

IGCSE

Edexcel IGCSE

Economics (4350)

Summer 2006

Examiners' Report

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Summer 2006

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Paper 4350/1F
June 2006

Paper 1F

This fresh examination with its new specification and two tiers of entry presented a challenge for many teachers. The specification is straightforward with four topic areas providing the basis for the four sections on the compulsory paper. Choosing the tier of entry can sometimes be difficult but at Foundation tier it appears that teachers almost invariably made the correct decision and entered their weaker candidates.

The paper is designed for those candidates for whom the higher skills and levels of attainment prove challenging. Hence the paper is weighted towards testing knowledge, understanding and application. The higher skills of analysis and evaluation are present to only a limited extent.

The experience of this paper highlighted several ways in which teachers can improve the performance of Foundation level candidates. Below are some suggestions based on very common mistakes.

- Encourage students to attempt every question. Too many questions were left blank - guaranteeing zero marks.
- Teach students to pay attention to the number of marks allocated and the number of lines allowed (the more marks/lines the more time should be spent answering the question).
- Teach precise definitions - it is difficult for weaker candidates to try to define economic terms in "their own words".
- In the classroom always apply economic terms/definitions to real examples, preferably local ones. This will help candidates to apply their knowledge.
- Practise reading the questions very carefully and if examples are required do not forget to include them.

Hopefully, this series of examination papers, mark schemes and reports will give teachers greater confidence as they prepare their future candidates.

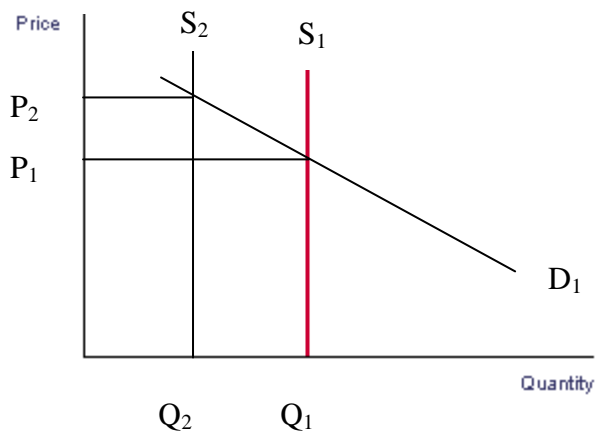
Question 1

(a) Candidates gave a varied range of responses to this straightforward demand and supply question. The emphasis at the start of the question was on demand and supply diagrams for a primary good, fresh flowers, and a manufactured good, artificial flowers.

(i) Unfortunately some candidates did not know the concept of equilibrium and consequently did not know where to put the labels Q_1 and P_1 . The required notation was stated in the question to aid candidates, yet some still insisted upon giving the equilibrium price and quantity different notations [e.g. q_2, p_2 .] They were not penalised for this but it should be noted by teachers that in future candidates should use the notation specified.

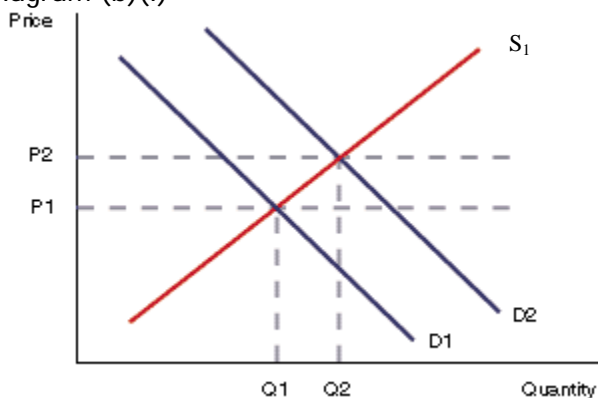
(ii) (iii) Too many candidates shifted both supply and demand. This led to an incorrect new equilibrium. The correct diagram is shown below.

Diagram (a)(ii)



(b)(i) As with (a)(ii) despite the question asking for 'the new demand curve' many candidates shifted both demand and supply. The correct diagram is given below:

Diagram (b)(i)



(ii) This style of question will appear on future papers. It requires application of knowledge yet some still did not identify fresh flowers and artificial flowers as substitute goods.

- (iii) The majority gave the correct response *“fresh flowers”*.
- (iv) The concept of opportunity cost is not clearly understood by the majority of Foundation candidates. Instead of the correct response, *“a new computer”*, incorrect responses included, ‘artificial flowers’ and ‘the cost of oil’.

(c)(i) The inability to give a succinct definition meant that many candidates did not score maximum marks. Vague answers such as “it is the percentage quantity supplied over the percentage price” showed that the candidate understands it is a relationship between price and quantity supplied but their definition had no meaning.

- (ii) Candidates should be able to recognise from demand and supply diagrams the approximate elasticity of curves. When the supply curve is vertical there should be no doubt that it has an elasticity of 0.
- (iii) Most candidates understood that the elasticity of supply of primary goods is lower than that of manufactured goods.
- (iv) Unfortunately many candidates had little idea why the elasticities of supply varied and so the responses to this part of the question often referred to demand rather than supply.

Poor response: *“If there isn’t supply of fresh flowers because of the weather consumers still want flowers and decide to choose artificial flowers. Even though the price rises people still demand them.”*

Good response: *“Primary products like fresh flowers have a long growing period so supply can’t be changed quickly therefore supply is inelastic in the short run. However, the supply of manufactured goods like artificial flowers can easily be changed, especially if there are stocks of artificial flowers.”*

Question 2

(a)(i) No problem here as candidates seemed familiar with pie charts.

(ii) The most popular response on the foundation paper was 'Tertiary sector' which was incorrect. The term 'oligopoly' should have been known and understood. Even without this, a process of elimination should have enabled them to discount 'monopoly' - one major firm, and 'tertiary' - service sector, leaving them with no alternative but 'oligopoly' - industry dominated by a few large firms.

(iii) Because so many had incorrectly chosen 'tertiary' they had difficulty in relating services to car manufacturers.

(b)(i) Definitions are worth learning. Most candidates understood that economies of scale have something to do with output and costs but few could state the relationship clearly. Instead, inaccurate responses were common.

Inaccurate response: *"As they expand they have to reduce the cost of production"*

Accurate response: *"as output increases so the average cost will fall."*

(ii)(iii) Responses varied but the majority could not give correct examples so struggled to find anything relevant to write about internal, external and diseconomies of scale.

(c)(i) Many candidates were on the verge of scoring maximum marks but omitted the key point that privatisation is a *transfer* between state and private sector. Instead vague responses showed some imprecise knowledge.

Inaccurate response: *"When a firm is owned by an individual and not by the state."*

Accurate response: *"When the ownership of a firm is transferred from the public to the private sector."*

(ii) Some good responses, but candidates need to distinguish between questions where an explanation is required and where just a simple statement will be sufficient. The question said "give two possible reasons", for two marks, which signals that no explanations are required.

(iii) Responses were one sided, which prevented many candidates from reaching the higher scoring levels. Candidates should try to justify their answers by looking at the case for and against privatisation. A good example from the Higher paper is given below.

Good response: *" It can be good and bad. Deregulation can lead to more firms competing which lowers the prices of the product and so provides a larger array of choices for the consumers. The privatised firm might also improve the quality of the product to try to attract customers so it can make a profit. However, the main objective of a privatised firm is not the welfare of the people but to make a profit. They might try to cut costs and the quality of the good or service may suffer. If they are a monopoly they may increase prices in order to increase profits which will be bad for consumers."*

Question 3

(a)(i) Due to the international nature of the examination most responses were acceptable as 'main items' of government expenditure. Even so some candidates gave responses which were too vague or clearly incorrect e.g. "incomes", "exports", "cost of building".

- (ii) 'Exports - imports' [concerns balance of payments.] Incorrect response.
'Sales revenue - expenditure' [concerns firms.] Incorrect response.
'Government revenue - Government Expenditure' = budget deficit. Correct.

(iii) Unfortunately too many candidates were unaware of how a budget deficit is calculated and so appeared to guess their response.

(b)(i) Definitions if learnt correctly achieve full marks. Most candidates knew that inflation relates to increase in price but full definitions e.g. "*persistent increase in general level of prices*" were few.

(ii) A simple calculation taking the inflation rate of one year from the next results in the correct answer:

Year		Change in inflation rate
2000 -2001	(1.1 to 4.3) =	+3.2 (increase in inflation rate)
2001 -2002	(4.3 to 0.8)	-3.5 (decrease in inflation rate)
2002 - 2003	(0.8 to 4.2)	+3.4 (increase in inflation rate)

Therefore 2002 -2003 was the correct response.

(iii) This question asks for functions of money **not** characteristics of money. The functions of money are: medium of exchange, measure of value, store of value, means of deferred payment. Each of these is affected by inflation unlike characteristics of money which include: durability, portability and divisibility.

(c)(i) Another definition required for full marks yet this proved too difficult for many candidates.

Vague response: "*Fiscal policy is used to reduce inflation by using government expenditure for the people.*"

Accurate response: "*The use of government expenditure and revenue to reduce demand in the economy.*"

(ii) Those candidates who struggled with the definition in (c)(i) also struggled to explain how fiscal policy can be used to reduce inflation. A good response would have been:

"When the government increases its revenue by increasing income tax it will reduce disposable income and so there will be less demand and less inflation."

- (iii) Monetary policy was the most popular policy identified and most candidates correctly explained that increasing interest rates will reduce demand in an economy.
- (iv) Simple explanations of the problems arising from either of the policies gained at least half marks in this question. Some consideration of the other policy allowed candidates to achieve the higher levels.
- (v) *"When fiscal policy results in increased taxation the standard of living may fall. On the other hand raising interest rates may also lead to decreases in the standard of living as those who have borrowed will have to pay back more but those who are saving will receive more. Fiscal policy will often lead to a fall in everyone's standard of living so is most damaging."*

Question 4

(a)(i) Yet another definition with many confused responses.

Confused response: *"The difference between the money and all of them have got different values"*.

Correct response: *"The value of one currency in terms of another"*.

- (ii) The question which produced the most correct responses.
 - (iii) The multiple choice question which produced the most correct responses.
 - (iv) Amongst questions requiring calculations, the one which produced the most correct responses.
 - (v) After a good start to this section by many candidates this question brought problems as they found it difficult to explain a factor which can increase the exchange rate. Incorrect responses included "inflation" and "increase in imports". The correct response could have related to increase in exports or increase in interest rates (demand for currency increases).
- (b)(i) The familiar problem again, with vague definitions of balance of payments on current account. The responses varied from those which bore no resemblance to the correct answer: "The cost of all things on that piece of land" to those which were vague "record of a country's economic status" to those which were correct "record of a country's trade in goods and services and current transfers".
- (ii) If a candidate wanted to be succinct the following would have been acceptable for full marks:
"Visible = goods e.g. cars. Invisible = services e.g. banking."
 It was a pity that after giving the correct definitions several candidates omitted the examples which were clearly asked for in the question.
 - (iii) Those candidates that did attempt this question gave problems of falling exchange rates and rising international debts. One exceptional candidate also correctly referred to the problem as not too severe: *"U.S.A. is*

experiencing a huge deficit but it still has a successful economy compared to many others in the world".

Paper 4350/2H
June 2006

A new examination presents challenges for all involved including candidates, teachers and even examiners. The specification, common to both tiers, is divided into four sections which correspond to the four main questions on the paper. There may be some overlap as it is difficult to keep to rigid divisions in Economics. Therefore the teaching of the specification must not omit any section or part section otherwise candidates will be disadvantaged.

Besides organising the teaching of the new specification, teachers must also bear the burden of choosing the correct level of entry for each candidate. This must be done very carefully. In this session it appeared that teachers entered some candidates at Higher tier who might have been more successful at the Foundation tier. It is possible to gain a C grade at Foundation tier and some candidates might have benefited from a shorter more accessible paper rather than the longer and more demanding Higher tier paper. Foundation tier has a lower weighting of the analysis and evaluation skills which challenge many students.

The paper highlighted several ways in which teachers can improve the performance of Higher tier candidates. Below are some suggested priorities, based on common mistakes made by candidates.

- Attempt every question.
- Learn definitions.
- Read the questions carefully and don't forget to give examples if required.
- In higher level questions when asked to 'evaluate', 'discuss' or 'justify' or 'give reasons for your answer', remember to
 - (i) Give both sides of the argument/discussion.
 - (ii) Come to a reasoned conclusion.
 - (iii) Justify this conclusion.

Hopefully, this series of examination papers, mark schemes and reports will help teachers to feel more confident and to prepare their future candidates.

It is noteworthy that although avoidable mistakes were common, some candidates and some whole centres produced answers of exceptional quality. These candidates and their teachers have much to be proud of.

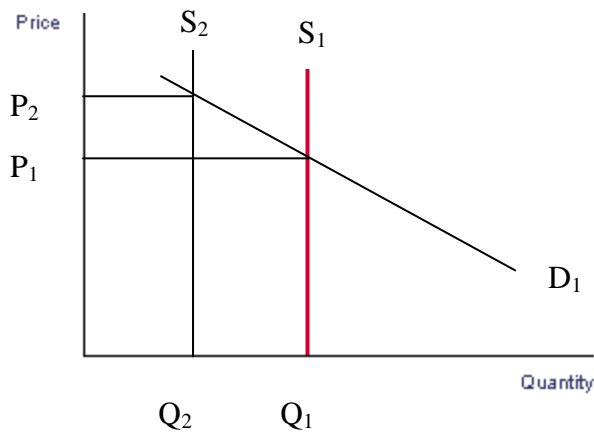
Question 1

(a) Candidates gave a varied range of responses to this straightforward demand and supply question. The emphasis at the start of the question was on demand and supply diagrams for a primary good, fresh flowers, and a manufactured good, artificial flowers.

- (i) Most candidates were able to specify the equilibrium quantity and price on both diagrams. The required notation is stated in the question to aid candidates, yet some still gave the equilibrium price and quantity different notations [e.g. q_2 , p_2]. They were not penalised for this but it should be noted by teachers that in future candidates should use the notation specified.

- (ii) Most candidates correctly shifted the supply curve as shown in the diagram below.

Diagram (a)(ii)

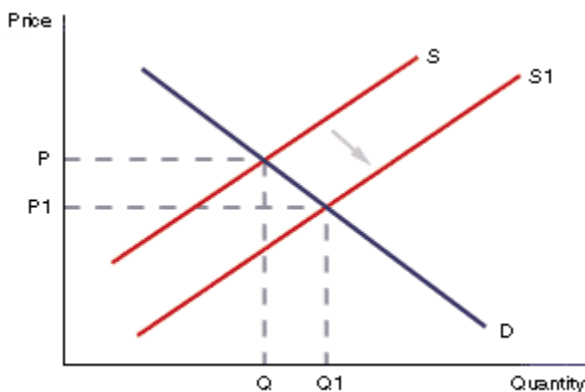


(b)(i) Partial and inaccurate definitions meant that some candidates did not achieve maximum marks for this part of the question. In (ii) most realised that elasticity of supply in the above diagram is zero.

In (iii) candidates were required to apply their knowledge of elasticity of supply and state that primary products are more inelastic in supply than manufactured goods. Part (iv) required them to explain why this difference exists. The most common mistake occurred when candidates confused elasticity of supply with elasticity of demand.

Good response: *“Primary products like fresh flowers have a long growing period so supply can't be changed quickly therefore supply is inelastic in the short run. However, the supply of manufactured goods like artificial flowers can easily be changed, especially if there are stocks of artificial flowers”*

(c)(i) The subsidy diagram requested in (c)(i) is given below,



A brief explanation in addition to the above diagram achieved maximum marks.

“A subsidy is a sum of money given to a firm by the government to lower its costs of production and encourage supply of more goods. It will also lead to firms lowering their prices to consumers”

In (c)(ii) candidates had to explain why governments might reduce subsidies. A common incorrect response focused on why governments introduced subsidies.

A correct response: *" A subsidy costs the government money and this has an opportunity cost - it could be used for something else e.g. education, health which might benefit the people of the country more. If there is a surplus of agricultural products then the farmers need no encouragement to produce more as increased production may lead to excess supplies being destroyed. To promote international trade and abide by the rules of the W.T.O. the government might reduce subsidies. Increased international trade will give consumers increased choice and increase competition between countries. This competitiveness might increase productivity and quality."*

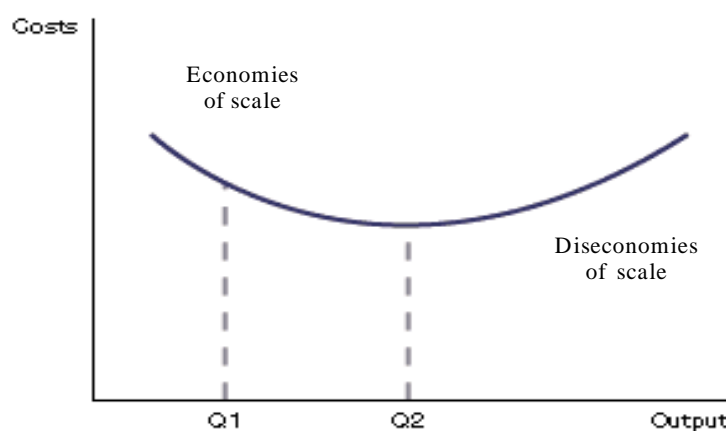
Question 2

(a)(i) No problem here as candidates seemed familiar with pie charts. The term 'oligopoly' in (ii) was correctly identified by most candidates. Some candidates chose 'monopoly' and although they did not achieve a mark in (ii) they were not penalised in (iii) if they gave an appropriate explanation of their choice e.g. Renault has an above 25% share of the market.

In (a)(iv) many candidates did not gain maximum marks because they did not develop their answers sufficiently for six marks to be awarded.

Correct response: *"The firms might engage in price wars which will lower prices for consumers. However, when the price war ends it may result in less choice for consumers as firms may have been forced out of the market and prices will rise again. Competition may result in firms increasing the quality of their products in order to gain more customers. If all firms try to increase quality it may result in increased costs and increased prices for consumers."*

(b)(i) Answers to questions involving economies of scale are usually well rehearsed by centres. Unfortunately there seems to be a gap in the knowledge of many candidates concerning the diagram which illustrates economies of scale. Diagrams attempted by candidates included demand and supply curves, tables and sketches of factories instead of the expected diagram given below:



Most candidates understood that economies of scale have something to do with output and costs but few could state the relationship clearly. Instead, inaccurate responses like the following were common:

Inaccurate response: *"As they expand they have to reduce the cost of production"*
Accurate response: *"As output increases so the average cost will fall."*

(ii) Responses varied with candidates finding it easier to give definitions of internal rather than external economies of scale.

(c)(i) Some good responses but candidates need to distinguish between questions where an explanation is required and where just a simple statement will be sufficient. The question says 'give two possible reasons', for just two marks, which implies that no explanations are required.

(ii) Responses were one sided which prevented many candidates from reaching the higher scoring levels. Candidates should try to justify their answers by looking at the case for **and** against privatisation.

Good response: *"It can be good and bad. Deregulation can lead to more firms competing which lowers the prices of the product and so provides a larger array of choices for the consumers. The privatised firm might also improve the quality of the product to try to attract customers so it can make a profit. However, the main objective of a privatised firm is not the welfare of the people but to make a profit. They might try to cut costs and the quality of the good or service may suffer. If they are a monopoly they may increase prices in order to increase profits which will be bad for consumers."*

Some of the best answers looked at both sides before concluding that privatisation was generally a good thing or a bad thing.

Question 3

(a)(i) Due to the international nature of the examination, most responses offered were plausible as 'main items' of government expenditure. Even so, some candidates gave responses which were incorrect or too vague e.g. "incomes," "exports," "cost of building".

(ii) 'Exports - imports' concerns balance of payments. Incorrect response.
'Sales revenue - expenditure' concerns firms. Incorrect response.
'Government revenue - Government Expenditure' = budget deficit.
Correct.

(iii) If candidates were unaware of how a budget deficit is calculated they often gave the incorrect year. Reading charts was not a skill that all students had mastered.

(b)(i) Definitions if learnt achieve full marks. Most candidates knew that inflation relates to increase in price and gave full definitions e.g. *"persistent increase in the general level of prices"*.

(ii) The question asks 'what happened to prices between 2001 and 2002'.

Year	Change in inflation rate	Prices
2001 - 2002	(4.3 to 0.8)	Prices rose but at a lower rate.

Incorrect response: *"Prices were falling"*.

Correct response: *"There was a sizeable drop in inflation. The prices were still rising in 2002 but not at the same rate as in 2001. They were rising at a much slower rate - 4.3% down to 0.8%."*

(iii) Some candidates answered their own question rather than the one set, e.g. writing about how inflation is caused.

Correct response: *"Control of inflation might help the balance of payments. During inflation exports become more expensive and imports cheaper so the country finds it hard to compete in the world market and may develop a deficit of the balance of payments (imports > exports). Inflation may also discourage investment both from home producers and foreign firms. The costs of production will be unpredictable and this lack of investment may slow economic growth in the country."*

Candidates could also have referred to the problems which affect the functions of money which arise from inflation: e.g. borrowers gain, debtors lose, real value of savings will fall.

(c)(i) Another definition required for full marks, e.g. *"the use of government expenditure and revenue to decrease demand in the economy"*.

(ii) Candidates who struggled with the definition in (c)(i) also struggled to explain how fiscal policy can be used to reduce inflation. A good response would have been *"When the government increases its revenue by increasing income tax it will reduce disposable income and so there will be less demand and less inflation."* In (ii) monetary policy was the most popular policy identified and most candidates correctly explained that increasing interest rates will reduce demand in an economy.

(iii) Simple explanations of the problems arising from either of the policies gained at least half marks in this question. Adding some consideration of the other policy allowed candidates to achieve the higher levels.

"When fiscal policy results in increased taxation the standard of living may fall. On the other hand raising interest rates may also lead to decreases in the standard of living as those who have borrowed will have to pay back more, but those who are saving will receive more. Fiscal policy will often lead to a fall in everyone's standard of living so is most damaging."

(iv) When a question asks for 'evaluation' candidates should be aware that both sides of the arguments should be considered and then a judgement should be reached e.g.

"Income tax affects people's incentive to work and this might affect productivity of workers and even whether or not a worker seeks employment. The higher the income tax the less incentive there is to work or seek promotion. Higher income

tax also reduces disposable income so workers will find their standard of living reduced. However, as income tax is usually progressive and if the government spends some of its increased revenue on the poorer people, the poor sectors of the economy will gain at the expense of the rich. Inflation too might decrease due to the fall in disposable income and this will have many positive effects for the economy. Overall as long as the tax is progressive an increase will probably help the economy, especially in times of inflation."

Question 4

(a)(i) Another definition requiring a simple response, e.g.: *"the value of one currency in terms of another, e.g. 10 krona = \$1"*. Parts (ii)(iii)(iv) caused few problems for candidates. It was therefore disappointing to see in (v) that many candidates could not identify two factors which can increase the exchange rate of a currency. Incorrect responses included "inflation" and "increase in imports". Correct responses could have related to increase in exports or increase in interest rates (demand for currency increases), for example.

(b)(i) Vague definitions of balance of payments on current account meant that many candidates did not achieve maximum marks for this question. A correct response was simply: *"record of a country's trade in goods and services and current transfers"*.

In part (ii) candidates should have related elasticity to the demand for imports and exports, some managed this successfully.

"If the currency falls imports become more expensive. If demand is elastic then a change in price will lead to a more than proportionate change in quantity demanded. This will lead to a fall in the total amount spent on imports ($P \uparrow TR \downarrow$) and this will improve the balance of payments."

Similarly in part 2 candidates should have responded on the following lines:

"If the currency falls exports become cheaper. If demand is elastic then a change in price will lead to a more than proportionate change in quantity demanded. This will lead to a rise in the total amount earned by exports ($P \downarrow TR \uparrow$) and this will also improve the balance of payments."

In (iii) a balanced argument was required for full marks. However, candidates should have referred to the problems rather than the causes of a balance of payments deficit. E.g.:

"The deficit may not be a serious problem if it is short term and it has come about because of the purchase of imports which will improve the economy e.g. the government or firms buy machinery from abroad which will improve the economic growth of the country. In time, the economic growth could lead to increased exports and the deficit will disappear. However, if the deficit is long term and the country has to borrow to finance it, this could lead to problems. Developing countries may find themselves heavily in debt and not be able to afford the repayments. The debts may grow and the country will find itself poorer with low economic growth. Therefore I think that a deficit can be a serious problem for some countries but not for all."

Paper 4350/03
June 2006

General Comments

The paper provided opportunities for all candidates to demonstrate their economic knowledge and understanding together with their ability to use this in relationship to the sources and the questions asked.

Better candidates had used the pre-released material as a basis for further study and had a good understanding of the issues surrounding international trade. Most of these were able to use information from their own country to enhance their answers. In addition, these candidates took careful note of the 'key word', and used the sources, in order to answer the precise question that had been asked.

Weaker candidates appeared, in many cases, to be unprepared for the questions and did not use the sources thus limiting the credit that was available.

While most candidates could draw a relevant supply and demand diagram, question 3a, this was not always the case. Centres should note that candidates are expected to be able to demonstrate this skill.

Centres, and candidates, are reminded of the need to use the material as a basis of further study and preparation for the exam. They should note, also, the requirement to refer to 'your country' and that this refers to 'a country of your choice'. Too many candidates answered the questions without any reference to a country.

Questions

1. Better candidates were able to both realise that there was a positive relationship between 'growth of world exports and GDP' and to either point out that this did not seem to hold for the period 1913-1950 or to give some numerical support such as that 'export growth was three times that of GDP'. Many candidates, however, did not go beyond the simple link while weak candidates ignored Source A and defined GDP.
2. Most candidates were able to use at least one of the named sources and to offer at least one advantage. Better candidates were able to fully explain two advantages, often using all three sources e.g. 'trade can 'lead towards sustainable development and a higher standard of living' [Source C] as it leads to greater output which requires more people to be employed giving them a higher income'. Weaker candidates often just repeated material from the sources without any explanation.
3. (a) Candidates could either draw a straightforward supply and demand 'X', followed by a leftward shift for the tariff, or could draw one showing a perfectly elastic world supply line with an upward shift. Both diagrams were seen and scored full marks, but many of the better candidates used the second one. The main failings were shifting the supply line in the wrong direction or mislabelling or not labelling the lines.

(b) (i) Although most candidates were able to use Source E and to select two methods, some ignored the instruction and scored zero. A few did not give a method of protection or included tariffs even though the question clearly stated 'other than tariffs'.

(b) (ii) Candidates could gain marks in this part even if they had given an incorrect answer in part (i) and were continuing to use it. Good answers compared the two methods and came to a conclusion as to which 'would be more effective'. Other candidates were able to present a coherent answer for one method, but ignored the other and were not able to access the very top marks. Weak answers simply stated what the method(s) did e.g. 'quotas limit the amount of imports to a set amount'.

4. (a) Once more, good candidates used the named sources, and their own economic knowledge, to examine the reasons for protection. Answers at the very top made sensible reference to why these would be appropriate for their country. It was clear that a few had accessed Source D and were using the greater detail contained in the full report. All of these candidates were able to 'examine the reasons' with a few ranking them in importance. An example of examining was 'infant industries need protection from fierce foreign competition or else they will never develop and improve employment and exports'. Other candidates made good points, but only explained them briefly thus limiting the credit available, e.g. 'infant industries will fail if they are not protected from strong foreign competition'. Weak answers consisted of lists of reasons with little or no development.

(b) There were some excellent answers that compared free trade with protection and illustrated the points with reference to their country. These responses showed an understanding of the fact that the same issue, e.g. ability to export food, often has both positive and negative aspects for a country making the issue one of complexity. Other good answers tended to be one-sided considering, for example, only the arguments for and against free trade. While these did well they could not reach the top of the mark scheme. Weaker answers explained some points for or against free trade, which were not always related to food. A few candidates basically repeated their answer to 4a and did not score many marks.

ECONOMICS 4350, GRADE BOUNDARIES JUNE 2006

Grade		A*	A	B	C	D	E	F	G
Lowest mark for award of grade (Max 100)	Option 1 (1F, 03)	-	-	-	55	48	41	34	27
	Option 2 (1F, 04)	-	-	-	55	48	41	35	29
	Option 3 (2H, 03)	79	68	57	46	39	35	-	-
	Option 4 (2H, 04)	82	70	58	47	40	36	-	-

Note: Grade boundaries may vary from series to series and from subject to subject, depending on the demands of the question papers.

