



Cambridge IGCSE[®]

ECONOMICS

0455/02

Paper 2 Structured Questions

For examination from 2020

MARK SCHEME

Maximum Mark: 90

Specimen

This document has **16** pages. Blank pages are indicated.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
Section A		
1(a)	Calculate the number of people unemployed in Kenya in 2015. 1.8 million (1).	1
1(b)	Identify <u>two</u> reasons why the total amount saved in Kenya is likely to have increased in 2015. Higher income/real GDP per head (1) a higher interest rate (1).	2
1(c)	Explain the effect that a rise in the price of flowers on Women's Day in Russia would be likely to have on flower producers' revenue. Increase (1) as demand is price-inelastic (1).	2
1(d)	Analyse the evidence that shows the market for flowers is sometimes in disequilibrium. Coherent analysis which might include: Demand exceeding supply/shortages occurring (1) price being too low (1) the market not clearing (1). Supply exceeding demand/surplus occurring (1) price being too high (1) the market not clearing (1).	4
1(e)	Explain <u>two</u> reasons why the price of Kenyan flowers may have fallen in the US in 2015. Logical explanation which might include: Rise in productivity (1) this could have reduced costs of production (1). Depreciation of the exchange rate (1) would have lowered price of Kenyan exports (1).	4

Question	Answer	Marks
1(f)	<p>Analyse the relationship between real GDP per head and the adult literacy rate.</p> <p>Coherent analysis which might include:</p> <p>The relationship shown is largely a positive one (1) as real GDP per head rises so does adult literacy (1) example that supports the relationship (1) Uganda is an exception (1).</p> <p>Countries with a higher adult literacy rate are likely to have more skilled workers (1) capable of producing a higher output (1).</p> <p>Countries with a higher real GDP per head are likely to have more funds to spend on education (1) more and higher quality education is likely to increase adult literacy (1).</p>	5
1(g)	<p>Discuss whether or not an increase in wages will always attract more people to work in Kenya's flower industry.</p> <p>6 marks maximum for the question.</p> <p>Award up to 4 marks for logical reasons why they might, which might include:</p> <ul style="list-style-type: none"> • Unemployment may remain high (1) resulting in people searching for jobs (1). • Wages are a key influencing factor in the jobs that people select to do (1) increases in wages can raise living standards (1) enabling people to consume more goods and services (1). • Higher wages may enable some people to escape poverty (1) allowing them to afford basic essentials (1). • Population is increasing (1) more people are likely to be entering the labour force (1). <p>Award up to 4 marks for logical reasons why they might not, which might include:</p> <ul style="list-style-type: none"> • Wages may rise more in other industries (1) reducing the relative pay in the cut flower industry (1). • Wages may rise by less than inflation (1) reducing real wages (1). • Workers do not base their decisions just on wages/non-wage factors may be better in other industries (1) examples e.g. better promotion opportunities, better working conditions, longer holidays (up to 2 marks). 	6

Question	Answer	Marks
1(h)	<p>Discuss whether or not Kenya should continue to specialise in producing flowers.</p> <p>6 marks maximum for the question.</p> <p>Award up to 4 marks for logical reasons why it should, which might include:</p> <ul style="list-style-type: none"> • Kenya has suitable factors of production (1) e.g. a ready supply of labour (1). • Productivity has been increasing (1) if this continues Kenya may have a cost advantage (1). • The country has a good reputation in producing good quality cut flowers (1) this may increase demand for its cut flowers (1). • Cut flowers tend to be a luxury good (1) as income rises, demand may increase (1). <p>Award up to 4 marks for logical reasons why it should not, which might include:</p> <ul style="list-style-type: none"> • Supply is affected by weather conditions (1) this can lead to instability of income (1). • The exchange rate could rise (1) making exports more expensive (1) which could reduce earnings from selling flowers (1). • Competition from other countries may increase (1) reducing Kenya's share of the market (1). 	6
Question	Answer	Marks
Section B		
2(a)	<p>Define <i>budget deficit</i>.</p> <p>Government spending exceeding (1) government (tax) revenue (1).</p>	2
2(b)	<p>Explain <u>two</u> reasons why a country may experience a decline in living standards at the same time as an increase in real GDP per head.</p> <p>Explanations which might include:</p> <ul style="list-style-type: none"> • Income may become more unevenly distributed (1) resulting in most people's living standards falling (1). • Higher output may increase pollution (1) this may cause health care problems (1). • The shadow economy may have shrunk (1) reducing output per head (1). • Working hours may have increased (1) reducing leisure time (1). • Working conditions may have declined (1) reducing the health of workers (1). • More resources may have been devoted to producing capital goods (1) which may reduce the availability of consumer goods in the short run (1). 	4

Question	Answer	Marks
2(c)	<p>Analyse how a fall in unemployment may increase a country's inflation rate.</p> <p>Coherent analysis which might include:</p> <ul style="list-style-type: none"> • A fall in unemployment may increase incomes (1) this may increase consumer spending (1) increasing total (aggregate) demand (1) causing demand-pull inflation (1). • A fall in unemployment may result in a shortage of workers (1) this may raise wages (1) increasing firms' costs of production (1) causing cost-push inflation (1). 	6

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2(d)	<p data-bbox="196 757 228 1939">Discuss whether or not a country will gain from the emigration of some of its people.</p> <p data-bbox="264 1328 296 1939">In assessing each answer, use the table below.</p> <table border="1" data-bbox="336 309 911 1939"> <thead> <tr> <th data-bbox="336 1816 386 1939">Level</th> <th data-bbox="336 432 386 1816">Description</th> <th data-bbox="336 309 386 432">Marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="386 1816 616 1939">3</td> <td data-bbox="386 432 616 1816">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 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.</td> <td data-bbox="386 309 616 432">6–8</td> </tr> <tr> <td data-bbox="616 1816 770 1939">2</td> <td data-bbox="616 432 770 1816">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 or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td data-bbox="616 309 770 432">3–5</td> </tr> <tr> <td data-bbox="770 1816 858 1939">1</td> <td data-bbox="770 432 858 1816">There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td data-bbox="770 309 858 432">1–2</td> </tr> <tr> <td data-bbox="858 1816 911 1939">0</td> <td data-bbox="858 432 911 1816">A mark of zero should be awarded for no creditable content.</td> <td data-bbox="858 309 911 432">0</td> </tr> </tbody> </table>		Level	Description	Marks	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 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	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 or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	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 no creditable content.	0	8
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<p data-bbox="943 1704 975 1939">Why it might gain:</p> <ul data-bbox="975 320 1222 1939" style="list-style-type: none"> <li data-bbox="975 320 1046 1939">• Emigration of dependents, would reduce the burden on the working population, would reduce government spending on benefits/pensions, which means government spending on other items can increase. <li data-bbox="1046 320 1110 1939">• If there is overpopulation/population above the optimum level, output per head should rise/more efficient use can be made of resources. <li data-bbox="1110 320 1150 1939">• Workers who emigrate may send money back to relatives; this may increase living standards. <li data-bbox="1150 320 1222 1939">• Emigrants may later return to the country bringing new skills with them; this may raise the productivity of the labour force in their country of origin. <p data-bbox="1254 1659 1286 1939">Why it might not gain:</p> <ul data-bbox="1286 320 1498 1939" style="list-style-type: none"> <li data-bbox="1286 320 1358 1939">• Skilled workers may emigrate. This will reduce the quality of the labour force, lower productivity, and discourage MNCs from setting up. <li data-bbox="1358 320 1398 1939">• If people of working age emigrate, the dependency ratio will increase. <li data-bbox="1398 320 1461 1939">• If there is under-population/population below the optimum level, output per head would fall/less efficient use can be made of resources. <li data-bbox="1461 320 1498 1939">• With lower output less advantage can be taken of economies of scale. 																		

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3(a)	<p>Define <i>maximum price</i>.</p> <p>A price that producers cannot charge above / a price ceiling (1) set by the government (1).</p>	2
3(b)	<p>Explain <u>two</u> reasons why the supply of bananas may decrease.</p> <p>Logical explanations which might include:</p> <ul style="list-style-type: none"> • a period of bad weather/natural disaster (1) this would decrease the crop (1) • a rise in costs of production (1) e.g. higher wages paid to farm workers would make it more expensive to produce the product (1) • a government tax (1) this acts as a disincentive/is an extra cost (1) • the removal of a subsidy (1) would reduce the incentive to produce the product (1) • a change in the price of other crops (1) may encourage a shift of resources (1) • change in the availability of land (1) e.g. flooding may reduce the supply of land (1). 	4
3(c)	<p>Analyse the factors which lead an MNC to produce in particular countries.</p> <p>Coherent analysis which might include:</p> <ul style="list-style-type: none"> • Size of market (1) if demand for the product/s produced is high in the country (1) higher revenue may be earned (1). • Costs of production (1) e.g. low wages/low raw material costs may attract multinational companies (MNCs) (1). • Availability of raw materials (1) certain raw materials e.g. copper may be found in a small number of countries (1). • Trade protection (1) MNCs may set up in a country to get round tariffs (1). • Government subsidies (1) financial help may be given to companies setting up in some countries (1). • Fewer government regulations (1) MNCs may set up in countries with fewer rules and laws (1). • Skills of workers (1) highly skilled workers will produce products of a good quality (1). 	6

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3(d)	<p>Discuss whether or not a government subsidy given to fruit producers will benefit consumers.</p> <p>In assessing each answer, use the table below.</p> <table border="1" data-bbox="336 297 911 1951"> <thead> <tr> <th data-bbox="336 1816 384 1951">Level</th> <th data-bbox="336 427 384 1816">Description</th> <th data-bbox="336 297 384 427">Marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="384 1816 616 1951">3</td> <td data-bbox="384 427 616 1816">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 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.</td> <td data-bbox="384 297 616 427">6–8</td> </tr> <tr> <td data-bbox="616 1816 767 1951">2</td> <td data-bbox="616 427 767 1816">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 or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td data-bbox="616 297 767 427">3–5</td> </tr> <tr> <td data-bbox="767 1816 855 1951">1</td> <td data-bbox="767 427 855 1816">There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td data-bbox="767 297 855 427">1–2</td> </tr> <tr> <td data-bbox="855 1816 911 1951">0</td> <td data-bbox="855 427 911 1816">A mark of zero should be awarded for no creditable content.</td> <td data-bbox="855 297 911 427">0</td> </tr> </tbody> </table>		Level	Description	Marks	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 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	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 or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	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 no creditable content.	0	8
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<p>Why it might benefit:</p> <ul style="list-style-type: none"> • It may provide a financial incentive to producers; effectively lowers costs of production; likely to increase supply; lower prices; enabling consumers to buy more/raising purchasing power. • It may improve the quality of fruit; farmers will have more money to invest. • Fruit is a merit good; consumers underestimate the private benefit to themselves of consuming fruit; they may gain health benefits from eating more fruit. <p>Why it might not benefit:</p> <ul style="list-style-type: none"> • The subsidy may not be passed on to consumers in the form of lower prices. • Price will fall by a smaller amount if demand is elastic; poorer consumers may still not be able to afford to buy fruit. • The subsidy may make producers complacent; may lower quality in the long run. • Providing a subsidy involves an opportunity cost; consumers might benefit more from other products being subsidised. 																		

Question	Answer	Marks
4(a)	<p>Identify <u>two</u> characteristics of money.</p> <p>One mark each for any two from:</p> <ul style="list-style-type: none"> • general acceptability/limited in supply • portable • divisible • recognisable • homogeneous 	2
4(b)	<p>Explain why governments provide public goods.</p> <p>Explanations which might include:</p> <p>The private sector/market forces would not provide public goods (1). Public goods are non-excludable (1) it is not possible to exclude non-payers (1) so people can act as free riders (1). This means that private sector firms would have no financial incentive to provide public goods (1) such as defence (1).</p>	4
4(c)	<p>Analyse how a central bank might reduce household borrowing.</p> <p>Coherent analysis which might include:</p> <p>It might increase the rate of interest (1) this would increase the cost of borrowing (1) this may discourage households from buying items/encourage saving (1) that would require them to take out a loan (1).</p> <p>It might impose restrictions on the amount that banks can lend (1) these may limit the size of a loan a household can get (1) or increase the conditions that have to be met before a loan is given (1).</p> <p>It might reduce the money supply (1) which may reduce spending (1) and so may reduce demand for loans (1).</p>	6

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4(d)	<p>Discuss whether or not a government should impose tariffs on its country's imports.</p> <p>In assessing each answer, use the table below.</p> <table border="1" data-bbox="336 297 911 1951"> <thead> <tr> <th data-bbox="336 1816 386 1951">Level</th> <th data-bbox="336 432 386 1816">Description</th> <th data-bbox="336 297 386 432">Marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="386 1816 616 1951">3</td> <td data-bbox="386 432 616 1816">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 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.</td> <td data-bbox="386 297 616 432">6–8</td> </tr> <tr> <td data-bbox="616 1816 770 1951">2</td> <td data-bbox="616 432 770 1816">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 or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td data-bbox="616 297 770 432">3–5</td> </tr> <tr> <td data-bbox="770 1816 858 1951">1</td> <td data-bbox="770 432 858 1816">There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td data-bbox="770 297 858 432">1–2</td> </tr> <tr> <td data-bbox="858 1816 911 1951">0</td> <td data-bbox="858 432 911 1816">A mark of zero should be awarded for no creditable content.</td> <td data-bbox="858 297 911 432">0</td> </tr> </tbody> </table>		Level	Description	Marks	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 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	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 or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	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 no creditable content.	0	8
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<p>Why they might impose tariffs:</p> <ul style="list-style-type: none"> • This will raise revenue for the government; this could be spent on e.g. healthcare/education. • This may reduce demand for imports; improve the trade in goods position; and so improve the current account position. • This may protect infant industries; these may grow and take advantage of economies of scale; become internationally competitive; so create output and employment. • This may protect declining industries; preventing unemployment. • This may prevent dumping; foreign firms selling at below cost price; domestic firms being driven out of business. • This may protect consumers from harmful products. <p>Why they might not impose tariffs:</p> <ul style="list-style-type: none"> • This may raise prices to consumers; consumers may not have domestic products to switch to; any domestic substitutes may be of a lower quality; so reduces variety for consumers. • This may raise costs of imported raw materials; raise costs of production; cause cost-push inflation. • This may lead to reduction in competitive pressure on domestic firms; so to inefficiency. • There may be retaliation; with other countries imposing tariffs on the country's exports. • There may not be domestic substitutes for imports; consumers may not stop buying imports; because of inelastic demand. 																		

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5(a)	<p>Define economic good.</p> <p>There is an opportunity cost involved in producing the good (1) as it takes resources to produce it (1).</p>	2
5(b)	<p>Explain <u>two</u> influences on what factors of production a firm uses.</p> <p>Explanations which might include:</p> <ul style="list-style-type: none"> • the type of product produced/size of the firm (1) for instance, producing nuclear power is capital-intensive (1) • the productivity of factors of production (1) if, for instance, labour becomes more skilled, a firm might become more labour-intensive (1) • the availability of factors of production (1) in some countries there may be shortage of oil or people of working age (1) • the relative cost of factors of production (1) if capital is relatively expensive, labour-intensive methods of production may be used (1) 	4

Question	Answer	Marks
5(c)	<p data-bbox="197 349 261 1939">Analyse, using a production possibility curve diagram (PPC), the effect of the destruction of some of its resources on an economy.</p> <p data-bbox="300 1543 331 1939">Up to 4 marks for the diagram.</p> <div data-bbox="368 1151 884 1939"> </div> <ul data-bbox="932 1003 1062 1939" style="list-style-type: none"> • axes correctly labelled (1) • original curve/downward sloping line to axes (1) • new curve present (1) • shift to the left clearly indicated either by an arrow or by labelling (1) <p data-bbox="1102 1205 1134 1939">Up to 2 marks for coherent analysis which might include:</p> <ul data-bbox="1174 757 1238 1939" style="list-style-type: none"> • the destruction of resources will reduce the maximum output a country can produce (1) • this will move the production possibility curve to the left/closer to the origin (1) 	6

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5(d)	<p>Discuss whether or not the average cost of production always falls when a firm increases its scale of production.</p> <p>In assessing each answer, use the table below.</p> <table border="1" data-bbox="336 297 911 1951"> <thead> <tr> <th data-bbox="336 1816 386 1951">Level</th> <th data-bbox="336 297 386 1816">Description</th> <th data-bbox="336 297 386 427">Marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="386 1816 616 1951">3</td> <td data-bbox="386 297 616 1816">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 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.</td> <td data-bbox="386 297 616 427">6–8</td> </tr> <tr> <td data-bbox="616 1816 770 1951">2</td> <td data-bbox="616 297 770 1816">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 or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.</td> <td data-bbox="616 297 770 427">3–5</td> </tr> <tr> <td data-bbox="770 1816 858 1951">1</td> <td data-bbox="770 297 858 1816">There is a simple attempt at using economic definitions and terminology. Some reference may be made to economic theory, with occasional understanding.</td> <td data-bbox="770 297 858 427">1–2</td> </tr> <tr> <td data-bbox="858 1816 911 1951">0</td> <td data-bbox="858 297 911 1816">A mark of zero should be awarded for no creditable content.</td> <td data-bbox="858 297 911 427">0</td> </tr> </tbody> </table>		Level	Description	Marks	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 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	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 or may be one-sided. There is relevant use of economic concepts, terminology, information and data appropriate to the question.	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 no creditable content.	0	8
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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 no creditable content.	0																
<p>Why it might fall:</p> <ul style="list-style-type: none"> • The firm may experience economies of scale; total cost will rise by less than total output (long run average cost may fall as output increases). • The firm may experience buying/purchasing economies of scale; may be offered a discount price when buying raw materials in bulk. • The firm may experience technical economies of scale; larger, more cost efficient technological equipment may be purchased to produce a higher output. • The firm may experience managerial economies of scale; specialist staff may be employed when output is high. • The firm may experience financial economies of scale; as output increases, it may be able to borrow more cheaply/or sell its shares at a lower price. • The firm may experience R & D economies of scale; the R & D expenditure can be spread over a higher output. • The industry may also be growing in size; enabling advantage to be taken of external economies of scale. 																		

Question	Answer	Marks
5(d)	<p>Why it might not fall:</p> <ul style="list-style-type: none"> • The firm may experience diseconomies of scale; total cost may rise by more than total output (long run average cost may increase as output increases). • The firm may experience diseconomies of scale; this may make the firm slower to respond to changing market conditions/more difficult to keep costs down. • The firm may experience communication problems; ideas may not be communicated or may be misunderstood. • The firm may experience poor industrial relations; e.g. pushing up the costs of production. • External diseconomies of scale may occur; e.g. pushing up the costs of production. <p>Allow up to 2 marks for a correctly labelled average cost diagram which shows economies and diseconomies of scale as an alternative to describing average costs rising/falling as output increases.</p>	