increase in the money supply will benefit
- an economy.
- In assessing each answer, use the table opposite.
- Why it might:
- ▪
- raise consumer expenditure / government spending / investment
- ▪
- reduce interest rate

Solution 3

- ▪
- increase total demand
- ▪
- increase economic growth and employment
- ▪
- increase bank lending
- ▪
- provide finance for firms to expand.
- Why it might not:
- ▪

Solution 3

- cause demand-pull inflation / fall in internal value of money
- ▪
- increase imports
- ▪
- current account deficit may increase / current account surplus may
- fall
- ▪
- may cause a fall in the rate of interest
- ▪
- increase in bank lending may result in some households and firms

Solution 3

- getting into debt.
- 8
- Level
- Description
- 3
- A reasoned discussion
- which accurately
- examines both sides of the
- economic argument,
- making use of economic

Solution 3

- information and clear and
- logical analysis to evaluate
- economic issues and
- situations. One side of the
- argument may have more
- depth than the other, but
- overall both sides of the
- argument are considered
- and developed. There is
- thoughtful evaluation of

Solution 3

- economic concepts,
- terminology, information
- and/or data appropriate to
- the question. The
- discussion may also point
- out the possible
- uncertainties of alternative
- decisions and outcomes.
- 6–8
- 0455/22

Solution 3

- February/March 2025
- Guidance
- Level
- Description
- 2
- A reasoned discussion
- which makes use of
- economic information and
- clear analysis to evaluate
- economic issues and

Solution 3

- situations. The answer
- may lack some depth and
- development may be one-
- sided. There is relevant
- use of economic concepts,
- terminology, information
- and data appropriate to
- the question.
- 3–5
- 1

Solution 3

- There is a simple attempt
- at using economic
- definitions and
- terminology. Some
- reference may be made to
- economic theory, with
- occasional understanding.
- 1–2
- 0
- A mark of zero should be

Solution 3

- awarded for no creditable
- content.
- 0
- 0455/22
- February/March 2025
- Guidance

Question 2

0455/11 N24 ▪ Q2 ▪ 1 mark

2 In which case is it possible to set the level of reward before production takes place for the first factor of production but **not** for the second factor?

	first factor	second factor
A	capital	land
B	enterprise	labour
C	labour	capital
D	land	enterprise

Solution 2

Answer: **D**

Why

- Land earns rent, labour earns wages, capital earns interest and enterprise earns profit.
- Rent, wages and interest can all be agreed in advance.
- Profit is the *residual* – it can only be known once the goods are sold, so it cannot be set beforehand.

Question 26

0455/11 N24 ▪ Q26 ▪ 1 mark

26 African economies may have rapid economic growth because of a large increase in their working age population.

Based on this idea, which factor of production is most likely to grow significantly?

A labour

B enterprise

C capital

D land

Solution 26

Answer: **A**

Why

- A large increase in the working age population increases the supply of *labour*.
- Labour is the human effort available for production.
- More labour raises potential output, which is why the growth is expected.

Question 2

0455/13 N24 ▪ Q2 ▪ 1 mark

2 The management of an airline decided to replace its aeroplanes with more technologically advanced aircraft. At the same time, the company retrained its pilots.

Which factors of production has the airline improved?

A capital and labour

B capital and land

C labour and enterprise

D land and enterprise

Solution 2

Answer: **A**

Why

- New aircraft are man-made aids to production, so they are capital.
- Retraining raises the quality of the workforce, which is labour.
- So the airline has improved both its capital and its labour.