

# ECONOMICS

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<p><b>Paper 0455/01</b> <b>Multiple Choice</b></p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>D</b>	16	<b>B</b>
2	<b>A</b>	17	<b>C</b>
3	<b>B</b>	18	<b>B</b>
4	<b>B</b>	19	<b>A</b>
5	<b>A</b>	20	<b>C</b>
6	<b>C</b>	21	<b>B</b>
7	<b>B</b>	22	<b>C</b>
8	<b>C</b>	23	<b>D</b>
9	<b>B</b>	24	<b>C</b>
10	<b>B</b>	25	<b>C</b>
11	<b>B</b>	26	<b>B</b>
12	<b>D</b>	27	<b>A</b>
13	<b>A</b>	28	<b>B</b>
14	<b>A</b>	29	<b>D</b>
15	<b>C</b>	30	<b>B</b>

5400 candidates took this paper this session. The mean was 21.5. This lower mean reflects the change in the number of questions on the paper and represents the same percentage of the total as the mean for last year.

The easiest questions proved to be numbers **3, 4, 9, 18, 23** and **28** with at least 87% of candidates answering correctly. These questions were on different sections of the syllabus and tested different skills. **Question 3** tested application, **Questions 4** and **9** tested knowledge, **Questions 18, 23** and **28** tested analysis. There is no one skill or one section of the syllabus, therefore, that the candidates find easier than others.

The most difficult questions were **11, 24** and **30**. All the other questions were answered correctly by over 61% of the candidates.

**Question 11** was an unusual question on the section of the syllabus which deals with consumer's choice between saving and spending. Two matters had to be considered. What would be likely to cause a reduction in a credit card repayment and also cause extra spending from a weekly wage? The correct key was B. The increase in price of essential products would result in the need to spend more from a given income and the likelihood that a smaller amount would be left and set aside to repay credit card debt. 34% chose option A and 41% chose option D. Option D might cause more spending but not necessarily a reduction in credit card repayments.

**Question 24** was answered correctly by 34% of the candidates. A common error in **Question 24** was to select option B. Option B would not apply if there were a closed economy with no international trade.

**Question 30** was answered correctly by 48% of the candidates who chose option B. 11% chose option A, 14% chose option C and 26% chose option D. While there is not absolute free trade with no restrictions, option B would be least likely to limit trade if there were uniform regulations.

# ECONOMICS

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**Paper 0455/02**

**Structured Questions**

## 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 sensible and mature ability to discuss, analyse and evaluate a number of key economic concepts and issues. There were also, however, 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 answer all seven questions on the examination paper when the requirement was to answer **Question 1** in **Section A** and **three** other questions from **Section B**. This meant that a great deal of valuable time in the examination was wasted.

Candidates need to pay close attention to the precise wording of the question, especially in terms of the particular command or directive word being used. For example, if the question asks the candidate to explain what is meant by something, as in **Question 3(c)** where candidates were required to explain what was meant by an industry becoming more capital-intensive rather than labour-intensive, or in **Question 6(a)** where candidates were required to explain what was meant by inflation, then he or she simply needs to write a relatively brief answer. However, if the question requires the candidate to analyse something, as in **Question 7(c)** where candidates were required to analyse the advantages of trading without tariffs and quotas, or to discuss something, as in **Question 4(c)** where candidates were asked to discuss whether the growth of a firm is advantageous for both the firm and consumers, he or she needs to go into much more detail, often giving two sides of an argument and then coming to a logical and 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 very clear indication of how much detail is required and how much time should be taken to answer it. For example, **Question 3(c)** was given just three marks whereas **Questions 4(c), 5(c) and 6(c)** were each allocated ten marks.

## Comments on specific questions

### **Question 1**

- (a) In the first part of the question, candidates were required to explain what was meant by economic growth. This was answered reasonably well by the majority of candidates, who wrote about increases in output, employment, incomes and Gross Domestic Product. Some of the better answers referred to an increase in real incomes, taking into account the possible effects of inflation. A few candidates, unfortunately, seemed to think that the term referred to the growth of population.
- (b) In this part of the question, candidates were required to discuss why many countries aimed to increase economic growth. Again, the quality of answers from many candidates was good, with candidates focusing on the likely reduction of unemployment and an increase in standards of living and quality of life.
- (c) Most candidates were able to identify two macro-economic aims that a government might have, such as increasing the level of employment, reducing the rate of inflation or maintaining a degree of stability in the balance of payments position. The majority of candidates were then able to go on to offer useful explanations of why governments might think such aims were important. A few candidates, unfortunately, failed to read the question carefully enough and chose economic growth as one of the aims, despite the fact that the question explicitly asked for aims apart from economic growth. Some candidates decided to select micro-economic rather than macro-economic aims.

- (d) Many candidates ignored the fact that the command word in this question was discuss and simply offered a one-sided answer, either writing that they agreed with the President of Uganda or stating that they disagreed. The better answers, however, looked at both possible points of view and then came to a well-supported conclusion.

### Question 2

- (a) The majority of candidates offered quite good answers in the first part of the question, explaining clearly what was meant by price elasticity of demand. A few, unfortunately, got rather muddled and when they wrote out the formula, got price and demand the wrong way round. Some failed to make reference to the fact that it was percentage changes that were significant.
- (b) Most candidates were able to apply what they had said in part (a) to the reality of a situation involving a producer in (b). There were some very good answers which explained that if PED was elastic, the price should be reduced, but if it was inelastic, the price should be raised. These changes in price were linked closely to changes in revenue. The question did not require candidates to draw any diagrams, but a number of candidates did include them and used them to good effect in aiding their explanation.
- (c) Answers to this part of the question varied a great deal. Some candidates demonstrated a very sound knowledge and understanding of social costs and benefits, explaining clearly that they comprised both private and external costs and benefits. This knowledge was then applied clearly to the issue of smoking. Other candidates, unfortunately, struggled to demonstrate a clear understanding of private and social costs and benefits.
- (d) There were some interesting answers to this part of the question. Some candidates argued that the policy of prohibiting smoking in public areas would lead to a decline in the demand for cigarettes which would cause a fall in revenue and profits for the manufacturers. Others stressed the addictive nature of tobacco, arguing that the policy might not actually have much of an effect on the manufacturers of cigarettes.

### Question 3

- (a) The majority of candidates were able to explain what was meant by the factors of production - land, labour, capital and enterprise, and then went on to identify which of them were involved in the statement given in the question.
- (b) Many candidates were able to offer a good answer on the functions of a trade union. These included the need to protect the interests of workers in relation to hours of work, remuneration, working conditions and health and safety. Candidates generally were able to write well on collective bargaining and some went beyond this to consider the role of trade unions in having an influence on governments.
- (c) Most candidates did reasonably well in this part of the question, explaining that a capital-intensive industry would stress the importance of machinery rather than labour, whereas with a labour-intensive industry it would be the other way round.
- (d) There were some good answers to this final part of the question with candidates recognising that the wages of some workers might increase, especially if they were required to operate specialist machines, but that the wages of many of them would remain the same or increase only very slightly. It might be possible to negotiate shorter hours, but there might also be the problem of some workers losing their jobs.

### Question 4

- (a) There were some very good answers to this part of the question. Most candidates recognised that horizontal integration involved the merger of two firms at the same stage of production whereas vertical integration involved the merger of two firms at different stages of production, either forwards towards retailers or backwards towards suppliers. Many candidates gave appropriate examples of each of these to support the points being made.

- (b) The majority of candidates were able to contrast the characteristics of two types of business organisation. Most of these compared such types of business organisation as sole trader, partnership, private limited company or public limited company, although some candidates were rather confused about which organisations had limited or unlimited liability. However, other approaches included a contrast between small and large firms or between private sector and public sector firms.
- (c) Some candidates offered a one-sided answer which only considered the potential advantages of the growth of a firm in relation to both the firm itself and consumers. Many, however, were guided by the word discuss in the question and offered a useful contrast between the relative advantages and disadvantages of such growth to both the firm and consumers.

#### Question 5

- (a) Most candidates were able to explain the term opportunity cost in relation to the next best alternative which is foregone and then went on to discuss why an increase in spending on police and armed forces in a country might result in an opportunity cost in terms of money not being available for expenditure in other areas, such as education, health or infrastructure.
- (b) Many candidates struggled in this part of the question. Market failure is a recent addition to the syllabus and it was clear that many of them had not grasped what was meant by the term. Essentially, market failure occurs where it might be difficult, if not impossible, for a service to be provided through a market because of the difficulty of charging for it. Government spending on the police and armed forces could be regarded a result of market failure because it would be very difficult for such public goods to be provided in a market.
- (c) This part of the question was answered reasonably well by many candidates who recognised that governments could influence the activities of private firms in many ways. The analysis focused on such areas as taxation, subsidies and grants, interest rates, planning permission, laws and regulations, competition policies, tariffs and quotas and any attempt by a government to influence the exchange rate of a country's currency.

#### Question 6

- (a) The majority of candidates were able to clearly explain what was meant by inflation in terms of a sustained or persistent increase in the general level of prices in a country.
- (b) Most candidates were able to explain how a government might calculate the rate of inflation in its economy through the use of an index such as RPI or CPI. They explained what was meant by a basket of goods and services, the need to monitor price changes over a period of time and the selection of one year as a base year with a value of 100. The most significant factor which distinguished candidates was the reference to the weights given to particular goods and services according to the relative importance of such expenditure. Some candidates demonstrated a very clear recognition of the importance of such weights whereas others failed to make any reference to them.
- (c) There were some very interesting answers to this part of the question. Candidates were required to consider how inflation might affect a person's spending, saving and borrowing and their answers obviously depended on the particular circumstances of people, the current rate of inflation and the anticipated rate of inflation in the future.

#### Question 7

- (a) The majority of candidates were able to clearly distinguish between a tariff and a quota, pointing out that whereas the former was a tax, the latter was a limit, either in terms of a physical amount that could be imported into a country, a particular value of goods or a proportion of market share.
- (b) Most candidates recognised the possible link between the level of tariffs and international specialisation, allowing the possibility of certain industries being protected to enable them to increase production.

- (c)** There were some good answers to this part of the question, with candidates recognising that free trade would exist if there were no tariffs or quotas and that this could lead to certain advantages, such as giving consumers the opportunity to choose from a wider range of goods and services.
- (d)** Many candidates recognised that although free trade does have certain advantages, there might also be reasons why countries might want to have tariffs in place, such as to protect infant or declining industries, and that there would, therefore, sometimes be opposition to the removal of a tariff, such as because of a fear of increased unemployment.

# ECONOMICS

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**Paper 0455/03**

**Analysis and Critical Evaluation**

## General comments

There was a wide range of performance on this paper with some candidates producing excellent answers whilst others revealed confused understanding. A small number of candidates did not answer all the questions and this obviously limited the number of marks they could gain.

A more common reason why some candidates lost marks was a failure to read the questions carefully enough. This problem applied especially to **Questions 1(b), 1(c), 2(c) and 2(e)**. Some candidates also failed to examine the extracts carefully which resulted in some disappointing answers to **Questions 1(b), 2(c), 2(d) and 2(f)** in particular.

It is very important that candidates read questions carefully, paying particular attention to the command words, and that they spend an adequate amount of time considering the information in the extracts. Prior to the examination, they need to develop not only their knowledge and understanding of economics but also their analytical and evaluative skills.

## Comments on specific questions

### Question 1

- (a) This question was generally well answered. Most candidates were able to select three relevant reasons out of four from the extract.
- (b) There were some excellent answers to this question with accurate, well labelled diagrams and lucid explanations. A significant number of candidates did not, however, draw two diagrams despite the question asking for diagrams. Some shifted the demand curve rather than the supply curve and some, whilst writing about a decrease in supply, shifted the supply curve to the right. A disappointing number of candidates got the demand and supply curves round the wrong way.
- Generally candidates gained more marks on the effect of a failure in the rice harvest on the rice market than on the cosmetics market. Indeed, a significant number of candidates failed to mention the effect on the cosmetics market.
- (c) This tended to be well answered. Most candidates could identify at least a couple of reasons and some candidates wrote very clear answers which explored how an increase in exports can bring benefits not only to an economy's balance of payments position but also to its economic growth, employment, government revenue and living standards.
- (d) Most candidates were able to explain what is meant by a subsidy. A disappointing number of candidates, however, explained what is meant by a substitute good and some did not attempt the question.
- (e) Many candidates found this a difficult question and seemed to be uncertain about the nature of inefficiency. Some candidates wrote very generalised answers which failed to make use of relevant economics. Other candidates did, however, show an awareness of a range of information. The strongest answers explored not only, for example, productivity and profits wastage, but also costs of production and the extent to which small farmers might be able to take advantage of economies of scale.

**Question 2**

- (a) This was well answered by the majority of candidates although a number wrote that GDP is Gross Domestic Profit or Price and some stated that GDP per capita is GDP divided by the number of workers in the country.
- (b) Most candidates correctly identified China. A number of candidates, however, incorrectly identified Thailand. Whilst Thailand had the highest GDP per capita in 2005, it did not have the highest growth in GDP per capita either in percentage or absolute terms.
- (c) A high number of candidates interpreted this question as 'Do the charts support the view that an increase in GDP per capita leads to a reduction in poverty?' This misinterpretation led them to conclude that it did and they mentioned that all the countries experienced growth and a fall in poverty. Other candidates provided a general discussion of why an increase in GDP per capita would be expected to reduce poverty without any reference to the data provided. Some of those candidates who did read the question carefully provided strong answers, coming to a conclusion supported with relevant interpretation of the data.
- (d) This question required careful study of the data. There were a number of very good answers but some candidates concluded that, because agriculture's share of total output decreased, the primary sector's output must have fallen. Some candidates also did not seem to understand what is meant by the primary and the secondary sectors. A few candidates ignored the primary and secondary sectors and wrote instead about the tertiary sector despite the fact there was no reference to the tertiary sector in the question.
- (e) A relatively high number of candidates only discussed one reason despite the question asking for reasons. A number also asserted that the impact of cheap products would be harmful without any explanation. Whether the importation of cheap products is harmful or beneficial depends on a number of factors including whether the country/area has an industry producing the products. There were some very good answers which focused on protecting domestic industries and employment, preventing dumping, raising government revenue and improving the balance of payments position.
- (f) A number of candidates confused a market with a mixed economy and others did not examine the data sufficiently carefully enough. Others did, however, produce excellent answers. These showed an understanding of a market and a mixed economy and an ability to recognise from the extract that Vietnam has both a private and public sector and so is a mixed economy albeit one moving towards a market economy.