

**MARK SCHEME for the October/November 2009 question paper  
for the guidance of teachers**

**0455 ECONOMICS**

**0455/03** 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.

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1 (a) Identify two reasons why the M-PESA phone account is preferred to conventional banking. [2]

1 mark for each of two reasons from

- It is cheaper/low cost
- It is faster
- It is more accessible/more convenient for people who live away from a bank
- It enables people to save/encourages saving
- It enables owners to obtain loans/loans which can be used to expand business/buy livestock
- It enables people to transfer money/send money home
- It allows people to pay bills/pay them more easily
- It avoids risks involved in transporting money e.g. problem of crime
- It provides a service to people who do not have an account

(b) Describe the functions of a commercial bank. [5]

1 mark each for each of 3 functions identified.

1 mark each for each development of up to 3 functions. (Note: max mark of 5.)

Examples:

| <b>Functions</b> | <b>Developments</b>   |
|------------------|---|
| Taking deposits  | managing saving/time and current/sight accounts                                     |
| Transactions     | enabling customers to make and receive payments by cheques, direct debits, ATMs etc |
| Lending          | providing loans and overdrafts to customer, charging interest                       |
| Safekeeping      | providing safe deposit boxes  |
| Financial advice | on financial investments e.g. purchase of shares                                    |
| Foreign currency | purchasing and selling foreign currency in connection with holidays and business    |
| Wills            | acting as an executor   |

Note: no marks for describing the functions of a central bank.

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**(c) Explain how an improvement in financial services might help to reduce poverty. [6]**

There are a number of possible routes each one could gain 6 marks if well explained e.g.:  
Transfer of money home – increases income of dependents (1), enables them to spend more (1), raises their living standards (1) and so reduces poverty.

Remittances from abroad contribute to the balance of payments (1) and raise a country's income (1) and employment (1) and so reduces poverty.

Greater ability to obtain a loan – enables businesses to expand/invest in livestock (1), may raise revenue (1) and profit (1), may result in the business taking on more workers (1) reducing unemployment (1) raise the incomes of others (1) and so reduce poverty.

Increase savings – may provide a safety net for the poor (1), may enable the poor to pay for education (1) which will raise qualifications/skills (1), increase employment opportunities (1), raise income (1). Higher savings provide finance for investment (1), higher investment will increase GDP (1) and contribute to economic growth (1) and reduces poverty.

Note: maximum mark of 4 if there is no link to poverty or standard of living. Also, note that with link to poverty or standard of living the maximum mark is 6.

**(d) Discuss what differences there might be between the working conditions and type of occupation of a rural worker compared with those of a city worker. [4]**

1 mark for people working in rural areas may work in agriculture/work on land/example of primary sector occupation.

1 mark for people working in cities may work in secondary sector/tertiary sector/industry/examples of secondary/tertiary occupation.

1 mark each for each of two relevant differences in working conditions e.g.:

- Rural = more likely to be manual
- Rural = longer hours
- City = working in offices and so less exposed to the elements
- City = may have more regular breaks

Two marks can be gained for comments on rural only or city only. No credit for comments on wages.

**(e) Suppose you were asked to investigate whether the movement of workers from a rural area to a city or to another country was a benefit. Discuss what you might need to find out in order to come to a conclusion. [8]**

Up to 4 marks for identifying information: number of workers involved, where they go, differences in wages, differences in working conditions, skills of workers, rates of unemployment in different areas, whether they send money home, housing capacity.

(Four separate pieces of information.)

Up to 4 marks for explaining significance of information: will have more of an impact if a high number of workers are involved, the movement of skilled workers is likely to have a larger impact, there may be unemployment in rural areas but a shortage of workers in cities, large remittances may make a significant difference to poor rural areas, there will be problems if there is a lack of housing in city centres.

(All 4 marks could be gained if the significance of one piece of information is explained exceptionally well.)

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**2 (a) Explain what is meant by a private benefit. [2]**

2 marks for idea of benefits received by those directly consuming or producing a product/benefit to 1<sup>st</sup>/2<sup>nd</sup> party/social benefit minus external benefit.

1 mark for a relevant example or basic understanding of the term.

**(b) Use examples from the extract to explain what is meant by an externality. [4]**

Definition: 2 marks for a clear definition of an externality: a divergence between social and private costs and benefits/an effect on a third party caused by the consumption or production decisions of others/spill over effects on third parties.

1 mark for a limited definition.

Examples from the extract: 1 mark each for each of two examples: changed river flows, damaged freshwater fishing/loss to prawn fisheries.

**(c) What would you need to find out in order to determine whether the large HEP project, rather than alternative methods, is the best way of providing electricity? [9]**

Up to 5 marks for identification of relevant factors e.g.:

- Relative costs (private costs).
- The number of people the different projects serve (private benefits).
- Harmful effects on third parties (external costs).
- Beneficial effects on third parties (external benefits).
- How many jobs are created.

Up to 4 marks for commenting on the significance of the points:

- Alternative methods may cause less damage to the environment.
- If a large number of people live in remote areas, alternative methods might be appropriate.
- In an expanding economy, demand for electronics might be increasing rapidly and the HEP scheme may be needed to generate sufficient electricity.
- The HEP may generate more employment in the short term.
- It would be useful to conduct a cost benefit analysis in order to reach a decision.

Note: maximum of 5 marks if only HEP or alternative methods are considered. 7–9 marks for a strong answer which makes an explicit comparison between two methods e.g. large HEP project, smaller HEP project, solar power, wind power, tidal power.