ECONOMICS

Paper 0455/01

Paper 1 (Core)

Question Number	*Key*	*Question Number*	*Key*
1	**C**	21	**D**
2	**C**	22	**A**
3	**C**	23	**B**
4	**B**	24	**A**
5	**C**	25	**C**
6	**D**	26	**D**
7	**D**	27	**C**
8	**B**	28	**D**
9	**D**	29	**C**
10	**B**	30	**C**
11	**D**	31	**C**
12	**D**	32	**C**
13	**D**	33	**B**
14	**C**	34	**D**
15	**C**	35	**C**
16	**A**	36	**D**
17	**A**	37	**A**
18	**B**	38	**C**
19	**A**	39	**C**
20	**D**	40	**C**

General comments

There were 359 candidates who took this paper this session and the mean score was 21.5. Last year the mean score was 22.7.

The questions which proved to be easiest, with over 80% choosing the correct key, were **Questions 6** and **14**. Both questions asked about the application of knowledge in particular circumstances.

The questions that gave the most difficulty with fewer than 40% choosing the correct key were **Questions 2**, **20**, **22**, **23**, **26**, **27**, **32**, **34** and **40**.

In **Question 2**, 64% of the candidates chose option **D** rather than the key of **C**. They were probably misled by the example of pollution and, as a result, presumed that the answer was connected with external cost.

Question 20 asked candidates to understand a diagram. 23% chose option **A** – interchanging the two curves, and 37% chose option **B**. 28% chose the correct key of **D**. These distributions might indicate guessing by candidates. Knowledge of cost and revenue diagrams is often required in multiple-choice papers and candidates should be advised to familiarise themselves with such diagrams.

Question 22, 34% chose the key **A**, but 35% chose **C**. These candidates probably misunderstood what was meant by the option. Small firms do not usually advertise over a very wide area and so do not distribute their products to widely dispersed markets.

Question 23 required a calculation of average revenue when the figures for total revenue and output were given. The correct key **B** was chosen by 33% but 42% calculated incorrectly and chose **C**.

45% of the candidates confused progressive and regressive taxes in **Question 26** and chose **B** rather than the correct key of **D**.

37% of the candidates understood the meaning of the term 'frictional' and chose **C** in **Question 27**. 36% confused this with changes in industrial structure and demand and chose **D**.

Question 32 saw a common error, with candidates confusing a slower growth rate with an absolute decline. 71% chose **B**. The correct key was **C**. This type of question causes confusion every year and these reports have drawn attention to the need to understand the distinction between yearly changes which show an increase, albeit at a declining rate, and a change which shows a decrease. Candidates should read the axis carefully. This proved to be the most difficult question on the paper.

In **Question 40** candidates may have ignored the fact that they were asked to find a key which showed a conflict and instead chose a key which supported the government's aim. 23% chose **A**, 35% **D** and 17% **B**. The correct key of **C** was chosen by 26%.

Paper 0455/02

Paper 2 (Core)

General comments

There were some excellent answers to the paper, and the candidates who produced them are to be congratulated on their hard work. However, there are several points that might be helpful in enabling other candidates to achieve higher marks by using the information they know in a more effective way.

- As has been mentioned many times in these reports, candidates should be encouraged, when using diagrams, to present them clearly and accurately with correct labels. The diagrams should be of a size that can easily be seen. It is surprising how many answers present diagrams squashed up in the corner of the page and without correct labels.

- Candidates should also be given clear guidance that when a question asks for an explanation or a discussion, a simple list of points is not sufficient. The indicators must be presented in the form of sentences and paragraphs, with at least a brief comment on each point.

- To gain the highest marks in questions that ask for a discussion, candidates should present more than one side of an argument and then come to a conclusion. They should also be prepared to present their own view of the matter. Many present the case for or against, the advantages and the disadvantages, but then leave the matter without a conclusion. This is a pity and prevents the candidate achieving the highest marks. Candidates should be encouraged to realise that their view of the matter is significant and, having presented the evidence required by the question, should not be afraid to indicate what weight should be given to that evidence. They should decide whether, for example, the advantages outweigh the disadvantages, or the case for a given change mentioned in the question is greater than the case against. They should then clearly state what they conclude.

- It is also good practice to encourage candidates to leave a space at the end of each question in case they wish to add some material at a later stage. Many candidates think of extra information and then add this, almost randomly, throughout the script. This makes accurate marking more difficult. There is a danger that such presentation will not receive due credit. Candidates should also check that the pages that they present are in the correct order and that each question or section is clearly shown. It is foolish to be careless over these matters.

- Sometimes, candidates produce answers that are very sophisticated and which use concepts that are more advanced than are expected in the syllabus. It is worth stating that such answers are treated on their merits and can score the highest marks. It is recognised that it may be appropriate to teach beyond the standard of the syllabus at this level particularly if the candidates are very able and are likely to continue their studies of economics.

Comments on specific questions

Question 1

(a) Many candidates were able to identify two or three measures of the size of an industry, such as its total turnover, the value of its assets or the number of people that were employed in it. The main problem came with candidates who misread the question and considered a firm rather than the industry. Many also claimed that if a firm exported it must be large without appreciating that many small firms export.

(b) In this part candidates needed to discuss the relevant information available to decide whether the UK computer game industry was large or small. Many answers discussed the size of the workforce, the value of sales, the share of the European market or made a comparison with the film and music industry and the home video market. Most candidates went on to draw a sensible conclusion from the information they had used, usually saying they thought that the industry was a large one. Weaker candidates simply repeated the information they had given in **(a)** and ignored the detail given in the article.

(c) Candidates were required to explain specialisation in terms of concentration on a particular product or in a particular area and by explaining division of labour. Most candidates considered specialisation in terms of individual skills only rather than in a region or country, and there were too many answers that simply gave a rather detailed account of division of labour without any mention of comparative advantage.

(d) Candidates were expected to explain that there was specialisation by area or region by mentioning the number of studios within the 30-mile area. Some credit was given for identifying that the design of computer games is an example of specialisation. Only a minority of candidates identified regional specialisation while many identified the computer industry as an example of specialisation. Those candidates who focused on division of labour in part **(c)** were unable to find an example of specialisation in this part.

(e) The best answers considered specialisation and large size separately. In the latter many included excellent analysis of economies of scale. Many assumed uncritically that large size was an advantage, although the best candidates did consider diseconomies of scale. A number of candidates submitted quite sophisticated answers commenting on the effect of economies of scale on unit costs and on the benefits of specialisation and division of labour.

Question 2

(a) In this part candidates were expected to explain how demand and supply interact to produce equilibrium in the market. The best answers were able to define demand and supply and then describe their interaction to set an equilibrium price and quantity. They also made good use of accurate diagrams and explained points of disequilibrium where demand exceeded supply (or vice versa) followed by a move towards equilibrium.

(b) This question expected candidates to explain that the fall in income would shift the demand curve to the left, leading to a fall in the equilibrium price and in the quantity bought and sold on the market. The question also required a diagram. It has been mentioned before in these reports that candidates should present clear diagrams with correct labels. Marks are awarded for properly labelled axes and curves and, in this case, for showing a shift to the left of the demand curve. Many candidates did not show or explain the final equilibrium. (See also the general comment at the start of this report.)

Question 3

(a) Most candidates were able to identify the birth rate, the death rate and net migration as the factors that determine the size of a country's population. Some, however, forgot to mention net migration while others wrote at great length when the question carried only three marks.

(b) Candidates were expected to contrast the differences in relative birth and death rates in developed and developing countries and then to compare the relative proportions of young and old people in each type of economy, possibly using typical pyramid diagrams. Credit was also given to candidates who compared the occupational structures or the regional structures between the two types of country.

The answers usually showed a good understanding of the issues, though there were a number of unusual diagrams. It was also common for even the more accurate diagrams not to have correct labels on the two axes showing precisely what was being measured. Weaker candidates did not understand what was meant by "population structure".

Question 4

(a) Many candidates understood the difference between fixed and variable costs but did not always mention the significance of the short and the long run. Better candidates gave clear definitions and relevant examples, while weaker answers did not always relate variable costs to changes in output.

(b) Candidates needed to discuss how flight cancellations might have affected fixed and variable costs. For example, the variable costs of fuel, aircrew overtime and aircraft maintenance, might be reduced while the fixed costs of aircrew salaries and solving technical problems would not be reduced.

The answers to this part of the question were not always well developed, and candidates were often content to dismiss fixed costs by saying that they would not change without identifying any specific examples of such costs. Most answers identified some examples of variable costs, most commonly the cost of providing food for passengers.

Question 5

(a) Nearly all candidates were able to identify two possible advantages for an economy if unemployment fell. The most common advantages identified were higher incomes, lower welfare payments to the unemployed, higher tax revenues and increased output.

(b) First, candidates needed to define inflation as a persistent increase in the general level of prices or words to that effect. They then needed to describe the construction of a consumer price index including the use of expenditure surveys, a base year, a basket of goods, price relatives and weightings. There were some very good definitions of inflation but the construction of a consumer price index was often less well done. Some candidates spent a lot of time explaining the causes of inflation but the best answers understood all of the issues involved and obtained full marks.

Paper 0455/03

Paper 3 (Extended)

Question Number	*Key*	*Question Number*	*Key*
1	**C**	21	**D**
2	**C**	22	**C**
3	**C**	23	**C**
4	**B**	24	**A**
5	**C**	25	**C**
6	**D**	26	**D**
7	**D**	27	**A**
8	**B**	28	**D**
9	**D**	29	**C**
10	**B**	30	**C**
11	**D**	31	**C**
12	**D**	32	**C**
13	**D**	33	**B**
14	**B**	34	**D**
15	**B**	35	**C**
16	**A**	36	**D**
17	**A**	37	**A**
18	**B**	38	**C**
19	**A**	39	**C**
20	**C**	40	**C**

General comments

There were 2197 candidates who took this paper this year. The mean mark was 27.7, very similar to the mean last year of 27.4.

The easiest questions proved to be **Questions 4**, **6**, **9**, **19** and **24**, with over 85% choosing the correct key. These tested a range of topics and skills including definitions, the use of tables, and application. There was, therefore, no one area of the syllabus or one particular skill which candidates found easier than others.

The most difficult was **Question 32**, where only 29% of the candidates chose the correct key, **C**. 45% chose option **B**. This meant that candidates made the common error of confusing a slower growth rate with an absolute decline. This type of question causes confusion every year and these reports have drawn attention to the need to understand the distinction between yearly changes which show an increase, albeit at a declining rate, and a change which shows a decrease. Candidates should read the axis carefully.

On **Question 35**, 50% chose the correct key, **C**, but some of the candidates who did well on the test overall chose option **A**. It is presumed that they were influenced by some of the figures that were not relevant to the question. Occasionally there is information in the tables or data that is not relevant. One of the skills encouraged by the syllabus is the ability to select and use relevant data to come to a conclusion.

Paper 0455/04

Structured Questions

General comments

There were some excellent answers to the paper, and the candidates who produced them are to be congratulated on their hard work. However, there are several points that might be helpful in enabling other candidates to achieve higher marks by using the information they know in a more effective way.

- As has been mentioned many times in these reports, candidates should be encouraged, when using diagrams, to present them clearly and accurately with correct labels. The diagrams should be of a size that can easily be seen. It is surprising how many answers present diagrams squashed up in the corner of the page and without correct labels.

- Candidates should also be given clear guidance that when a question asks for an explanation or a discussion, a simple list of points is not sufficient. The indicators must be presented in the form of sentences and paragraphs, with at least a brief comment on each point.

- To gain the highest marks in questions that ask for a discussion, candidates should present more than one side of an argument and then come to a conclusion. They should also be prepared to present their own view of the matter. Many present the case for or against, the advantages and the disadvantages, but then leave the matter without a conclusion. This is a pity and prevents the candidate achieving the highest marks. Candidates should be encouraged to realise that their view of the matter is significant and, having presented the evidence required by the question, should not be afraid to indicate what weight should be given to that evidence. They should decide whether, for example, the advantages outweigh the disadvantages, or the case for a given change mentioned in the question is greater than the case against. They should then clearly state what they conclude.

- It is also good practice to encourage candidates to leave a space at the end of each question in case they wish to add some material at a later stage. Many candidates think of extra information and then add this, almost randomly, throughout the script. This makes accurate marking more difficult. There is a danger that such presentation will not receive due credit. Candidates should also check that the pages that they present are in the correct order and that each question or section is clearly shown. It is foolish to be careless over these matters.

- Sometimes, candidates produce answers that are very sophisticated and which use concepts that are more advanced than are expected in the syllabus. It is worth stating that such answers are treated on their merits and can score the highest marks. It is recognised that it may be appropriate to teach beyond the standard of the syllabus at this level, particularly if the candidates are very able and are likely to continue their studies of economics.

Comments on specific questions

Question 1

(a) Many candidates were able to identify two or three measures of the size of an industry, such as its total turnover, the value of its assets or the number of people that were employed in it. The main problem came with candidates who misread the question and considered a firm rather than the industry. Many also claimed that if a firm exported it must be large without appreciating that many small firms export.

(b) In this part candidates needed to discuss the relevant information available to decide whether the UK computer game industry was large or small. Many answers discussed the size of the workforce, the value of sales or the share of the European market, or made a comparison with the film and music industry and the home video market. Most candidates went on to draw a sensible conclusion from the information they had used, usually saying they thought that the industry was a large one. Weaker candidates simply repeated the information they had given in **(a)** and ignored the detail given in the article.

(c) Candidates were required to explain specialisation in terms of concentration on a particular product or in a particular area and by explaining division of labour. Most candidates considered specialisation in terms of individual skills only, rather than in a region or country, and there were too many answers that simply gave a rather detailed account of division of labour without any mention of comparative advantage.

(d) Candidates were expected to explain that there was specialisation by area or region by mentioning the number of studios within the 30-mile area. Some credit was given for identifying that the design of computer games is an example of specialisation. Only a minority of candidates identified regional specialisation, while many identified the computer industry as an example of specialisation. Those candidates who focused on division of labour in part **(c)** were unable to find an example of specialisation in this section.

(e) The best answers considered specialisation and large size separately. In the latter many included excellent analysis of economies of scale. Many assumed uncritically that large size was an advantage, although the best candidates did consider diseconomies of scale. A number of candidates submitted quite sophisticated answers commenting on the effect of economies of scale on unit costs and on the benefits of specialisation and division of labour.

Question 2

(a) In this part candidates were expected to explain how demand and supply interact to produce equilibrium in the market. The best answers were able to define demand and supply and then describe their interaction to set an equilibrium price and quantity. They also made good use of accurate diagrams and explained points of disequilibrium where demand exceeded supply (or vice versa) followed by a move towards equilibrium.

(b) This question expected candidates to explain that the fall in income would shift the demand curve to the left, leading to a fall in the equilibrium price and in the quantity bought and sold on the market. The question also required a diagram. It has been mentioned before in these reports that candidates should present clear diagrams with correct labels. Marks are awarded for properly labelled axes and curves and, in this case, for showing a shift to the left of the demand curve. Many candidates did not show or explain the final equilibrium. (See also the general comment at the start of this report.)

(c) Candidates needed to explain that a fall in the general price level may, if incomes remain stable, induce greater spending and less saving. If incomes have fallen, then the effect on saving may be uncertain.

Some good answers were submitted that predicted the effect of a fall in prices on savings, sometimes with relevant consideration of the elasticity of demand. However, too many candidates were unwilling to accept that the impact was unpredictable and that in some circumstances savings would increase but that in others savings would fall.

(d) Candidates were expected to discuss a range of factors that might affect consumers' spending or saving, such as incomes, tastes, the level of interest rates, life styles, specific savings targets and long-term and short-term considerations on saving.

There were a number of good explanations that covered a range of issues, though some answers were brief and lacking in detail and without any conclusion as to which factors might be the most important.

Question 3

(a) Most candidates were able to identify the birth rate, the death rate and net migration as the factors that determine the size of a country's population. Some, however, forgot to mention net migration, while others wrote at great length when the question carried only three marks.

(b) Candidates were expected to contrast the differences in relative birth and death rates in developed and developing countries and then to compare the relative proportions of young and old people in each type of economy, possibly using typical pyramid diagrams. Credit was also given to candidates who compared the occupational structures or the regional structures between the two types of country.

The answers usually showed a good understanding of the issues, though there were a number of unusual diagrams. It was also common for even the more accurate diagrams not to have correct labels on the two axes showing precisely what was being measured. Weaker candidates did not understand what was meant by "population structure".

(c)(i) This sub-section required a discussion of the effects of an ageing population on the provision of services such as health, education, pensions and transport and the raising of tax revenues.

Most candidates were able to describe at least some of the extra resources required with an ageing population but did not always discuss these in depth.

(ii) In this sub-section candidates needed to discuss the effects of a changed population structure on the pattern of employment. For example, there might be more employment opportunities in occupations dealing with the elderly and more employment opportunities generally for school leavers.

Very few candidates understood the term "pattern of employment" and in consequence wrote rather general and sometimes confused accounts of the effects on the labour market. There was also a widespread misconception that the larger number of retired people would increase the level of unemployment.

Question 4

(a) Many candidates understood the difference between fixed and variable costs but did not always mention the significance of the short and the long run. Better candidates gave clear definitions and relevant examples, while weaker answers did not always relate variable costs to changes in output.

(b) Candidates needed to discuss how flight cancellations might have affected fixed and variable costs. For example, the variable costs of fuel, aircrew overtime and aircraft maintenance, might be reduced while the fixed costs of aircrew salaries and solving technical problems would not be reduced.

The answers to this section of the question were not always well developed, and candidates were often content to dismiss fixed costs by saying that they would not change without identifying any specific examples of such costs. Most answers identified some examples of variable costs, most commonly the cost of providing food for passengers.

(c) This section required candidates to explain "the principle of profit maximisation" in terms of trying to get the greatest profit from sales or maximising the difference between total costs and total revenue.

Candidates often produced poor answers that that merely restated the intention to obtain the greatest level of profits and with no mention of revenue or costs. There were, however, a few excellent answers that went beyond the level of knowledge required in the syllabus and explained profit maximisation in terms of producing at an output where marginal cost was equal to marginal revenue.

(d) It was expected that answers to this section would analyse the effects of the airline's problems on the levels of its profits, such as the fall in total revenue due to cancelled flights and poor publicity for the airline or the rise in total costs due to extra maintenance and the need to compensate passengers for the disruption involved in flight cancellations. Overall, the total profits of the airline might well have fallen.

There was a great variety of answers from those who described most of the relevant issues to those that stated that profits fell but then were not able to show the relationship between changes in revenues and costs.

Question 5

(a) Nearly all candidates were able to identify two possible advantages for an economy if unemployment fell. The most common advantages identified were higher incomes, lower welfare payments to the unemployed, higher tax revenues and increased output.

(b) First, candidates needed to define inflation as a persistent increase in the general level of prices, or words to that effect. They then needed to describe the construction of a consumer price index including the use of expenditure surveys, a base year, a basket of goods, price relatives and weightings. There were some very good definitions of inflation but the construction of a consumer price index was often less well done. Some candidates spent a lot of time explaining the causes of inflation but the best answers understood all of the issues involved and obtained full marks.

(c) This part required candidates to discuss full employment in terms of its relative importance as compared to other aims of macro-economic policy such as stable prices, a sound balance of payments and economic growth. There needed to be a reasoned conclusion to support the points made in the discussion.

Most candidates were able to discuss why a reduction in unemployment should be a major aim, but the better answers went on to consider fully whether it should be the **main** aim as compared with other possible aims. Some answers dealt only with the evils of unemployment, without reference to other aims of policy.

(d) Candidates were required to explain how a reduction in unemployment might increase incomes and lead to pressure on production and to price rises.

There were some very good answers to this part of the question. The majority of answers recognised that there was potentially a trade-off between the level of unemployment and the rate of inflation, with a reduction in unemployment possibly increasing the level of incomes leading to an increase in aggregate demand in excess of aggregate supply. Better answers were able to explain this idea through the idea of the Phillips Curve and to explain how a tighter labour market might lead to cost inflation.

Question 6

(a) Most candidates were able to give a correct definition of Gross Domestic Product as the value of all goods and services produced within a country in a given period of time.

(b) Candidates were expected to explain the effects of increased exports on the balance of payments of a developing country, such as the benefit of higher revenues from goods and services sold overseas for the current account. Assuming no increase in imports, there would be an improvement in the balance of payments, but this could lead to increased imports later.

Most candidates recognised that an increase in the level of exports was likely to have a positive effect on the balance of payments of a developing country, with the higher revenue from the increased goods and services sold abroad appearing in the current account and helping to bring about a surplus in the balance of payments, assuming there was no increase in the level of imports.

(c) This part required candidates to explain how an increase in Gross Domestic Product might improve living standards through extra income, extra spending, more consumer products, more saving, more government revenue and more public sector services together with better health, education, housing and infrastructure.

There were some very good answers to this part. Most candidates recognised that an increase in Gross Domestic Product would be likely to improve the standard of living in a country through extra income and spending, higher savings, which would provide funds for investment and higher government revenue to finance additional, spending.

(d) Candidates needed to discuss the relative importance of the primary, secondary and tertiary sectors with examples of each. They might also discuss the change of emphasis between sectors as a country develops. The primary sector would become less important as the secondary sector developed until this too would begin to be less important as there was increased development of the tertiary or services sector.

The more able candidates produced answers that showed a good understanding of the changes but weaker candidates were sometimes confused as to what industries contributed to GDP and also they did not describe the types of industries in developing or developed industries at all.

Question 7

(a) Most candidates were able to explain correctly the meaning of a subsidy as a payment made by the government to a producer or supplier that possibly reduced the price to the consumer.

(b) The majority of candidates were able to draw a correct supply and demand diagram showing the effect of a subsidy, shifting the supply curve down to the right and so reducing the price. Some answers did not gain full marks because they did not label the diagram correctly or they did not show the change in the equilibrium price and quantity positions.

(c) Most candidates had a basic idea of what is meant by an external cost but some of the answers were rather general and imprecise. The external cost is the difference between the social cost and the private cost, i.e. any cost not borne by the producer or consumer causing it. The question did ask for an example and most candidates gave some kind of pollution, noise or congestion as their examples.

(d) In this section candidates were expected to begin by explaining the links between private, external and social costs and benefits. After this they needed to discuss the relative benefits and costs of private cars and public transport. In particular, they should have explained how taxes and subsidies could reduce the negative effects and increase the positive effects of the use of the two forms of transport. The negative effects of private cars might include noise, atmospheric pollution, congestion and accidents causing death, injury and damage to vehicles. The positive aspects of public transport would include the reduction of all of the external costs arising from the use of private cars.

There were some good answers, with many candidates showing a clear understanding of the costs and benefits involved. Better answers also considered the implications of the strategies described in the question and attempted to consider the likely success of such an approach, pointing out that it is actually very difficult to persuade people to use their cars less and public transport more. The best answers came from those candidates who had a clear understanding of the theory underlying the question.

The theory and application of private, external and social costs and benefits seems to be an area of the syllabus that causes greater problems for the majority of candidates than many other syllabus topics.

Paper 0455/06

Alternative to Coursework

Question 1

(a)(i) The majority of candidates were able to state correctly that the supply of coffee beans would be in the primary sector of an economy.

(ii) Again, most candidates were able to identify one other industry that would be classified in this sector of production. These included agriculture, mining and fishing.

(b)(i) The answer to this part of the question was 600m kilos. This was calculated by subtracting 1800m kilos from 2400m kilos. Most candidates got this right.

(ii) The answer to this part of the question was 252m kilos. This was calculated by working out 4% of 6300m kilos. A larger proportion got this correct than the first part of the question.

(c) Most candidates understood that although Uganda only produced about 4% of the world output of coffee, this constituted more than two-thirds of its export earnings and so clearly a fall in prices would be likely to have a devastating effect on the whole economy, especially given that it was almost a one-crop economy. Many candidates recognised that this would have a serious effect on the level of employment in particular.

(d) There were some very good answers to this part of the question. Candidates recognised that a number of things would need to be found out in order to decide whether a significant fall in coffee prices would have a devastating effect on a country's economy. These would include knowing the number of people employed in coffee production, both in absolute and percentage numbers, and changes in other areas of the economy which might compensate for the potential loss of revenue in coffee production. The better answers recognised that it would be necessary to make comparisons before and after the price changes.

(e) Some candidates failed to provide any diagrams, despite the specific instruction in the question to use them, and so immediately lost four marks. A number of candidates provided diagrams but failed to label them, again losing marks.

(i) Candidates should have drawn a diagram clearly showing a shift of the demand curve to the left, causing price to fall, and the explanation should have stressed that this was as a result of the slump in western economies in 1992.

(ii) There were two possible approaches. First, the diagram could have shown a shift of the supply curve to the left, causing price to rise, as a result of the cold weather having a bad effect on the production of coffee. Secondly, the diagram could have shown a shift of the demand curve to the right, again causing price to rise, as a result of the increased demand for coffee in cold weather.

(f) There was a decrease in coffee prices between 1986 and 2000, with the price falling from about 200 cents in 1986 to about 80 cents in 2000. However, the better answers were able to point out that this was not an even change and that there were a number of occasions when the price went up, such as in 1994 and 1997. Some candidates simply wrote that the price was continually going up and down without recognising the overall trend and without offering any kind of explanation as to why these price changes were happening, despite the information provided in the chart.

Question 2

(a) Most candidates were able to explain correctly the difference between a direct and an indirect tax, stressing that direct taxes were taxes on incomes and profits whereas indirect taxes, such as VAT, were taxes on the spending on goods and services. Again, the majority of candidates correctly recognised that the two examples of direct taxes from the information given were income tax and company (or corporation) tax.

(b) Answers to this part of the question were mixed. Some candidates did not really make much of an attempt to consider the likely effects of the changes discussed in the article, but the better answers did try to consider the various changes, especially in terms of the redistribution effects of the change from direct to indirect taxation. There was some very good discussion of the advantages and disadvantages of the two kinds of taxes, especially in terms of the regressive and progressive characteristics of them. The nature of the compensating changes was also considered, both in terms of the cut in income tax and the increase in social security benefits. The discussion of the likely consequences of the extension of the indirect tax to services was good, with some useful comments on which groups of people this was most likely to effect and in which areas of the economy. The effect of the reduction in company tax was discussed and there were some very good answers in terms of the potentially harmful effects of a rise in the rate of inflation. One area which few candidates looked at, however, was the link with economic efficiency; the article stressed that the changes were likely to improve economic efficiency, but there was not much consideration of how this might operate or how it might possibly be measured.