

# ECONOMICS

Paper 0455/11  
Multiple Choice

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

## Key Messages

As market failure is relatively new to the syllabus a greater focus on teaching examples of market failure could be useful.

## General Comments

376 candidates took this 30 question multiple-choice examination and the mean score was 18.2 which is slightly lower than the mean score last year.

The questions for which most candidates selected the correct answer were 2, 9, 10, 17, 20 and 22. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 8, 12, 15, 16, and 23. These questions were answered correctly by 40% or fewer candidates. The rest of the questions gave results which were well within the levels expected except for **Question 13** which will be dealt with later.

## Comments on Individual Questions

**Question 8** was answered correctly by only 22% of the candidates who chose option D. A budget deficit would imply that the government could increase its expenditure which, it would be hoped, would result in extra employment opportunities. Lowering interest rates might encourage investment, raising interest rates would make borrowing more expensive and may well deter investment in new projects. It would seem that many candidates confused the meaning of a budget deficit and a budget surplus. 56% chose option A.

**Question 12** asked about factors of production in a form that has not been asked before. 33% of the candidates chose the correct option D. There was an even distribution of responses for the other options 22%, 22% and 23%. This may well be evidence of guessing by the candidates.

**Question 13** was answered correctly by 59% of the candidates who chose option B. This is a good response. However, 28% of the candidates chose option D. Market failure is a relatively new area of the syllabus. There was no evidence of market failure in the stem of the question. The stem simply stated that demand would exceed supply. Where demand exceed supply it is not an example of market failure.

**Question 15** required the candidates to consider a market equilibrium. 36% chose the correct option B, 7% chose option A, 46% option C and 10% option D. Those who chose C failed to realise that a fall in the cost of production would shift the supply curve to the right. The equilibrium price would fall but the equilibrium quantity would rise.

**Question 16** was answered correctly by only 20% of the candidates who chose option C. 59% chose option A, 13% option B and 8% option D. An increase in the number of substitutes (option A) may well change the demand elasticity but it would not change the supply elasticity for the given product

**Question 23** was answered correctly by 34% of the candidates who chose option D. 18% chose option A, 15% chose option B and 32% chose option C. Candidates probably learnt the functions of money but did not really understand what each meant. Such a distribution of responses could well be evidence of guessing.

# ECONOMICS

**Paper 0455/12**  
**Multiple Choice**

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

## **Key Messages**

See below for topics that were poorly answered/guessed that would suggest a need for greater focus during teaching.

## **General Comments**

100 candidates took this 30 question multiple-choice examination and the mean score was 14.9, significantly lower than last year. However there was a large change to the cohort from last year to this.

The questions for which most candidates selected the correct answer were 11, 13 and 16. These questions were answered correctly by 74% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 3, 6, 7, 14 and 22. These questions were answered correctly by 35% or fewer candidates. The rest of the questions gave results which were well within the levels expected.

## **Comments on Individual Questions**

**Question 3** asked about factors of production in a form that has not been asked before. 29% of the candidates chose the correct option D. The distribution of responses between options B, C and D may well be evidence of best-guessing by the candidates.

**Question 6** required the candidates to consider a market equilibrium. 32% chose the correct option B, 8% chose option A, 47% option C and 11% option D. Those who chose C failed to realise that a fall in the cost

of production would shift the supply curve to the right. The equilibrium price would fall but the equilibrium quantity would rise.

**Question 7** was answered correctly by only 27% of the candidates who chose option C. 45% chose option A, 13% option B and 12% option D. An increase in the number of substitutes (option A) may well change the demand elasticity but it would not change the supply elasticity for the given product.

**Question 14** was answered correctly by 17% of the candidates who chose option D. 36% chose option A, 18% chose option B and 28% chose option C. Candidates probably learnt the functions of money but did not really understand what each meant. Such a distribution of responses could well be evidence of best-guessing.

**Question 22** was answered correctly by 31% of the candidates who chose option D. A budget deficit would imply that the government could increase its expenditure which, it would be hoped, would result in extra employment opportunities. Lowering interest rates might encourage investment; raising interest rates would make borrowing more expensive and may well deter investment in new projects. It would seem that many candidates confused the meaning of a budget deficit and a budget surplus. 40% chose option A.

# ECONOMICS

Paper 0455/13  
Multiple Choice

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

## Key Messages

As market failure is relatively new to the syllabus a greater focus on teaching examples of market failure could be useful.

## General Comments

913 candidates took this 30 question multiple-choice examination and the mean score was 21.5 which is almost the same as the mean score last year of 21.6. Despite the significant increase in the number taking the paper change in cohort, the mean was practically the same.

The questions for which most candidates selected the correct answer were 1, 4, 9, 11, 12, 15, 16, 23, 24 and 28. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The only questions which were answered correctly by fewer than 45% of the candidates were **Questions 8** and **22**. The rest of the questions gave results which were well within the levels expected.

## Comments on Individual Questions

**Question 8** The topic of market failure sometimes causes confusion. For question 10 only 22% chose the correct option B which gave an example of an externality. 47% chose A, 22% chose option C and 9% option D. Option A is an example of the working of the market; the fact that firms closed does not mean the market 'failed'.

**Question 22** asked about external economies of scale. 41% chose the correct answer D. 22% chose A, 17% chose B and 20% chose C. Those who chose the incorrect answer were confused with internal economies of scale.

# ECONOMICS

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Paper 0455/21  
Structured Questions

## Key Messages

In this examination it was noticeable that choice of question in **Part B** often had a significant impact upon the candidate's final score. In choosing **Question 3** for example, candidates were clearly attracted to attempt an answer by the supply and demand diagram, but closer inspection would also have revealed the need for a sound understanding of elasticity of demand in the final two parts, something many candidates found particularly difficult. It is therefore very important for candidates to look closely at all parts of the question before embarking upon an answer. This issue was also apparent in **Question 2** (production possibility curves) and **Question 7** (strategic and infant industries), where many candidates clearly understood the first parts of the question, but could not produce much of relevance for the longer parts of the question.

However most candidates do now understand how to approach the longer questions; that is those questions where the command word 'discuss' is used. The need for both sides of the argument to be clearly presented, with conclusions based on the evidence presented, was well understood. However some candidates extended this practice to the more straightforward 'explain' questions, something which goes beyond the requirements of these questions.

Good time management is also a key requirement for success in this examination, where up to 16 question parts must be covered in 120 minutes. It is good practice to allocate 30 minutes for each question but it is also very important to look closely at the time allocation for each part of the question. A two mark question should take up no more than 3 or 4 minutes, but it was noticeable that many candidates spent much longer on these short questions, leaving insufficient time for the longer, higher scoring questions. This issue was particularly noticeable in the compulsory **Part A** question where, in the first part, many candidates insisted on giving reasons for the growth of the two industries when the command word 'state' simply required the names of the financial and tourism industries to be given, nothing more.

## General Comments

Rubric errors were pleasingly rare in this examination, with only a small fraction of the total number of candidates attempting all seven questions. Needless to say those who did this were unable to score well because of the severe time pressures which result from such a course of action. Time management problems were much more common however and a significant number of candidates were unable to produce much material of worth for their fourth question. As noted above therefore, it is good practice to allocate an equal amount of time to each of the four questions. Finally many candidates drew diagrams which lacked clarity or were not labelled correctly. Marks are given for correct labelling, but a clear diagram is also very important because it helps in the explanation of the economic concepts underpinning that diagram.

## Comments on Specific Questions

### **Section A**

#### **Question 1**

- (a) A majority of candidates answered this question correctly by identifying the tourism and financial industries, although the oil industry was given by some candidates, indicating the need for careful reading of the extract.
- (b) Most candidates could name two types of unemployment and describe them correctly. The main confusion came with cyclical unemployment, where a number of answers mistook this for frictional unemployment, which itself was sometimes confused with search unemployment. The tendency to

write at length about solutions to these types of unemployment should be resisted however, when the question simply requests a description.

- (c) There was some confusion in this question about the precise meaning of fiscal policy, which is the use of government budgetary measures to achieve policy objectives. Candidates were not required to give a detailed explanation of fiscal policy but a good understanding was an essential requirement for answering the question well. Answers which covered interest rates (monetary policy) were therefore not able to score on this question. The best answers explained the effects of both government spending on items such as infrastructure and cuts to either direct or indirect taxation.
- (d) The key to a good answer in this question was to focus on the skills which education and training can provide. These skills can make people more employable and better candidates were able to develop this idea. Most candidates were able to offer some discussion of both sides of the argument, and the best answers 'against' focused on the problems of a lack of demand for trained workers and the inability of education and training to solve cyclical unemployment.

### Question 2

- (a) The concept of opportunity cost was defined well by a majority of candidates as the best alternative foregone, but the development of the term required by the question was not generally well done, and many candidates ignored this development requirement altogether. A four mark question such as this requires more than just a simple definition but also further description in terms of finite resources and the choices to be made.
- (b) This question was seldom answered well, with very few candidates scoring maximum marks. Production possibility curves were introduced in the syllabus for examination in 2013, but most candidates did not have a clear understanding of these curves and their relationship to opportunity cost. It was common to see price and quantity given on the axes rather than the correct outputs of two products, whilst movement along the curve was seldom shown - either along the curve itself or by indicating this movement on each of the axes. Straight lines were allowed as correct here but large gaps at each end were not acceptable, and curves convex to the origin could gain no marks. The better answers showed in numerical terms how if more of one product is made, less of another must be made and that this illustrates the concept of opportunity cost.
- (c) Most candidates could make a reasonable attempt at one side of the discussion but many struggled to give the other side - how opportunity cost is useful to participants in the economy other than governments. Good answers focused on budgetary decisions facing governments, such as whether to spend their limited resources on education or health care. The non-government aspects of this question involved firms, consumers and workers and the choices they face with limited resources. Many candidates identified consumer choices here but did not link this to the scarcity, simply stating that a consumer had to choose between a chocolate bar and a toy for example, without explaining the link to the limited income possessed by these consumers.

### Question 3

- (a) This question was generally well-answered, with most candidates giving a clear definition of demand involving willingness to buy. Ability to buy was not always given however.
- (b) Most candidates were usually able to score some marks on this diagram question, with the shift in the demand curve to the right correctly identified. Better answers labelled the axes clearly and also correctly indicated the increase in both equilibrium price and quantity on these axes. Many answers however contained shifts in the supply curve which, whilst unnecessary, also confused the candidate. The number of candidates who drew diagrams with supply and demand on the wrong curves was relatively small but still noticeable.
- (c) There were many good definitions given for this question, with the most successful approach being to give the formula. It should be noted however that 'percentage change in quantity' is insufficient without any reference to demand. Further description of PED proved difficult for most candidates however, even though all that was required was an indication that elastic demand has a value greater than 1 and that inelastic demand a value less than 1.



- (d) Discussion of the usefulness of PED to a business proved surprisingly difficult for a large number of candidates and high scores on this question were correspondingly rare. Most candidates could indicate that a business can appreciate how demand for its products will be influenced by price changes but found it difficult to take this idea any further. The key to a good answer for this type of question is a consideration of revenue and how price changes affect it. A large number of answers to this question used phrases such as 'changes a little bit' or 'changes a lot', but these phrases are too inexact to describe elasticity of demand satisfactorily. Rather elastic demand causes a fall in price to lead to a greater percentage rise in demand which causes a rise in revenue. The 'other side' of this question was only considered by a small number of candidates, with the most successful answers examining other influences on demand such as the price of substitutes.

#### Question 4

- (a) The two functions of money given in this question were not well understood on the whole, especially 'standard for deferred payments'. Many candidates were unaware of the role of debt in this function, preferring instead to describe 'means of exchange'. It was also disappointing to see a considerable number of answers preferring to focus on the characteristics of money rather than the two functions indicated in the question.
- (b) There were many good answers given to this question, with most candidates understanding the roles of accepting deposits and giving loans. It was also encouraging to see very few answers which wrote about the role of central banks.
- (c) Most candidates could produce a satisfactory answer to this question, with better candidates covering a range of influences on borrowing other than interest rates. Good answers understood that the rate of interest is the price of borrowing money / reward for saving and then proceeded to explain how changes in the rate were likely to affect them, qualifying this by examining factors such as inflation and job security.

#### Question 5

- (a) Most candidates had a good understanding of partnerships and could satisfactorily give two features. As with some earlier questions however, some candidates stated the features and did not describe them. In four mark questions such as this further development of the two points is required.
- (b) There was a wide range of answers given to this question, with many candidates having a sound understanding of how partnerships might become a private limited company. Good answers focused on the need to raise more capital and the way in which issuing shares could achieve this. It is important to note however that private limited companies are not PLC's as assumed by some candidates. These are public limited companies, where the shares can be bought and sold on a stock exchange, but private limited companies can only sell their shares to a restricted number of people. The best answers developed the idea of size, emphasising the benefits which can be achieved from economies of scale.
- (c) A large number of candidates started their answers with a general description of economies of scale, but this was unnecessary because the question required them to focus specifically on both internal and external economies of scale. Many could give a satisfactory explanation of internal economies, with better candidates indicating falling average costs, but external economies proved very difficult. Common incorrect answers included firms expanding overseas and economies outside the firm, when the answer required reference to industry economies of scale from which a firm could benefit.
- (d) Most candidates were able to produce a satisfactory answer to this question and there was good general understanding of the reasons for and against small firms becoming large firms. The best answers used the ideas from the previous question and focused on economies of scale, contrasting this with possible diseconomies of scale to give the 'other side' of the discussion. Many candidates also successfully looked at the preferences of owners and customers, and the difficulty many firms have in raising finance.

### Question 6

- (a) As with the production possibility curves in **Question 2**, this topic was added to the syllabus for examination in 2013, but few candidates had a clear understanding of the concept of relative poverty. Most confused it with absolute poverty, where people are unable to purchase the basic necessities, rather than the situation of being poor in comparison to others. Candidates who did have some understanding of relative poverty did not tend to develop their answer in terms of countries - those who are poor in a developed country being prosperous compared to the poor in a developing country.
- (b) There were some very good answers given to this question. Many candidates were aware of the problems in collecting data from remote areas such as the Amazon and the existence of informal economies. Few candidates referred to relative poverty however.
- (c) Most candidates had a good understanding of multinational companies and could discuss the ways in which they might reduce poverty. Better candidates could produce arguments on both sides, focussing on the negative effects, such as low wages and the possible replacement of domestic firms, as well as the positive impacts. Some candidates however concentrated on the reduction of unemployment rather than poverty, illustrating again the importance of a close reading of the question before commencing an answer.

### Question 7

- (a) Free trade was well-understood by the majority of candidates but a minority confused it with free markets, where supply and demand are not subject to interference from government. As with previous four mark questions however, it is worth emphasising that points need to be developed to score the maximum here. The best answers explained that free trade had no import controls, gave examples, and then proceeded to explain the advantages of specialisation.
- (b) There were some excellent, concise answers to this question analysing how tariffs worked, and nearly all candidates could score at least two marks. Weaker candidates however digressed into explanations of other protectionist measures such as quotas and embargoes, an approach which wasted words which could have been used elsewhere.
- (c) Very few candidates had an understanding of strategic industries and many confused them with infant industries. Others ignored the word 'strategic' altogether and wrote about protection of industry in general. A strategic industry is one of vital importance to the country, such as steel production which is necessary for the manufacture military equipment, or agriculture which is needed to feed the population. This lack of understanding about the meaning of the question meant that a maximum mark on this question was an extremely rare occurrence.
- (d) Whilst lack of comprehension of the subject matter was not as widespread as for the previous **Question 7(c)**, it was nevertheless problematic for many candidates. A surprising number believed infant industries to be ones where child labour was employed, and therefore protection of them could not be justified on moral or legal grounds. Others ignored the word 'infant' altogether and, as above, discussed arguments for and against protection of industry in general. The best answers demonstrated an understanding that protection may enable an infant industry to grow and eventually benefit from economies of scale, whilst showing that there are problems with industries becoming dependent on protection and failing to become more efficient.

# ECONOMICS

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Paper 0455/22  
Structured Questions

## Key Messages

Questions which ask candidates to define a term or identify, for instance, two factors of production may be answered relatively briefly. Other questions, however, which ask candidates to explain, analyse or discuss, require candidates to establish their points. It is not sufficient just to state or assert points. Candidates need to keep in mind the word 'why' when writing their answers. For instance, a candidate may write that a cut in income tax will increase consumer spending or that higher demand may cause inflation. In both cases, the candidate should bring out why these effects may occur. Indeed, it is important for candidates to bring out the links between events, examining cause and effect and the influencing factors.

Candidates also need to make use of relevant economic terms and theory in answering the questions. Their answers should not be based just on general knowledge. In preparation for the examination, candidates need practice in applying the economics covered in the syllabus to real world issues and events.

Candidates also need to develop data handling skills, including interpreting written information, statistical data and graphical data. Data handling skills are tested in the first question which is the compulsory question.

Which questions are selected in **Part B** can be very significant. Candidates should read through all of the six optional questions and consider whether they can tackle well each of the parts of a question. It is advisable to answer the question parts within one question in order. There is a logical structure to the question parts and answering them out of order may result in unnecessary overlap.

Some questions require candidates to include diagrams but diagrams may also be useful to include in other questions to strength analysis. Diagrams should be drawn clearly, accurately labelled and referred to in the written comments.

Precision and accuracy is needed in defining and using economic terms. For example, it is important that candidates know the difference between production and productivity and between investment and saving. It is also important that they recognise that inelastic demand is not the same as perfectly inelastic demand- a confusion which regularly appears in answers.

## General Comments

Some candidates reduced their chances of gaining high marks by answering all seven questions. This meant that their answers to each question tended to be superficial. There were also a small number of candidates who attempted only three questions. It is very important that candidates follow the rubric instructions and answer question one, and then three of the questions from **Section B**.

The majority of candidates allocated their time well both in terms of the division of time between questions and between question parts. The vast majority of candidates answered **Question 1**, recognising that it is a compulsory question.

The two least popular questions were **Questions 4** and **7**. It was somewhat surprising that **Question 4** was unpopular as candidates have shown a good awareness of monopoly and reasonable awareness of perfect competition in the past. It was less surprising that **Question 7** was relatively unpopular. Candidates are often reluctant to attempt questions on international trade which is disappointing. International trade seems to be a somewhat neglected area of the syllabus. It was interesting to note that candidates who answered **Questions 4** and **7** tended either to do very well on the questions or to struggle in writing relevant and clear answers. This might have been because some of those who selected the questions opted for them on the

basis of their strong understanding of the topics whilst others opted for them because their understanding was even weaker on other questions.

**Question 5** attracted a relatively high proportion of candidates. A number of these appeared to have selected the question on the basis of **5(b)** whilst they were uncertain about how to tackle **5(a)** and particularly **5(c)**. **Questions 2** and **3** were also popular and probably even more candidates answered **Question 6**. In the case of **Question 3**, again, a number of candidates appeared to have selected it whilst being uncertain how to answer one part, in this case **Question 3(d)**.

In terms of the questions attempted, there was a full range of responses. There were some strong scripts. These provided direct, lucidly written answers which made good use of relevant economics. They were well thought out, logically structured and showed the ability to apply economic concepts to the questions.

The answers contained in less strong scripts often wandered off the central points of the questions. Some of these answers were rather sketchy whilst others were longer but not all of what was written was relevant. Indeed, a key discriminating factor was the extent to which candidates' answer the specific questions set, ensuring that everything that is written is relevant and based on appropriate economics.

### Comments on Specific Questions

#### Question 1

- (a) Some candidates revealed some confusion between real income and disposable income. Other candidates made the mistake, which occurs frequently in answers, in defining disposable income as the income available after paying bills. A number of candidates did define it as income after the payment of taxes and the strongest answers referred to direct taxes with a small proportion also mentioning after the payment of state benefits.
- (b) There was a wide spread of responses to this question. Some candidates showed an accurate awareness of the stages involved in constructing a consumer prices index. There were some particularly good comments relating to how the base year is selected and to the meaning of weights used in the index. Other candidates, however, appeared to have no idea how to answer the question and a number wrote about the meaning and causes of inflation.
- (c) The strongest answers explained how workers could join trade unions and so benefit from the collective strength of such bodies in wage negotiations. There were also some good answers in terms of workers trying to raise their productivity by undertaking training and gaining more qualifications and in terms of taking on extra jobs, working overtime and taking industrial action.

Some candidates wandered off the central point by explaining how wages could be saved or how workers could cut down on their spending. A number, for some reason, wrote about how firms could increase their revenue by increasing production and prices and did not make any reference to workers and their wages.

- (d) Candidates found this to be a relatively challenging question. There were some good answers which explored how higher interest rates might affect workers. These discussed how workers might benefit from lower inflation and a higher return on savings. These also considered how workers' employment opportunities might be threatened by lower demand and the increased cost of borrowing and increased burden of debt.

Some confusion was revealed about the difference between saving and borrowing and a number of candidates did not relate the possible effects of a rise in interest rates to workers. A high proportion of candidates also appeared to think that a fall in the inflation rate means a fall in prices.

#### Section B

#### Question 2

- (a) Some candidates wasted time and effort by defining all four factors of production. They produced long answers but most of these answers were not focused on the specific question. Some other candidates went to the other extreme, by writing very briefly. There were, nevertheless, some

good answers which described in sufficient depth the role of enterprise, making pertinent comments on risk bearing and combining the other factors of production.

- (b) Despite the terms being defined in the syllabus, a high proportion of candidates still confused social and external costs and benefits.

Candidates were required to distinguish between social costs and social benefits in the context of cutting down timber in a rainforest. Most candidates were able to give relevant examples in such a context as a way of distinguishing between the two. A proportion of candidates, however, did not relate their comments to the example given and a number produced very vague and over-descriptive answers.

- (c) There was a mixture of responses to this question. Some candidates produced excellent answers which explored both the arguments for conservation and for use, with a few examining the factors that might determine what would be the more efficient choice. There was some good discussion, for instance, of the disadvantages of cutting down rainforests in terms of the adverse effect there might be on the environment and on the country's tourist industry. There were also some very interesting comments made on the possible advantages including the impact on economic growth, employment and the current account of the balance of payments.

A proportion of candidates produced one-sided answers, most of which concentrated on the arguments for conservation. A number were also rather narrowly focused, often just on the possible environmental impacts.

### Question 3

- (a) This was a well answered question with fringe benefits, job satisfaction, working hours, working conditions and location of the job being some of the most popular factors described, A small proportion of candidates, however, wrote about wage factors and a number just listed some non-wage factors.
- (b) The strongest answers focused on wage and overtime payments. Those who selected wages often explained how wages may be based on time rates or piece rates. The explanation on overtime payments often recognised that the amount paid per hour would usually be higher than the amount paid per hour on the standard working hours.
- (c) The answers to this question were somewhat narrow with a relatively high proportion of candidates stating only that wages tend to rise with experience. Not many candidates considered what might happen to an individual's earnings towards the end of his/her career.
- (d) Candidates found this to be a challenging question. The strongest answers related the standard factors, particularly demand and supply that generally influence wages, to what factors affect wages in the services sector and the manufacturing sector. Some of these candidates provided some interesting and relevant comments on differences in pay between the sectors which exist in their own countries.

A number of candidates also wrote in very generalised terms and did not seem to know how to answer the question. Indeed, the approach adopted by some candidates was to answer a different question; that is why a worker in the private sector may be paid more than one in the public sector. As mentioned earlier, it is important that candidates focus on the specific question set.

A small number of candidates confused the manufacturing sector with the primary sector and the service sector with the secondary (manufacturing) sector.

### Question 4

- (a) Most candidates were able to identify three characteristics of perfect competition but a relatively high proportion just stated them and did not go on to analyse them as required. A number showed some confusion about the nature of the products produced in a perfectly competitive market. They implied that perfectly competitive firms engage in product differentiation.

Some candidates wrote about the possible advantages of perfect competition, for instance lower price. This approach did not focus sufficiently on the characteristics and overlapped with question part (c).

- (b) Again some candidates revealed confusion on this question. They actually described a price taker as a price maker and a price maker as a price taker. Other candidates produced vague answers such as a price maker is 'a firm that makes the price'. The strong answers distinguished between the two in terms of the influence or otherwise that the two different types of firm may have on the price and in which market structure each would be found.
- (c) There were some excellent answers to this question which explored whether price or price might or might not be lower and whether output may be in higher in quantity and quality in perfect competition than in monopoly. These answers analysed the influences of the degree of competitive pressure, the extent to which economies of scale can be taken advantage of and the availability of funds and incentive to invest.

Other answers again showed some confusion between monopoly and perfect competition and some answers just stated prices would be lower and output higher in perfect competition without explaining why.

### Question 5

- (a) Most answers were stronger on the indirect element than on the regressive element. Relatively high proportions of candidates recognised that an indirect tax is a tax on spending and were able to give a relevant example. A disappointing proportion, however, implied that the tax rate charged to shoppers is based on income and that a lower rate is charged to the poor. Such an approach misses the point that the tax rate charged to the rich and the poor is the same but the tax paid takes up a higher proportion of the income of the poor.
- (b) Most candidates performed well on this question by drawing accurate, well labelled diagrams and producing relevant comments. A number of candidates did, however, reveal a common confusion that an indirect tax will reduce demand and so shift the demand curve to the left. Others shifted both the demand and supply curves to the left. A small number of candidates transposed the demand and supply curves.
- (c) There was a range of performance on this question. The strongest answers compared the effects of progressive and regressive taxes, explored how tax revenues might be used, the possible effect on incentives and the impact of other policy measures.

Other candidates did not relate their comments sufficiently to the distribution of income. Some wrote about the possible effects a change in direct tax may have on the macroeconomy without referring to the distribution of income. Some candidates limited their answers just to stating that income tax is likely to be progressive and so fall more heavily on the rich.

### Question 6

- (a) There were a number of approaches to this question. Some candidates mentioned an increase in the birth rate, fall in the death rate and net immigration and provided description either in terms of their meaning or in terms of their causes. Others mentioned, and some described, three causes of an increase in the birth rate or three causes of a fall in the death rate or three causes of net immigration. In terms of this latter approach, three causes of a rise in the birth rate was the most popular.

A number of candidates described factors that could influence population size but did not relate their comments to a growth in population.

- (b) Most candidates did refer to the likelihood that a developing country would have a higher population growth than a developed country. The majority of these explained the difference in terms of differences in birth rates. Some candidates, however, revealed the common confusion between population growth and population size. A small number of candidates also revealed a lack of understanding of the effects of a change in the death rate by stating that developing countries have a faster rate of population growth because of a higher death rate. A number of candidates who did refer to both the birth rate and the death rate did make pertinent comments

about rates of natural increase. There were also some interesting comments about the effects of net immigration on the rate of population growth in some developed countries.

- (c) It was disappointing that most candidates produced a static answer to this question by stating that an ageing population is one in which most people are old. Not many candidates recognised that it is a population in which the average age is increasing and so the proportion of older people in the population is increasing.
- (d) This was generally well answered with candidates revealing a good awareness the possible problems of an ageing population. A high proportion of candidates described the effect on government spending on health care and pensions and some mentioned the possible opportunity cost involved. A number also commented on the possible impact on tax rates.

Generally there was less attention devoted to why an ageing population might not be a problem. There were, nevertheless, some good comments on how the economy might benefit from some of those growing older continuing to work, more experienced workers being more productive and higher tax revenue. Very few candidates mentioned that an ageing population may be viewed more as an objective than as a problem since it would reflect higher living standards.

A number of answers made the common mistake of thinking there is a fixed number of jobs. These answers mentioned that if older people are in work this will stop younger people from gaining employment. Such a view ignores the fact that people are both workers and consumers.

Some answers were not well focused. For instance, a number of candidates wrote about the advantages and disadvantages of an increasing population without any reference to an ageing population.

#### Question 7

- (a) Most candidates were able to identify a number of potential benefits of free trade. The most common ones referred to were an increase the variety available for consumers, the opportunity to specialise and take advantage of economies of scale and lower costs of production and prices. Not all candidates went on to explain the advantages they had identified and a number did not focus on the possible economic gains.
- (b) The vast majority of candidates who answered this question showed a good knowledge of quotas although some revealed a confusion with tariffs. Few candidates revealed an awareness of exchange controls as a method of trade protection.
- (c) Good knowledge was shown about the nature of a subsidy and the mechanism by which it could reduce costs of production and prices. The link between the fall in the prices of domestically produced products and the protection of domestic industries from foreign competition was not always so well explained.
- (d) There were some strong answers to this question with some good comments particularly on the need to prevent unemployment and to stop dumping and the possible promotion of inefficiency. A relatively high proportion of those candidates who did attempt it, however, struggled with it. A number wrote one-sided answers, usually focused on the arguments for protection. These were often rather sketchy. There was also some confusion with arguments in support and against protecting a declining industry and the arguments for and against protecting an infant industry. In addition, a number of candidates wrote about the methods of protection rather than the arguments for and against protection.

# ECONOMICS

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Paper 0455/23

Structured Questions

## Key Messages

The one question in **Section A** was generally answered well and there was clear evidence that most candidates had read and understood the text provided, making reference to it in their answers. The rubric for the paper was followed by all but a few candidates from a relatively few number of Centres. There were also few instances of candidates changing their mind on which question to answer and where they did they often gained more marks. However, it is important that candidates read through all parts of a question before they start their answer as the last part of the question carries most marks.

In **Question 7** in particular, many candidates were able to give good examples, often from their own or a neighbouring country, to illustrate why countries may specialise and engage in international trade. This also applied to question 6 where quite a few candidates referred to local state monopolies.

## General Comments

There was an increase in the number of very good scripts showing that the exam paper enabled well prepared candidates to score well on each question. However, there remain a significant number of candidates scoring very low marks usually across all their answers which suggests a lack of preparation. There was encouraging signs again this year that fewer candidates were using list-like responses and using bullet points as their main method of answering questions. Where it was used it tended to be candidates who had difficulty in writing whole sentences or may have been used as a quicker method of completing the final question. Where possible, candidates should seek to avoid using tables or bullet pointing especially where the question requires discussion.

Answers to question sections were normally of an appropriate length, with few lengthy answers to part **(a)** questions. This suggests that candidates are taking note of the number of marks for each section of the question. Short answers to part **(d)** questions were often because the candidate was unable to discuss the issue rather than not recognising it carried more marks.

Most concepts were well understood. Those that were not included the terms 'labour intensive', 'under-populated', 'over-populated' and 'Human Development Index (HDI)'. On the other hand, it was good to see the large number of candidates who understood that the use of the word 'discuss' at the start of each of the last sections in every question meant that a balanced argument needed to be given. Most did give a balanced view but in many cases the discussion was limited to just a few points.

A common weakness amongst candidates was to not answer the question being asked. So for example in **Question 4 (b)** quite a few candidates wrote in some depth about direct and indirect taxes and the difference between them but did not address the question which was about how changes in direct and indirect taxes affected demand.

## Comments on Specific Questions

### **Section A**

#### **Question 1**

- (a)** The term Gross Domestic Product (GDP) was generally understood by nearly all candidates through reference to total output and a country / economy. However, in quite a few cases candidates did not give a time period e.g. a year and therefore did not give a full explanation of the term.



- (b)(i) This was well done by most candidates who correctly identified an example for primary, secondary and tertiary sectors. In a few cases the answers given were too general e.g. giving manufacturing as an example of secondary sector rather than the manufacturing of cars. Equally, stating services as the example for tertiary sector was too general an example. Only a few candidates gave wrong examples e.g. confusing the secondary and tertiary sectors.
- (ii) There were some very good answers where candidates were able to explain that rising incomes and better education and training led to increased demand for and supply of tertiary industries. Quite a few explained that primary sector was often low value and it was better for countries to develop secondary and then tertiary industries where there was added value. Weaker answers either just repeated the data from the text or made a reference to the decline in primary and increase in tertiary sector without any explanation.
- (c) Most candidates understood how lowering interest rates would reduce the cost of borrowing, resulting in higher spending, increased output and therefore economic growth. Explanations on the effect of an increase in money supply were generally weaker. Good answers explained how increased money supply meant that people and firms were likely to spend more resulting again in increased demand and output. In quite a few cases candidates made no reference to money supply which meant that their response was incomplete. In just a few Centres, candidates stated that increased money supply would result in the value of the currency / exchange rate depreciating leading increased demand for exports and lower imports. Such answers were incorrect since increased money supply would, if output could not be expanded to meet demand, lead to inflation and result in lower exports and increased imports.
- (d) Generally answers were good on alternative policies which could result in raising the rate of economic growth. Common responses discussed expansionary fiscal policy and / or supply side policies e.g. education, subsidies, trade protection and how they affected demand. However, the question required candidates to also discuss whether these policies might be more successful than monetary policy and a significant minority of candidates did not address this and therefore did not fully answer the question. Typical correct answers included the fact that expansionary fiscal policy could lead to inflation and that there were potential time delays in supply-side policies. Some candidates also made the very good point that expansionary monetary policy was also potential inflationary and therefore the best mix was to use both expansionary fiscal or monetary policy and supply side policies.

## **Section B**

### **Question 2**

- (a) The majority of candidates were able to state that labour meant the use of human resources/ workers/employees. Some candidates also added that this could be a physical or a mental contribution. Again most candidates were able to give two examples of labour e.g. a farm worker and a doctor.
- (b) This question was not well done by many candidates. This was primarily because many candidates did not understand the term 'labour intensive' often confusing it with the amount of labour used or the number of hours worked by an employee rather than the high amount of labour used compared with capital. Therefore some answers concentrated on why labour was used even in examples where a significant amount of capital / machinery was also used. For those candidates that did understand the term there were good examples given e.g. labour was abundant and cheap; in some undeveloped countries capital was too expensive, certain products and services required personal attention and skills e.g. hairdressing and teachers.
- (c) Overall, candidates showed a good understanding of why a worker should join a trade union. Answers often included reference to better wages, working conditions and help in gaining better skills and qualifications. In some cases, candidates did not discuss it from the point of view of a worker but from the general viewpoint of the benefits of having trade unions which meant that answers given were less specific about the effect on an individual worker. Most answers were balanced in that candidates did identify disadvantages and therefore reasons not to be encouraged to join a trade union. These included the cost of the membership fee, the disruption caused by industrial action including loss of jobs, the fact that in some industries / occupations trade unions

are weak and might not make a difference to wages and working conditions and the fact that firms may prefer not to employ members of trade unions.

### Question 3

- (a) Candidates identified and analysed a number of potential causes of rising costs of production. These included increase in costs of raw materials, energy, equipment, rent and higher wages e.g. both fixed and variable costs. Some candidates identified other factors such as higher indirect taxes by the government e.g. to reduce pollution or the general deflation of the economy. Others referred to imported inflation or inflation caused by increased demand for scarce resources including labour. Nearly all answers were linked in some way to the motor cycle industry, but a few made no reference at all although in most cases their answers would have applied to the motor cycle industry.
- (b) Most diagrams were correctly drawn and labelled showing a shift in the supply curve to the left and the new equilibrium point. Relatively few candidates showed a shift in the demand curve rather than the supply curve or failed to show the correct new equilibrium point. The analysis was less well done because candidates often did not make reference to the equilibrium price or quantity which was the question being asked.
- (c) A good understanding of the concept of elasticity of supply was shown by the majority of candidates. Candidates were able to give a correct definition, although a few confused it with changes in demand. Many were also able to explain that there was a positive relationship between changes in supply and changes in prices and that for example a value of greater than 1 meant that supply was elastic (or vice versa).
- (d) Many answers given here did not explain why time was likely to be the main influence on elasticity of supply. A common error made was to state that in the short-run supply was elastic whereas it is more likely to be inelastic because at least one factor is fixed in supply. There was also confusion with elasticity of demand. The most common other possible influences identified were the ability to store a product e.g. if a product can be stored it would increase elasticity and the nature of the product or service, including the time taken to supply it. A popular comment here related to the supply of agricultural products such as rice where within a season if prices rose it would not be possible to increase supply, which is really an explanation of the influence of time. Less common responses included how costly it was to adjust the supply e.g. easier to do so if the product was labour intensive rather than capital intensive. However, a significant minority of candidates were unable to explain any other influence on the elasticity of supply.

### Question 4

- (a) Most candidates had a clear understanding of at least one influence on spending other than changes in taxation. The most common influences described were changes in interest rates, level of income and consumer confidence in the economy which was often linked to personal factors such as job security. Inflation was also commonly mentioned but many candidates gave an incorrect description e.g. that inflation would lead to lower spending whereas in practice concerns about inflation usually lead to higher spending now rather than paying higher prices in the future. Another common error was to relate consumer spending to micro rather than macro factors e.g. changes in prices of particular goods. In some cases candidates identified an influence on spending but were unable to describe how it affected spending rather than just demand. In a few cases candidates may have misread the question as they wrote about what spending influences rather than the other way around.
- (b) Nearly all the answers showed that candidates understood what was meant by direct and indirect taxes and the difference in effect on spending of increasing or reducing these taxes e.g. increases in tax would reduce disposable income and therefore reduce demand and vice versa. Few candidates explained that direct taxes and indirect taxes might have a different effect on demand. e.g. most direct taxes were progressive and were likely to hit higher incomes more whereas indirect taxes were regressive and had a bigger impact on lower incomes. Quite a few candidates wrote about direct and indirect taxes in some depth but did not explain the impact on spending.
- (c) Most candidates recognised that a balanced answer was needed. The main concerns identified related to greater demand resulting in inflation and a deficit on the balance of payments if imports increased. Another common concern was that people would reduce their savings and that the

government may have to come to their aid if they became unemployed or has insufficient income when they reached old age. Surprisingly, the benefits of increased spending were less well done. Most answers mentioned that higher spending could result in higher demand and therefore growth in the economy with the best answers making reference to existing spare capacity in the economy, reduced unemployment and fewer benefits paid out by the government. Some candidates also made the point that higher spending would generate higher taxation which could be used by the government for supply side policies such as improving infrastructure, education and health which could further raise the standard of living in the country.

### Question 5

- (a) Most candidates had a clear understanding of the advantages and disadvantages of a sole proprietor. The answer needed to offer two advantages and two disadvantages which most candidates did. However, in some cases the description was very brief and therefore did not warrant full marks. In particular quite a few candidates identified unlimited liability but did not describe what it meant,
- (b) Many candidates related the goals just to a sole proprietor. Such answers included earning enough to survive, expansion, providing quality services / products and maximising profits. Other candidates took account of bigger firms including monopolies and apart from the goals already identified gaining economies of scale and increasing market share as well as expanding abroad.
- (c) There was an element of overlap with part (b) in some of the answers given. Many candidates gave one reason why a business would be small and a second reason for why a business would be big but there was no requirement to do this. A common error was to give a reason for expanding e.g. economies of scale rather than why a firm was large. Common reasons given for staying small included because the owner preferred to remain small and stay in touch with customers, the nature of the business e.g. hairdressing, supplying a small niche market and the inability of small businesses to obtain capital for expansion. Businesses were often big because it had been easier for them to borrow funding e.g. through becoming a private or public limited company. How new a business was, was also identified as a reason for being small or big.
- (d) Most candidates gave a balanced account of whether or not a monopoly was in the best interests of a consumer. Benefits included using economies of scale to reduce prices and use funding for research and development to improve quality and range of products available. Some candidates also identified state monopolies as being beneficial particularly in some countries where local examples of beneficial monopolies were given. Disadvantages included the argument that due to the lack of competition there was no pressure to keep prices down as consumers had no alternative provider and that they were inefficient with few new products and lack of choice for consumers. However, some answers did not get much further than explaining what was a monopoly.

### Question 6

- (a) Answers often referred to high birth rates contributing to population growth. In some cases the approach taken gave a very detailed account of why birth rates could be high in one country and not in another and how this affected population growth and this was an acceptable response. Many candidates did not limit their response to birth rates but also explained that low death rates and net immigration could also lead to high population growth in some countries and this was an equally acceptable response.
- (b) The concept of over-populated or under-populated countries was not well understood or explained. Often answers given were repetitive in that candidates described what they thought was meant by being over-populated and then wrote the opposite for underpopulated. The most common response was that over-population meant that the population was too large for the land and was densely populated because birth rates were much higher than death rates. However, the key point that was often missing was that the population was too large for the resources available thus output per person was lower than it could be resulting in a lower standard of living. Solutions include reducing the population size e.g. emigration and / or increasing resources e.g. more capital but few candidates made this point. There was some reference to the optimum population although this is not in the syllabus. Answers on under-population tended to reflect the point that there were not enough people living in the country but with little further development.

- (c) There was a wide range of answers given here. Some candidates clearly knew that the HDI took account of GDP per head but also life expectancy and quality of healthcare and explained fully how these enabled comparisons to be drawn about the standard of living in different countries. However, far too often candidates were unclear what measures were in HDI and what were not but had a go. This often led candidates to make comments on the effectiveness of HDI by reference to measures that were not included in it. This made it difficult to make the point that it only included a narrow range of indicators. However, common explanations of why it was not the best way of measuring standard of living included reference to the effects on the environment e.g. pollution, the using up of scarce resources, political freedom, significant difference in income and inaccurate collection of data especially in some of the poorest and least developed countries.

#### Question 7

- (a) Candidates showed a reasonable understanding of how specialisation applied to international trade and how countries could benefit from a wider range of products at a cheaper price if they traded with other countries. However, in many cases the development was rather limited and in some cases was applied to individuals and division of labour or referred to firms and countries rather than the world.
- (b) Answers tended to be quite narrow in scope and descriptions tended to concentrate on the risks of being vulnerable to changes in demand for the products they specialise in and potential shortages in supply of goods that were imported from other countries – especially agricultural products. Better answers raised other issues such as less efficient industries being unsuccessful and leading to unemployment, the possibility of dumping by other countries with surplus produce and other countries using trade protection to stop imports of the product that a country specialised in.
- (c) Most candidates were able to explain the difference between a floating and a fixed exchange rate e.g. the first being determined by market forces and the second by government intervention. Many were not fully clear on how the government intervened and quite a few candidates did not explain what was meant by market forces. As a result not many candidates got full marks on this question.
- (d) Many answers given explained that a floating exchange rate meant that the balance of payments was automatically corrected by changes in the rate of exchange. Better answers explained how a balance of payments surplus or deficit affected demand and supply for the currency and therefore the exchange rate and why this was better than government intervention and the use of reserves. Again many candidates were clear that a disadvantage of floating exchange rates was that it led to uncertainty in what the rate would be which could have an adverse effect on trade. Therefore there was an advantage in the stability offered by a fixed exchange rate system. In a few cases, answers suggested that a floating exchange rate within an agreed range or band might offer a better solution. Poor answers tended not to get beyond restating what was the main characteristics of a floating exchange rate and did not consider why this might be better than a fixed exchange rate. Some strong candidates gave examples of countries with floating and fixed exchange rates and why they chose to have floating or fixed exchange rate.

# ECONOMICS

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Paper 0455/31

Analysis and Critical Evaluation

## Key Messages

This paper tests candidates' knowledge of economics and their data handling skills. Candidates need to demonstrate the skills of interpretation, numeracy, literacy and judgement.

The extracts should be studied carefully. It is often useful to highlight key words and phrases. In answering the questions, candidates need to make use of a combination of their knowledge of economics and the information contained in the extracts. It is important that appropriate economic terminology is used and that answers are clearly based on economics rather than just general knowledge.

The command words, for example, identify and explain, indicate what skills need to be demonstrated. For instance, if a question includes the word 'discuss' a candidate should examine both sides of an argument or situation. They should base their evaluation on clear analysis, bringing out relevant links. The marks provide a guide to the time that should be devoted to answering the questions.

It is crucial that candidates answer the specific questions set. Sometimes, candidates do not pay careful enough attention to the words of the question. Other candidates write round the question and some answer a different question.

## General Comments

There were very few very weak scripts but also not very many really strong scripts. Some candidates wrote at some length but not always to good effect. This was because their answers contained rather vague statements rather than economic analysis. Many answers would have benefited from more depth of explanation.

Candidates performed slightly better on **Question 1** than on **Question 2**. The question which was best answered was **Question 2 (c)** and the question which most candidates struggled with was **Question 2(e)**.

As in previous sessions, there were some problems with the legibility of some scripts although this applied to a slightly smaller percentage of scripts this session.

## Comments on Specific Questions

### Question 1

- (a) (i) Most candidates recognised that equilibrium price occurs where demand and supply are equal and some drew a demand and supply diagram to illustrate the point. Not many went further by referring to an absence of shortages and surpluses. A small number of candidates referred to, in somewhat vague terms, equilibrium price being the best price.
- (ii) Most candidates were able to identify two possible reasons but not many provided adequate explanations of the reasons. For example, some candidates wrote that demand may have risen in some countries but fallen in others without explaining why there might have been this difference. Other candidates referred to tax being imposed in some countries but not in other countries but did not explain how these differences would affect price.
- (b) This was quite a challenging question as two markets were involved but most candidates coped well. They produced clear and relevant diagrams. In most cases the diagrams showed two relevant equilibriums.

Candidates' explanations were, however, not always as strong as their diagrams. Some candidates stated that prices would rise but did not explain why.

- (c) (i) There was a mixed performance on this question. Some candidates provided accurate answers. A small number did not attempt the question and some defined weighting but did not undertake a calculation. A few stated it was 25%, which is the percentage by which the price of rice has risen increased.
- (ii) This was reasonably well answered with most recognising that the poor would have less money available to spend. The stronger answers made a clear contrast with the impact of rising food prices on the rich and referred to the proportion of income spent.
- (d) There was a mixed response to this question. Some candidates seemed uncertain how to approach it. They wrote about, for instance, the causes of inflation or how what information is needed to measure inflation. Other candidates produced very sketchy answers which lacked economic analysis. There were, however, some strong answers which explored, for example, the impact that inflation might have on unemployment and the significance of how high the inflation rate is. Indeed, there were some perceptive contrasts made between hyperinflation and a low inflation rate. There were also some good discussions about the possible effect on international competitiveness and the different effects inflation may have depending on its cause.

## Question 2

- (a) This was generally well answered with most candidates being aware particularly of the role of interest rates in monetary policy. There was, however, some confusion with fiscal policy. A number of candidates mentioned a mixture of fiscal and monetary policy measures.
- (b) (i) Most candidates did identify the USA. A few candidates identified Spain which had the highest percentage but not the highest number young unemployed.
- (ii) Again, most candidates made the correct identification. There was, however, some confusion with a number of candidates identifying, for some reason, Saudi Arabia rather than Germany.
- (c) The vast majority of candidates found this a straightforward question. They were able to identify the two relevant reasons from the extract. A few candidates only identified one reason and an even smaller number mentioned reasons not referred to in the extract.
- (d) There were some excellent answers to this question which provided good and lucid analysis. A number of these answers examined the effects on unemployment both in terms of the influence on total demand and on the incentive to work. Some answers, however, did not focus on income tax and others jumped stages in explaining how the cut in income tax would work through the economy and so impact on unemployment.
- (e) A number of candidates did provide very good answers to this question. These revealed an understanding of the meaning of a recession and an ability to interpret the extract. A relatively high proportion of candidates, however, thought that a fall in the economic growth rate indicates a recession. Candidates have to be careful to distinguish between falls in the economic growth rate and falls in a country's output.
- (f) As with **Question 1(d)**, this question elicited a range of responses. Some candidates produced lucid and well focused answers. These included a good discussion in terms of the relationship between economic growth and living standards and between economic growth and the government's other aims for the economy. These answers contained pertinent comments on, for instance, the possible effects on the environment and distribution of income.

A number of candidates' answers were somewhat narrowly focused. For example, some only discussed the possible link between economic growth and inflation. Others did not provide explanations of the points they made. They asserted rather than established points. There was also a degree of repetition in some candidates' answers.

# ECONOMICS

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Paper 0455/32

Analysis and Critical Evaluation

## Key Messages

This paper tests both candidates' knowledge of economics and their data handling skills. Candidates need to demonstrate the skills of interpretation, numeracy, literacy and judgement in answering the questions on this paper.

The extracts should be studied carefully. It is often useful to highlight key words and phrases. In answering the questions, candidates need to make use of a combination of their knowledge of economics and the information contained in the extracts. It is important that appropriate economic terminology is used and that answers are clearly based on economics rather than just general knowledge.

The command words, for example, identify and explain, indicate what skills need to be demonstrated. For instance, if a question includes the word 'discuss' a candidate should examine both sides of an argument or situation. They should base their evaluation on clear analysis, bringing out relevant links. The marks allocated to each question provide a guide to the time that should be devoted to answering each one.

It is crucial that candidates answer the specific questions set. Sometimes, candidates do not pay careful enough attention to the words of the question which results in misinterpretation. Other candidates write round the question and some answer a question they have been prepared for but which is not the actual question asked.

## General Comments

There was a full range of marks gained in the examination. On average, candidates performed slightly better on **Question 1** than on **Question 2**. This was because a relatively high proportion of candidates found questions **Question 2(b)(i)**, **Questions 2(b)(ii)** and **Question 2(c)(i)** quite challenging. The general performance on **Question 1(d)** was also stronger than **Question 2(d)**.

Most candidates attempted all the questions. The most frequently unanswered question was **Question 2(c)(i)**. The questions on which candidates performed best were **Question 1(d)** and **Question 2(a)(ii)**. The main question that candidates struggled with was **Question 1(c)**.

Time did not appear to be an issue. The vast majority of candidates wrote at an appropriate length and gave no indication that they had run out of time.

In most cases the writing was legible and few candidates used unacceptable abbreviations.

## Comments on Specific Questions

### Question 1

- (a) (i) There was a mixed performance on this question. Some candidates provided an accurate answer. Others divided the change by the new rather than the original price. A few candidates did not calculate the change as a percentage.
- (ii) A relatively high number of candidates considered only one cause of the rise in the price of coffee in 2011. In most cases, this was the decrease in supply resulting from the bad weather. Considering only one cause, restricted the candidates to half marks. Some candidates did not provide adequate explanations for why the price rose. Nevertheless, the quality of candidates' diagrams has improved over time. These are now generally accurately labelled and clearly drawn.

Only a small proportion of candidates transposed the demand and supply curves and only a few did not draw a diagram.

- (b)(i)** This question was reasonably well answered. Many candidates did recognise that the high proportion of Ethiopia's labour force being employed in growing coffee and the high proportion of country's export revenue being accounted for by coffee indicates that Ethiopia specialises in coffee production. A number of candidates, however, suggested that Brazil being the world's largest producer of coffee was evidence of specialisation. The extract, however, provided no evidence about the proportion of resources devoted to coffee production in Brazil, nor any evidence about the proportion of income earned by coffee production.
- (b)(ii)** There were some good answers, often focusing on the problems that might occur due to sudden changes in demand or supply. Some answers only identified a disadvantage but did not explain it. Others mentioned that specialisation would involve the need to import, which in itself is not a disadvantage. A number of candidates also wrote about a disadvantage of a worker rather than a country specialising.
- (c)** Only a small number of candidates picked up on the information relating to the time it takes to adjust the supply of coffee. A relatively high number wrote that supply is elastic and then went on to explain why demand is elastic, often mentioning substitutes in the form of other drinks. Some candidates confused the nature of price elasticity of supply by writing about how the price of coffee is influenced by changes in supply rather than how supply is affected by changes in price.
- (d)** This was a well answered question. There were some clear and interesting comments particularly in connection with the possible changes in demand, import restrictions and exchange rates. Some candidates, however, did not go beyond identifying factors and a few candidates' answers were narrowly focused on changes in weather conditions.

## Question 2

- (a)(i)** The strongest answers recognised that a trade in goods deficit occurs when import expenditure exceeds export revenue. A relatively high proportion of candidates restricted their answer to 'imports exceeding exports'. A small proportion of candidates revealed confusion over the nature of a trade in goods deficit with some defining a budget deficit.
- (ii)** This was a well answered question with the majority of candidates recognising that export prices would rise and import prices would fall. A few candidates got it round the wrong way and some wrote that either the prices of both would increase or both would decrease.
- (b)(i)** The answers to this question revealed some confusion with a disappointing proportion of candidates identifying agriculture. Productivity is still a term that is not widely understood.
- (ii)** This was quite a challenging question which required candidates to draw on various parts of the extract. There were some strong answers, some of which actually calculated the number of people employed in the services sector in both countries and others which concluded that the number had to be greater in China because of the significantly higher labour force.
- (c)(i)** There was a mixed performance on this question. A number of candidates provided an accurate calculation. Other candidates mistakenly worked out 5% of the country's total population rather than of its labour force. As mentioned earlier, a number of candidates did not attempt the question.
- (ii)** The discriminating factor here was whether candidates followed the instruction in the question to explain benefits of low unemployment 'referred to in the extract'. There were some strong answers which expanded on good use of resources and low government spending on unemployment benefits. Other candidates, however, explained possible benefits of unemployment not referred to in the extract.
- (e)** There were some coherent answers to this question. These made good use of economics in considering the possible advantages and disadvantages that an economy may gain as a result of net immigration. There were some pertinent comments particularly in relation to the possible impact on economic growth. There were, however, some confused comments. There appears to be a widespread misconception that there is a fixed number of jobs (the 'lump of labour fallacy') so that if more immigrants gain jobs, there will fewer jobs available for people born in the country.



Alternatively in reality immigration can increase the size of the economy, and thus create more jobs. Some stronger answers did provide a valid discussion of how the employment prospects of immigrants would be influenced by whether their skills match the jobs on offer.

Unfortunately, a number of candidates misinterpreted the question and wrote about the possible consequences of net emigration.

# ECONOMICS

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**Paper 0455/33**

**Analysis and Critical Evaluation**

## Key Messages

This paper tests candidates' knowledge of economics and their data handling skills. Candidates need to demonstrate the skills of interpretation, numeracy, literacy and judgement.

The extracts should be studied carefully. It is often useful to highlight key words and phrases. In answering the questions, candidates need to make use of a combination of their knowledge of economics and the information contained in the extracts. It is important that appropriate economic terminology is used and that answers are clearly based on economics rather than just general knowledge.

The command words, for example, identify and explain, indicate what skills need to be demonstrated. For instance, if a question includes the word 'discuss' a candidate should examine both sides of an argument or situation. They should base their evaluation on clear analysis, bringing out relevant links. The marks provide a guide to the time that should be devoted to answering the questions.

It is crucial that candidates answer the specific questions set. Sometimes, candidates do not pay careful enough attention to the words of the question. Other candidates write round the question and some answer a different question.

## General comments

There was a full range of responses to the questions. There were some excellent scripts which used relevant and good interpretation of the extracts in answering the questions. There were also some scripts which were not so strong. A number of these produced rather sketchy answers, not always providing sufficient support for the comments made.

There was not a marked difference in terms of the performance on **Question 1** and **Question 2**. Candidates found **Question 1(d)** the most straightforward and probably **Question 2(a) (ii)** the most challenging.

Most candidates' writing was legible and the vast majority allocated their time appropriately.

## Comments on specific questions

### **Question 1**

- (a) (i) There were some good answers to this question but a number of candidates' confused profit and revenue.
- (ii) This was generally well answered with a high proportion of candidates providing good explanations of the two reasons mentioned in the extract. These candidates explored the impact on the demand for electronic cars of the rise in petrol prices bringing out the fact that the two are substitutes. They also considered the impact on the producers of electronic cars of advances in technology and, in some cases, government subsidies.

A number of candidates identified one or two reasons but did not go on to explain them.

- (b) Most candidates recognised that the fall in car sales resulted from a decrease in demand. The diagrams drawn were usually clear, well labelled and accurate with the majority clearly indicating the two relevant equilibriums.

There were only a few cases where the demand and supply curves were transposed. Not all candidates, however, provided an adequate explanation. It was not sufficient just to state that demand decreased. Candidates needed to explain why the demand decreased.

- (c) A number of candidates did not attempt this question but the majority did. Most were able to provide an accurate calculation of the percentage of car workers employed in the labour force or accurate calculations of those employed directly and indirectly. A small number did not seem to have a calculator to help answer the question. Calculators are, of course, permitted in this examination.
- (d) This was very well answered. The vast majority of candidates were able to identify two relevant benefits of a competitive market with low prices and high quality being the two most popular ones selected.
- (e) There was a mixed performance on this question. Some candidates did provide strong answers which examined both why a merger might benefit consumers and why it might not. These provided good economic analysis particularly in terms of economies of scale and the use of market power. A number of candidates, however, did not support the statements they made. For example, some wrote that the merger would result in better quality cars but did not explain why. Others provided narrowly focused answers often concentrating just on the possible impact on prices.

In some cases, candidates focused on the impact on firms without exploring how consumers would be affected. For instance, a number of consumers mentioned that the merger might result in the new firm having lower costs but did not go further to explain that lower costs could enable the firm to lower its prices and so benefit consumers. It is important that candidates always answer the specific question set.

## Question 2

- (a) (i) Not many candidates provided a clear and accurate definition. Some candidates wrote in micro terms and some suggested a government may try to reduce total supply. A relatively high number provided some examples, not always relevant, but did not define the term.
- (ii) A number of candidates who struggled with **Question 2(a)(i)** did manage to identify two supply-side policy measures that the Nigerian government implemented. There were some good explanations of how increased government spending on education might increase productive potential and so result in economic growth. There were also some good explanations of how government spending on health care may have a positive impact on economic growth. Candidates tend to struggle more with exploring how privatisation and government spending on transport and infrastructure might promote economic growth.
- (b) This was generally well answered with the majority of candidates focusing on the high birth rate and low life expectancy and with most of these providing relevant explanations. Some candidates, however, mentioned a high population. The extract does mention 'Nigeria's is the largest in Africa' but, of course, it is high population growth that is an indicator of a developing country rather than a high population. A number of candidates explored indicators not mentioned in the extract.
- (c) Again this was a generally well answered question. Most candidates made good use of the extract to identify three disadvantages. Again, however, some candidates stated disadvantages not mentioned in the extract. There was also some confusion shown about the nature of tax revenue and a few candidates referred to the government's dependence on the oil industry but not bringing out how the country would be affected by fall in the demand for oil.
- (d) A disappointing number of candidates did not provide an accurate figure. Some candidates did not attempt the question and a relatively high proportion of candidates halved the figure for Nigeria's GDP rather than doubling it.
- (e) As with **Question 1(d)**, this question elicited a range of responses. There were some excellent answers. These explored not only the possible direct impact on unemployment but also the indirect effects. There were some good comments relating to the impact on the long term employability of workers who receive training from multinational companies and the effect of higher demand resulting from higher employment. The answers also explored various reasons why

unemployment might not fall; they were particularly strong on how the presence of multinational companies may lead to the decline of domestic firms.

Some answers, however, did not focus on the specific question. They wrote in general terms about the impact that the presence of multinational companies may have on a country with little reference to unemployment. Some candidates produced a one-sided answer, most commonly on the reasons why unemployment would not fall.