Past-paper walk-through

Market economic system ▪ 2.8

eXercise

Questions in this set

- 0455/12 N25 Q27 ▪ 1 mark
- 0455/13 N25 Q4 ▪ 1 mark
- 0455/12 M25 Q5 ▪ 1 mark
- 0455/22 N24 Q3 ▪ 20 marks

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 27

0455/12 N25 ▪ Q27 ▪ 1 mark

27 What is an advantage of international specialisation?

A Choice is limited.

B Countries become over-dependent on each other.

C Resources are used more efficiently.

D Transport costs are decreased.

Solution 27

Answer: **C**

Why

- Specialisation lets resources be used where they are most productive.
- That raises total output and lowers costs, so prices fall and choice widens.
- Over-dependence and limited choice are the *disadvantages*, not the advantages.

Question 4

0455/13 N25 ▪ Q4 ▪ 1 mark

4 What is **not** a function of prices in a market economy?

A prices allow income to be distributed equally

B prices ration scarce resources among economic agents

C prices rise and fall to reflect shortages and surpluses

D prices send information to consumers and producers

Solution 4

Answer: **A**

Why

- Prices ration scarce resources, signal where resources should go, and give incentives to produce.
- Those are the three functions of the price mechanism.
- Distributing income *equally* is not one of them – markets distribute according to ability to pay.

Question 5

0455/12 M25 ▪ Q5 ▪ 1 mark

5 There are three key questions to be decided in determining resource allocation within an economy.

What does **not** relate to one of the choices in the three key questions?

A whether all income groups receive the output

B whether consumer or industrial goods are produced

C whether economic goods or free goods are supplied

D whether labour or capital is used in production

Solution 5

Answer: **C**

Why

- The three questions are what to produce, how to produce it, and for whom.
- Each is about allocating scarce resources between competing uses.
- So anything that is not a choice about *allocation* does not belong.

Question 3

0455/22 N24 ▪ Q3 ▪ 20 marks

3 The central bank of Madagascar intervenes in the country's foreign exchange market. However, Madagascar has a largely market economic system. Nearly 70% of Madagascar's population live in poverty. Most of the country's industries are labour-intensive. In 2020, Madagascar had an economic growth rate of 6% and a deficit on the current account of its balance of payments of $0.6bn.

(a) Define foreign exchange market. [2]

(b) Explain two reasons why a firm may adopt labour-intensive production. [4]

(c) Analyse how the macroeconomic aims of economic growth and balance of payments stability may conflict. [6]

(d) Discuss whether or not a high level of poverty is likely to exist in a market economic system.

[8]

Question 3

(a) (a) Define foreign exchange market. [2] **[2]**
(b) (b) Explain two reasons why a firm may adopt labour-intensive production. [4] **[4]**
(c) (c) Analyse how the macroeconomic aims of economic growth and balance of payments stability may conflict. [6] **[6]**
(d) (d) Discuss whether or not a high level of poverty is likely to exist in a market economic system. [8] **[8]**

Solution 3

(a)

Mark scheme

- Define foreign exchange market.
- An arrangement / place (1) where different countries'
- currencies are bought/demanded (1) and sold/supplied [1]
- one currency is exchanged for another currency (1).
- 2

Solution 3

(b) Mark scheme

- Explain two reasons why a firm may adopt labour-
- intensive production.
- Logical explanation which might include:
- ▪
- Labour may be low in price / wages may be low 1
- which might make labour cheaper than capital / there
- may be a high supply of labour (1).
- ▪

Solution 3

- Labour may be very productive / efficient (1) which can
- make employment profitable / result in low costs of
- production (1).
- ▪
- The government may subsidise the employment of
- workers (1) to reduce unemployment (1).
- ▪
- The firm may provide personal services (1) with
- individual attention (1).
- ▪

Solution 3

- Labour may be more creative / adaptable / provide
- feedback (1) produce high quality products / improve
- methods of production 1
- ▪
- Labour may be unskilled / low level of education 1
- unable to use high-tech capital equipment (1).
- 4 One mark each for each of two reasons identified and one
- mark for each of two explanations.
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Solution 3

- Guidance

Solution 3

(c) Mark scheme

- Analyse how the macroeconomic aims of economic
- growth and balance of payments stability may conflict.
- Coherent analysis which might include:
- Economic growth may increase employment (1) increase
- wages / incomes / purchasing power (1) this may increase
- imports (1).
- Higher consumer spending (1) may encourage firms to
- switch products to the domestic market (1) reduce exports

Solution 3

- (1) increase / cause a current account deficit (1).
- To produce more goods and services, firms may import
- more raw materials (1) capital goods (1).
- Economic growth may result in inflation (1) which would
- make domestic products less price competitive (1).
- Economic growth may deplete resources (1) increase need
- for imports (1).
- Economic growth may be export-led (1) may be achieved by
- restricting imports (1) result in a current account surplus (1).
- Migrant workers may send more money home (1).

Solution 3

- Export-led growth may increase the exchange rate (1) which
- may increase imports / reduce exports (1).
- 6
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- Guidance

Solution 3

(d) Mark scheme

- Discuss whether or not a high level of poverty is likely
- to exist in a market economic system.
- In assessing each answer, use the table opposite.
- Why it might:
- ▪
- may be unemployment
- ▪
- lack of welfare benefits

Solution 3

- ▪
- likely to be income inequality
- ▪
- merit goods including healthcare and education may be
- under-consumed and so underproduced
- ▪
- monopolies may develop resulting in higher prices.
- Why it might not:
- ▪
- competition / profit motive may result in low prices

Solution 3

- ▪
- efficiency is encouraged which can result in high wages
- and high employment
- ▪
- greater response to changes in consumer demand, may
- increase economic growth
- ▪
- countries with efficient private sector firms may have
- relative poverty but low absolute poverty.
- 8

Solution 3

- 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
- argument may have more depth than

Solution 3

- 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.
- 6–8

Solution 3

- 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 question.

Solution 3

- 3–5
- 1
- 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 awarded for

Solution 3

- no creditable content.
- 0
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