

# ECONOMICS

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<b>Paper 0455/01</b>
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<b>Paper 1 (Core)</b>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>C</b>	21	<b>A</b>
2	<b>B</b>	22	<b>C</b>
3	<b>B</b>	23	<b>B</b>
4	<b>C</b>	24	<b>C</b>
5	<b>D</b>	25	<b>D</b>
6	<b>A</b>	26	<b>C</b>
7	<b>D</b>	27	<b>D</b>
8	<b>B</b>	28	<b>C</b>
9	<b>D</b>	29	<b>B</b>
10	<b>B</b>	30	<b>D</b>
11	<b>B</b>	31	<b>D</b>
12	<b>C</b>	32	<b>A</b>
13	<b>C</b>	33	<b>D</b>
14	<b>C</b>	34	<b>D</b>
15	<b>A</b>	35	<b>A</b>
16	<b>D</b>	36	<b>A</b>
17	<b>B</b>	37	<b>C</b>
18	<b>A</b>	38	<b>D</b>
19	<b>B</b>	39	<b>B</b>
20	<b>D</b>	40	<b>B</b>

## General comments

The mean for the paper in 2007 was 18.2. This is quite close to the mean of 20.7 which occurred in 2006 and 2005. This is a commendable achievement for the candidates.

The questions which most candidates answered correctly were **6, 9, 12** and **32** with over 70% of the entry choosing the correct option. If questions are found to be relatively easy the discrimination index is sometimes below the norm expected for questions of average difficulty. This, however, did not occur with these questions.

However, the discrimination index was below that expected for **Questions 24, 29** and **38**.

**Question 24** was answered correctly by 21% of the candidates who chose option C. Specialisation is usually expected to be greater the freer the market and the less restricted the trade. 29% chose A, 36% chose D. This might indicate either a misunderstanding of the nature of specialisation or a question for which candidates guessed the answer.

For **Question 29**, 53% of the candidates chose option C. The correct answer was B. This is the usual type of question which shows an annual increase in an indicator. In nearly every examination one such question is set, and in nearly every examination Examiners have to report that, sadly, candidates do not seem to understand the idea that an increase at a lower rate than a previous year is still an increase.

For **Question 38**, 41% chose the incorrect option B while 30% chose the correct option D. Labour was involved with the use of the roundabout, although it is not paid labour.

The questions with the lowest percentage of candidates choosing the correct answer were numbers **3, 14, 29, 31** and **38**.

For **Question 3**, 45% chose option C while 23% chose the correct answer B. Option C does not make mention of those who cannot read or write but mentions education in general. Examiners do not know the total number of people in the relative countries and, therefore, cannot make any conclusion about the total amount of money that needs to be spent on education.

For **Question 14**, 26% chose the correct option C, 24% chose B, 32% chose D. B and D only account for one of each of the changes mentioned, the reduction in demand for B and the increase in cost for D. The two changes taken together would lead to the new equilibrium of C.

**Question 31** was answered correctly by 25% who chose option D. 27% chose B and 38% chose C. The candidates probably confused the interpretation of the graph and may have thought that the top two bars were in fact exports and imports for 1999, and the bottom two bars were exports and imports for 2003. In fact, as can be seen, the top two bars are both exports and the bottom two bars are imports.

**Questions 29** and **38** have been dealt with above.

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<p><b>Paper 0455/02</b></p>
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<p><b>Paper 2 (Core)</b></p>
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## Question 1

- (a) Most candidates were able to state that the factors were land, labour, capital, and enterprise. The question asked for some explanation and so a brief comment on the meaning of these terms was required for full marks.
- (b) The Royal Mail has used more capital - more investment - and less labour. This question was not answered well. Many candidates simply stated that the factors of production had changed.
- (c) The question required an explanation of fixed and variable costs. Fixed costs will increase with new technology. Labour may be a fixed or a variable cost depending on how the labour is paid, but it is likely that delivery staff are thought to be a variable cost. (Either classification was accepted provided a reason was given which matched the classification chosen.) As labour may be replaced by machines the numbers will decrease. However, if labour is paid more then the overall result on cost is uncertain.
- (d) Many candidates were able to state that price rises usually cause demand for that product to fall and instead switch to other alternatives. The price change given may not be thought to be a sufficient increase to cause many consumers to switch to alternative means of communication. Candidates were usually able to explain how a change in price can affect demand for a product.
- (e) Candidates could draw on the information given. The only comparison on price is with France and Germany, there is no real information about the rate of inflation, only a general statement about the price comparing well. The delivery figures do seem to support the claim that Royal Mail is providing good service (but the only comparison is with France). Now there is only one delivery a day and there is no comparison on that with other countries. There is a statement about investing in training and technology.

There is also a statement that the Royal Mail say they do need to make money – profits. It is not clear how much will be re-invested. Candidates could have used some of this information. It is likely that the overall conclusion would be uncertain. However, if a candidate suggested that the conclusion was definite and that there was/was not enough evidence and backed their claim with supporting data, this was credited.

## Question 2

- (a) A multi-national may employ people from different countries but this is not the definition. The company has to operate in different countries. Governments may be involved in multi-national companies but this again is not the definition and most would be privately owned. Many candidates concentrated on the use of labour from other countries but did not mention the need for production in other countries. Many also insisted that a multi-national had to be controlled or run by a government.
- (b) Candidates were able to state that the union is a group of people working together which are independent of management in order to promote the welfare and safety of workers. They also stated that unions use collective bargaining to negotiate wages.

**Question 3**

- (a) Candidates often gave an explanation which mentioned choice. Only a few stated the principle of the 'second best' or 'next best' option. Better candidates were able to explain that the principle could be applied in terms of what might be given up – for example, a person might get higher pay but give up a shorter journey, or the person might give up holidays by switching employment.
- (b) Candidates were usually able to discuss factors which included a range of non-wage reasons, the amount of skill and training required, the differences in male and female pay, the extent of union activity, and the availability of labour and the demand for labour. Most concentrated on the skill and training required.

**Question 4**

- (a) Many candidates were able to explain three differences. They included comments on the age distribution, the birth rate, the death rate; the occupational distribution; dependency ratios, and the extent of malnutrition. Some commented on general differences in the economies of each type of country and did not limit their answer to factors connected with population.
- (b) This question was not well answered. Candidates could have commented on the validity of using GDP. Candidates could have discussed the difficulties of comparisons over time and between countries, the problems of the informal economy, the different rates of inflation, differences in the distribution of income per head and non-economic factors influencing the standard of living.

**Question 5**

- (a) Most candidates were able to state that specialisation involved some form of concentration. Many expressed this in terms of occupations and stated that a person concentrates on a particular skill. Others expressed it in terms of a country and said that a country might concentrate on a particular product which it is thought the country is better suited to providing.
- (b) Candidates gave brief answers to this question. Text books will tell you that specialisation will produce greater efficiency. However, the human cost of this through loss of income, employment, impoverishment of regions and general disaffection of those who are not involved in the specialised areas are neatly sidestepped. Many candidates were not able to provide a reasoned discussion of the drawbacks of specialisation.

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**Paper 0455/03**  
**Paper 3 (Extended)**

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

## General comments

2867 candidates took this paper in November 2007 and the mean score was 23.9. Last winter the mean was 22.1; two years ago it was 24.0.

Over 85% of candidates chose the correct answer for two **Questions, 6 and 9**, which is a higher percentage than would be expected on an examination such as this. (This number of questions is fewer than last year when 3 questions were answered correctly by more than 85% of candidates.) These questions cover different topics but both were knowledge, rather than analysis questions.

If questions are found to be relatively easy, the discrimination index is sometimes below the norm expected for questions of average difficulty. This occurred with one of these questions. This combination of easy question and low discrimination index is not unusual.

However, the discrimination index was also below that expected for **Question 38**. For this question, 44% chose the incorrect option B while 29% chose the correct option D. Labour was involved with the use of the roundabout, although it is not paid labour.

The questions with the lowest percentage choosing the correct answer were **3, 12, 22** and **38**. For **Question 3**, 43% chose option C while 36% chose the correct answer B. Option C does not make mention of those who cannot read or write but mentions education in general. Examiners do not know the total number of people in the relative countries and, therefore, cannot make any conclusion about the total amount of money that needs to be spent on education.

For **Question 12**, 33% chose option A, while 31% chose option C. It is uncertain why this happened. It might be that candidates who chose A confused the two goods and thought that the question was asking them to form a judgement about good Y. If that were the case they would have supposed that they were dealing with a good with high elasticity. Option A could be chosen in that case.

For **Question 22**, 44% chose the incorrect option B while 33% chose the correct option C. Those who chose B confused the overall level of profit with the level on an individual unit. Not all units earn the firm the same amount of profit. 9% chose A and 14% chose D. The rate of growth of profit is not the same as the greatest overall total, and the level of total cost does not enable any conclusion to be drawn about profit levels.

**Question 38** was discussed above.

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**Paper 0455/04**  
**Paper 4 (Extended)**

## General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates who demonstrated a sound knowledge and understanding of economics and a mature ability to explain and discuss, rather than just describe, key economic concepts, issues and principles. However, there were also a number of relatively weak answers where the candidates failed to demonstrate very much knowledge or understanding.

There were relatively few rubric errors although some candidates did manage to answer all seven questions on the examination paper.

Candidates do need to pay close attention to the precise instruction in the question. For example, if the question asks the candidate to distinguish between something, as in **Question 5 (c)**, then he or she needs to simply write a relatively brief answer. However, if the question requires the candidate to explain something, as in **Question 3 (c)** or **Question 7 (a)**, analyse something, as in **Question 2 (d)**, or discuss something, as in **Question 4 (d)** or **Question 6 (c)**, he or she needs to go into much more detail. In the case of a discussion, the candidate will often be expected to give two sides of an argument and then come to a reasoned conclusion.

Candidates also need to look very closely at the number of marks given to each part of a question as this gives a clear indication of how much time to allocate to each part and how much detail is required. For example, in **Question 6 (a)**, some candidates wrote more in this section than they did in the final part of the question, despite the fact that only four marks were available compared to eight marks in the last part.

## Comments on specific questions

### Question 1

- (a) Most candidates were able to explain what was meant by factors of production although some simply offered a list of the four without making any attempt to explain what was meant by them. In some cases, candidates thought there were only three factors of production, enterprise being the one that was omitted.
- (b) The majority of candidates recognised that the Royal Mail's use of these factors of production indicated a move away from labour-intensive towards capital-intensive methods.
- (c) The candidates needed to explain what was meant by fixed and variable costs in terms of fixed costs not changing with a change in output, and variable costs changing as output changed. They then needed to explain this distinction in relation to Royal Mail. Many of them recognised that fixed costs would be likely to increase, given the use of more equipment, and that variable costs would be likely to decrease, given that there would only be a single delivery. However, the better candidates pointed out that it was possible that variable costs might increase, depending on the wage increases given to the staff.
- (d) Many candidates pointed out that the increase in price of First Class post from £0.28 to £0.30 was likely to reduce demand for this service and increase demand for substitute methods of communication, such as telephone, email or fax. A number of candidates, however, were more circumspect, stating that the price increase was very small and might not have much of an effect at all, going on to link such a comment to the concept of price elasticity of demand.

- (e) The majority of candidates believed that there was enough evidence in the article to support Royal Mail's statement that it is one of the best in Europe. The better candidates, however, pointed out that the information was rather limited and that more information would be needed to support such a statement. For example, the article only referred to four European countries (France, Germany, Italy and the UK), ignoring the fact that there were many other countries in Europe which candidates were given no information about.

### Question 2

- (a) Many candidates recognised that although a multi-national might employ people from different countries, this was not crucial to the definition. The key point to stress was that multi-nationals actually produce in different countries. It was also necessary to state that, in most cases, a multi-national would not be controlled by a government but would be privately owned. Some candidates, however, sensibly pointed out that a government might influence or regulate a multi-national in some countries, even if it did not actually control it.
- (b) This part of the question was generally answered well by the majority of candidates. They had a good knowledge and understanding of what was meant by a trade union and were able to discuss its role in a variety of areas, such as wages and salaries, working conditions, health and safety, and a variety of different welfare issues. A few candidates, unfortunately, got completely confused and wrote about a trade body, such as the European Union, completely missing the point that a trade union was an association set up to protect the interests of workers.
- (c) The majority of candidates recognised that there were essentially two ways in which a company might become large. Firstly, this could be through internal growth, such as when an advertising campaign increased the level of demand and a company was able to gain a larger share of a market through increased sales. Secondly, this could be through external growth, such as when two firms decided to merge or as a result of a takeover. There was some good consideration of different forms of integration, distinguishing between horizontal and vertical integration.
- (d) This part of the question was generally answered well by the majority of candidates. They recognised that economies of scale would lead to a reduction in the average costs of production in the long-run and gave various examples of such economies, including financial, technical, administration and risk-bearing economies. The question did explicitly refer to economies of scale in the context of car companies and yet many candidates made no attempt to relate the general points being made to this particular industry, denying themselves the opportunity to gain maximum marks.

### Question 3

- (a) The majority of candidates were able to correctly explain what was meant by the principle of opportunity cost in terms of the next best alternative that is foregone. They were then able to give an example of how the principle could be relevant when a person chooses a new job. For example, a new job might pay a higher wage or salary but it might take a longer time to get there; the opportunity cost would therefore be the leisure time given up in travelling to and from work.
- (b) Answers to this part of the question varied enormously. Some candidates offered vague and general answers but the better candidates were able to refer to a range of possible factors, including skills, qualification, experience, training and the extent of trade union power. There were some very good answers which considered the question within a demand and supply context, including appropriate diagrams to good effect.
- (c) Again, there were some very general answers to this part of the question, but the better candidates recognised the need to focus on the long-term motives for saving, such as to provide an income in retirement, to make an expensive purchase, such as a house, or to pay for the education of children.
- (d) The majority of candidates recognised that a reduction in interest rates was likely to encourage borrowing and discourage saving. Credit card purchases are equivalent to borrowing and so there was likely to be an increase in spending through the use of credit cards. The better candidates pointed out, however, that it would have no effect on those people who always paid off their balance in full each month. They also stated that the reduction was only for four months which might limit the effect on spending.



**Question 4**

- (a) Most candidates were able to explain three other differences, apart from the literacy rate, that you might find between the population of a developed country and a developing country, such as the birth rate, the death rate, the age distribution, the dependency ratio or the occupational distribution. Some candidates included the literacy rate as one of their three, despite the fact that the question did refer to three other differences.
- (b) Answers to this part of the question were, in many cases, rather disappointing. Many candidates simply stated what was meant by Gross Domestic Product (GDP) despite the fact that the question required them to discuss its usefulness as a means of comparing the living standards between two countries. They needed to discuss the potential shortcomings of GDP in this respect, such as the existence of a hidden or informal economy and the need for any figures to take account of inflation.
- (c) This part of the question was generally answered well in the majority of cases. Candidates focused on the fact that many people in a developing economy would be relatively poor and so would not be able to afford to pay for education if it was provided by the private sector. A second reason given by many candidates was that a good education was not only in the interest of the individuals concerned but would also benefit the economy, leading to the possibility of higher rates of productivity.
- (d) There were some very good answers to this last part of the question with candidates recognising the positive effect that investment in the education system might have in a developing country. For example, it could lead to a higher level of skill in the workforce, enhancing the prospect of economic growth, and a higher level of knowledge and awareness of health matters, hopefully leading to an increase in life expectancy. A few candidates, however, approached the question from an entirely negative perspective, stressing the opportunity cost of this investment in terms of other sectors of the economy which would be ignored.

**Question 5**

- (a) Answers to the first part of the question were generally of a reasonably good standard. Candidates were able to explain what was meant by specialisation in terms of concentration on a particular skill or product and many pointed out that it could operate at the level of the individual, the firm, the region or the country.
- (b) The majority of candidates were able to discuss the various potential benefits from specialisation, especially in terms of enhanced efficiency and productivity, but, in many cases, they did not offer a contrast with diversification. The better candidates were able to discuss the possible disadvantages of specialisation and so make a case for diversification.
- (c) The majority of candidates obtained maximum marks in this part of the question, distinguishing clearly between the primary, secondary and tertiary sectors of the economy and giving appropriate examples of each.
- (d) This proved to be quite a difficult question for many candidates but some of them were able to offer a very useful discussion, pointing out the disadvantages of an over-reliance on the production and export of agricultural products, especially in terms of dependence on weather conditions and relatively low prices in world markets. If a country could rely more on exports from other sectors, especially in relation to the secondary and tertiary sectors, this would be likely to bring in more income and help to enhance the rate of economic growth.

**Question 6**

- (a) There were some very good answers to this part of the question with candidates explaining clearly what was meant by a market system in terms of the allocation of resources through the price mechanism, the concept of consumer sovereignty and the lack of government intervention in such a system.

- (b) This part of the question was also answered well in the majority of cases. Candidates were able to discuss the potential advantages of the market system, such as offering a greater degree of choice, more competition and a greater degree of sovereignty for consumers. They then went on to discuss the potential disadvantages of such a system, such as the various problems of market failure and the difficulties of taking into account the effect of externalities.
- (c) Many candidates demonstrated a good level of knowledge and understanding of the arguments for and against trade protection. For example, protection would encourage the development of domestic industries and prevent the existence of dumping. On the other hand, it would go against the principle of comparative advantage and possibly lead to reduced levels of efficiency in the production process. Some candidates, unfortunately, gave a one-sided answer which only dealt with the arguments in favour of trade protection and this clearly reduced the mark they were able to obtain.

**Question 7**

- (a) The majority of candidates were able to correctly explain the meaning of the three government policy aims of the redistribution of income, economic growth and price stability.
- (b) There were some good answers to this part of the question in terms of the consideration of taxation, especially in relation to the use of progressive taxation as a means of redistributing income. Candidates, however, generally failed to point out that there were a range of possible benefits, subsidies, grants and transfer payments that governments could allocate to various people as an additional way of redistributing income.
- (c) The majority of candidates were able to consider how a government might affect economic growth in a country. They suggested a number of possible initiatives and policies and these included an increase in the level of government spending, especially in relation to re-training and getting people back to work, the encouragement of investment, improvements in the infrastructure, the encouragement of exports and discouragement of imports, and changes in tax rates, through fiscal policy, and interest rates, through monetary policy, to stimulate the level of demand in the economy.

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**Paper 0455/06**

**Alternative to Coursework**

## Question 1

- (a) (i) Many candidates were able to answer this question correctly. Those who did not failed to distinguish between the person who takes the risk of running the business and the manager of the business. A manager need not necessarily be an entrepreneur.
- (ii) Candidates could have chosen from the owner of the tower in Congo; woman with fish; network owner in Congo; nursery owner; battery owner. Some candidates made the error of stating that Vodafone was an example of an entrepreneur.
- (b)(i) Most candidates were able to explain that complementary (joint) demand occurs when one product is needed with another. Examples included, cell-phone and battery charger, and cell-phone and transmitter tower.
- (ii) Candidates should have drawn two diagrams. Each diagram was the same and should have shown a shift in the demand curve to the right. If, in the explanation, the candidate clearly stated that the second diagram for the complementary product was identical to that for the original product, this was credited. Many candidates only drew one diagram with no explanation, some confused the demand and supply curves, some shifted the supply curve and not the demand curve, and some did not draw any diagrams at all.
- (c) This question required a comment on factors such as the size of the market, the amount of capital required, the type of organisation required, whether there is a specialist product and the existence of a personal service. Answers varied between a brief list of a few words and a well-explained answer.
- (d) Questions on fixed and variable costs often occur in these papers. Fixed costs do not vary with output, for example, the phone itself; variable costs do vary with output/use, for example, the cost of each phone call. Candidates often gave an insufficient answer stating simply that fixed costs do not change with no reference to output. Candidates also often gave incorrect examples.
- (e) The factors that could have been discussed included the need to know what level the profits have been and how profits have changed in recent years in Africa. Other factors include, the need to know projected costs and revenues the company expects from increasing investment, and the need to know whether the company has skilled staff and expects to be able to staff increased operations.

Information that can be used from the article includes: the number of subscribers, the 58% increase in cell-phone purchases; the fact that only 10% have phones, the limitation on land-line provision. This might lead to the conclusion that the market is, therefore, still very much under-supplied. The demand in Nigeria and Congo are useful pieces of information and indicate how various businesses can benefit in seemingly difficult circumstances. The candidate should have queried whether the individual stories amount to sufficient information to make a general conclusion.

**Question 2**

- (a) Many candidates were able to state that quotas are a restriction on the number of imports; other countries had quotas imposed on them, Lesotho did not, so Lesotho was able to trade without competition.
- (b) Candidates commented on a number of points which included the differences in resources, the cost of factors of production or transport costs. The most likely factor of production that would be cheaper would be labour. Other reasons include the existence of government subsidies or low exchange rates.
- (c) Most candidates understood that the local currency being “fixed to the rand” meant that, when the rand changes value in terms of other currencies, so does the local currency. Some thought that the phrase meant that the value never changed.
- (d) Candidates were usually able to make some comment that indicated that when a country has a strong exchange rate it means local products cost more in other countries and imports are cheaper. Exports, therefore, may be reduced in number and imports increased. This could worsen the balance of trade, cause less demand for home products and may affect employment and incomes.