

# Examiners' Report November 2007

IGCSE

IGCSE Economics (4350)

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# 4350 IGCSE Economics

## Examiners' Report November 2007

### Paper 1F

#### General Comments

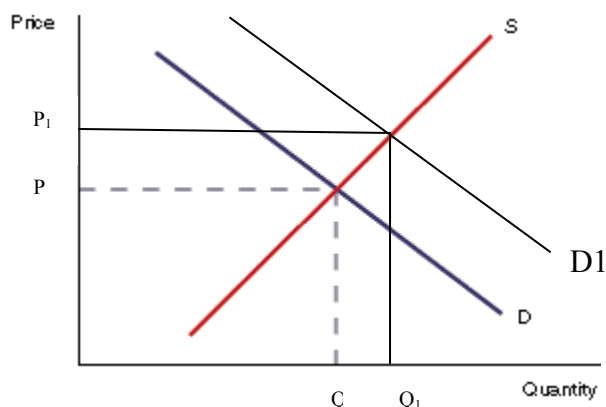
There were few candidates entered for this examination session at Foundation level. There were some common mistakes which teachers should be aware of so that they can be avoided in the future. These include:

- not attempting some questions. If a question is left blank then no marks can be awarded for that question.
- Putting a cross in more than one box in multiple choice questions. Candidates must follow the instructions on the front of the examination paper which refer to what to do if a candidate changes his/her mind.
- Not referring to the data given in the question.
- Answering "yes" or "no" to questions which require some evaluation.

Foundation level candidates should have sound knowledge and understanding of Economics. They should have the ability to define economic terms. Teachers should therefore ensure that candidates have access to the correct definitions of common economic terms. In order to allow candidates to achieve the highest grades of this paper they should also be able to develop the higher level skills of analysis and evaluation. Hopefully, the examples given in this report will help teachers enable their candidates to achieve the full range of skills required for the highest grades at this level

#### Question 1

The data given to candidates in Figure 1a showed the demand and supply of digital cameras. In (a) most candidates correctly showed the equilibrium price  $P$ , and quantity  $Q$  and the majority also shifted the demand curve to the right,  $D_1$ , as shown below with the corresponding new equilibrium,  $P_1$  and  $Q_1$ .



Digital cameras and memory cards are complements. In (b) the information given at the beginning of the question should have given candidates enough information to deduce this even if they had never seen a digital camera or memory card.

Definitions need to be learnt. A correct, concise definition can save valuable time in an examination as well as earning candidates maximum marks. Price elasticity of demand is not the relationship between price and quantity demanded. It is the relationship between the proportionate change in price and the corresponding proportionate change in quantity demanded. Candidates who failed to score in (c)(i) compounded their errors by referring to factors affecting demand not factors affecting elasticity of demand in (c)(ii). An example of a correct response:

*"Digital cameras are a luxury good so as price rises demand will fall more than proportionately e.g. if price rises by 10% demand might fall by 20%."*

Similarly in (c)(iii) candidates had little knowledge of why price elasticity of demand is important to firms.

*"Knowledge of the price elasticity of demand for a product enables a firm to know by how much demand will change in response to a change in price. If the product is elastic the firm will see its total revenue falling if it raises price and vice versa. Whereas, if the product is inelastic, then an increase in price will increase total revenue. However, elasticity is not the only factor a firm must consider when making decisions. It may decide to reduce price to eliminate competition regardless of the price elasticity of demand."*

Again in (d)(i) a definition was required but many candidates failed to deliver. Advantages and disadvantages to the workers and firms of division of labour (d)(ii)(iii) requires basic knowledge and understanding which was not evident in some responses.

## Question 2

The data refers to the market share of UK retailers. Most candidates correctly described the changes between 1960 and 2005 for (a)(i)(ii) but had little idea about the causes of the changes. Some confused market share with company shares i.e. the source of company finance! Valid reasons for the changes could have included,

*"Increased car ownership so people buy in bulk/one store shopping as they can get more goods home in their car"* and

*"Large supermarkets provide more customer services like loyalty cards, free car parks, coffee shops".*

Candidates must begin to recognise questions which require both sides of an argument. In this case, 2(a)(iv), they should have looked at both the benefits of the changes and the disadvantages.

*"The increased market share of large supermarkets may lead to a fall in the price of goods as the supermarkets buy in bulk and compete between themselves. This will benefit the consumers. The fall in the market share of independent retailers has led to less choice and the closure of many small retailers who provided a convenient and local place to shop."*

Advantages of mergers (b)(i) were correctly identified by many candidates but non-price competition was not understood. This appears on the specification in B: Business Economics/Section 2 Competition/Oligopoly. Examples of non price competition could include loyalty cards, competitions, free gifts, after sales service, advertising.

Identifying the correct sector of the economy (c)(i) primary and an example of secondary (c)(ii) caused few problems but too many candidates failed to even attempt part (c)(iii).

*“Declining sector: secondary sector in UK*

*Reason: The UK is a developed country which is moving away the secondary to the tertiary sector. The secondary sector has declined due to fierce competition from abroad, especially developing countries, where labour costs are much cheaper.”*

### Question 3

Candidates are becoming more familiar with graphs so are finding it easier to answer simple questions as in (a)(i). Economic growth is a government objective but candidates failed to identify why this is the case. *“Increased standard of living, increased employment”* are just two of many reasons why governments try to increase economic growth. In (b)(i) candidates were required to consider the effect of the discovery of oil reserves on economic growth.

*“The discovery of oil reserves will lead to an increase in the rate of economic growth. Total output will increase due to this discovery, (GDP) and exports will rise and so too will employment.”*

Multiple choice questions are usually well attempted and (b)(iii) was no exception with the majority of candidates correctly identifying “the level of education and skill possessed by labour” as Human capital.

Candidates should be able to identify and explain several advantages and disadvantages of economic growth. Inflation is not a recognised disadvantage of economic growth as production has increased so there is not excess demand. Part (b)(iv) required some evaluation.

*“Economic growth can bring an increase in the standard of living and more jobs. It may also bring disadvantages of pollution and congestion. Whilst the disadvantages can be harmful most people would not want to give up a higher standard of living so the advantages of economic growth can be seen to be greater than the disadvantages.”*

Again the graph was understood by most candidates (c)(i) but the effect of the rate of interest on unemployment was not. Centres must try to address this problem and work through the following flow chart of effects.

1.

*Fall in rate of interest → cost of borrowing falls → more consumers borrow → consumer spending increases → firms produce more → unemployment falls.*

2.

*Fall in rate of interest → cost of borrowing falls → firms borrow more for investment → firms produce more → unemployment falls.*

#### Question 4

The topic, Multinationals, is usually well taught by centres. Candidates were able to identify two reasons why production shifts to developing countries in (a)(i). In (a)(ii) some gave reasons *why* governments encourage foreign firms not *how* they encourage them so lost marks. Part (a)(iii) required measures to help the unemployed resulting from relocation of firms to developing countries. Measures could have included, methods to increase occupational mobility e.g. retraining, help finding new jobs (job centres), and/or methods to increase geographical mobility e.g. housing and even financial help e.g. unemployment benefits.

Globalisation to many candidates simply meant international trade. Answers lacked structure as well content.

*“Globalisation means that countries are more interdependent. Capital moves freely and so firms can move from one country to another. Developing countries can benefit as this can increase employment but can it also reduce the number of domestic firms.*

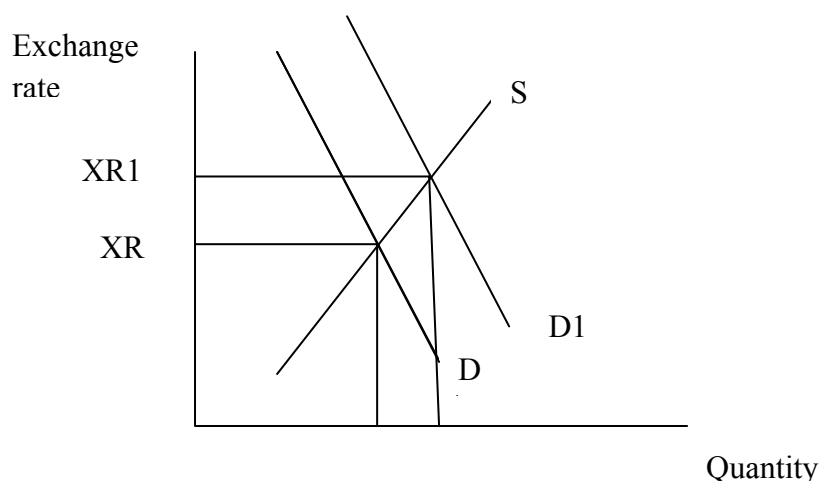
*Developed countries can benefit from the profits earned by firms which move abroad to reduce costs but will suffer from unemployment as jobs are transferred to developing countries.*

Exchange rates should be taught using numerical examples and demand and supply diagrams. (b)(i) required a definition and an example.

*“Exchange rates are the value of one currency in terms of another e.g. £1 = \$2.”*

Part (ii) was often not attempted.

Diagram to show the exchange rate of a country.



A large inward investment will increase demand for the currency  $D \rightarrow D1$  and thus increase the exchange rate  $X \rightarrow XR1$ .

Factors affecting exchange rates (b)(iii) could have included, exports, imports, rate of interest.

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### Paper 2H

#### General Comments

There were few candidates entered for this examination session at Higher level. There were some common mistakes which teachers should be aware of so that they can be avoided in the future. These include:

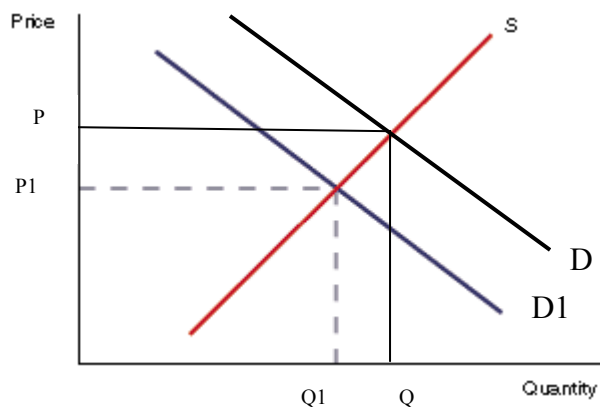
- not attempting some questions. If a question is left blank then no marks can be awarded for that question.
- Not referring to the data given in the question.
- Not developing answers to the higher levels.

Higher level candidates should have sound knowledge and understanding of Economics as well as the ability to develop the higher level skills of analysis and evaluation. To achieve success in the lower level skills, candidates require access to correct, concise definitions of economic terms. For the higher level skills teachers should remind candidates to consider both sides of the argument / advantages and disadvantages / costs and benefits i.e. whatever the question requires and come to a reasoned decision. Practise using past papers can prepare candidates for the higher level examination.

#### Question 1

Most candidates correctly identified the relationship between traditional cameras and film as complementary in (a)(i).

The data given to candidates in Figure 1a showed the demand and supply of traditional cameras. In (a) most candidates correctly showed the equilibrium price  $P$ , and quantity  $Q$  and the majority also shifted the demand curve to the left,  $D_1$ , as shown below with the corresponding new equilibrium,  $P_1$  and  $Q_1$ .





Definitions need to be learnt. A correct, concise definition can save valuable time in an examination as well as earning candidates maximum marks. Price elasticity of demand is **not** the relationship between price and quantity demanded. It is the relationship between the proportionate change in price and the corresponding proportionate change in quantity demanded. Candidates who failed to score in (b)(i) compounded their errors by referring to factors affecting demand not factors affecting elasticity of demand in (b)(ii). An example of a correct response:

*“Digital cameras are a luxury good so as price rises demand will fall more than proportionately e.g. if price rises by 10% demand might fall by 20%.”*

Similarly in (b)(iii) candidates had little knowledge of why price elasticity of demand is important to firms.

*“Knowledge of the price elasticity of demand for a product enables a firm to know by how much demand will change in response to a change in price. If the product is elastic the firm will see its total revenue falling if it raises price and vice versa. Whereas, if the product is inelastic, then an increase in price will increase total revenue. However, elasticity is not the only factor a firm must consider when making decisions. It may decide to reduce price to eliminate competition regardless of the price elasticity of demand.”*

Division of labour (c)(i)(ii) was understood by the majority of candidates and so too were the advantages and disadvantages associated with it.

The information given in Figure 2 showed the average wage rates in USA and Puerto Rico. The responses to the question concerning government interference in the two countries were poor.

*“The wage rate in the USA is higher than in Puerto Rico. This may be due to government interference. In USA the government may have set a minimum wage rate whereas in Puerto Rico it may not or perhaps it did but at a lower rate. In the USA there may be no government controls on the power of trade unions which could force wages higher. However, government interference may be only one of many reasons why the wage rates differ. Puerto Rico may have a surplus of workers so wage rates might be lower. Workers may be employed in the low paid primary sector whereas in the USA they are skilled and employed in secondary and tertiary sectors.”*

## Question 2

The data refers to the market share of UK retailers. Most candidates correctly described the changes between 1960 and 2005 for (a)(i)(ii) but had little idea about the causes of the changes. Valid reasons for the changes could have included,

*“Increased car ownership so people buy in bulk/one store shopping as they can get more goods home in their car”* and

*“Large supermarkets provide more customer services like loyalty cards, free car parks, coffee shops”.*

Candidates must begin to recognise questions which require both sides of an argument. In this case, 2(a)(iv), they should have looked at both the benefits of the changes and the disadvantages.

*“The increased market share of large supermarkets may lead to a fall in the price of goods as the supermarkets buy in bulk and compete between themselves. This will benefit the consumers. The fall in the market share of independent retailers has led to less choice and the closure of many small retailers who provided a convenient and local place to shop.”*

Non price competition (a)(v) appears on the specification in B: Business Economics/Section 2 Competition/Oligopoly. Examples of non price competition could include loyalty cards, competitions, free gifts, after sales service, advertising.

The size of firms, mergers, advantages and disadvantages of large firms are topics usually well attempted by the majority of candidates. In (b) only part (iv) caused problems as candidates found it difficult to analyse whether or not large firms are an advantage to an economy.

*“Large firms benefit from economies of scale and so are more efficient. Efficiency can lead to economic growth and the large firms will find it easier to compete abroad. If they are successful in the international market then employment will increase - another benefit to the economy. Sometimes large firms can control the market and set high prices. This can lead to inflation and a loss of overseas markets. The extent to which large firms benefit the economy depends on their efficiency, pricing policy and the effect they have on employment - all of which can be positive or negative.”*

### Question 3

Candidates are becoming more familiar with graphs so are finding it easier to answer simple questions as in (a)(i). Economic growth is a government objective but many candidates were not able to give two reasons why this is the case. Definitions of human capital (b)(i) were mostly inadequate instead of the simple *“level of education and skill possessed by labour”* yet candidates were able to identify ways in which it can be increased (b)(ii).

In (b)(iii) candidates were required to consider the effect of the discovery of oil reserves on economic growth.

*“The discovery of oil reserves will lead to an increase in the rate of economic growth. Total output will increase due to this discovery, (GDP) and exports will rise and so too will employment.”*

Candidates should be able to identify and explain several advantages and disadvantages of economic growth. Inflation is not a recognised disadvantage of economic growth as production has increased so there is not excess demand. Part (b)(v) required some evaluation.

*“Economic growth can bring an increase in the standard of living and more jobs. It may also bring disadvantages of pollution and congestion. Whilst the disadvantages can be harmful most people would not want to give up a higher standard of living so the advantages of economic growth can be seen to be greater than the disadvantages.”*

Again the graph in (c) was understood by most candidates but too often they failed to understand how the rate of interest can be used to reduce unemployment.

*“A fall in rate of interest reduces the cost of borrowing and so more consumers borrow money and consumer spending increases. This leads to increased production and unemployment falls. As the cost of borrowing falls firms borrow more for investment which stimulates economic growth and leads to a fall in unemployment. However, the increased demand created by a fall in interest rates may result in an increased demand for imports, not home produced goods, so it may not always be fully effective.”*

#### Question 4

The topic, Multinationals, is usually well taught by centres. Candidates were able to identify two reasons why production shifts to developing countries in (a)(i) and how governments encourage them. Part (a)(iii) required measures to help the unemployed resulting from relocation of firms to developing countries. Measures could have included, methods to increase occupational mobility e.g. retraining, help finding new jobs (job centres), and/or methods to increase geographical mobility e.g. housing and even financial help e.g. unemployment benefits.

Globalisation to many candidates simply meant international trade. Answers lacked structure as well content.

*“Globalisation means that countries are more interdependent. Capital moves freely and so firms can move from one country to another. Developing countries can benefit as this can increase employment but can it also reduce the number of domestic firms. Developed countries can benefit from the profits earned by firms which move abroad to reduce costs but will suffer from unemployment as jobs are transferred to developing countries.”*

Exchange rates, their appreciation and depreciation, should be taught using numerical examples and demand and supply diagrams.

*(b)(i) Appreciation of a currency: The value of one currency increasing in terms of another currency e.g. £1 = \$1.5 changes to £1 = \$2. The pound (£) has appreciated in value.*

In (b)(ii) candidates often failed to say what effect the appreciation would have on the current account of the balance of payments.

*“When a currency appreciates the country’s exports appear more expensive to other countries and so demand falls. The country earns less and this is unfavourable for the current account. Imports, on the other hand appear cheaper so more are demanded and this too worsens the balance of payments on current account.”*

Although most candidates did identify the correct effects on the exchange rates of

1. an increase in exports and
2. a decrease in interest rates

they did not explain their reasoning and so did not achieve maximum marks for part (b)(iii).

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### Paper 3

#### 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 involved in wages and the relationship of wage costs to other costs. 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, not to have seen the sources, to be unprepared for the questions and, in the exam room, to have ignored the sources thus limiting the credit that was available.

While most candidates could draw a relevant supply and demand diagram, question 2a, 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.

#### Question 1

Most candidates were able to find at least three comparisons between the minimum wage in the USA and those of the other countries.

#### Question 2

(a) Although the majority of candidates could correctly draw and label the supply and demand curves, there are still too many who either mislabel the lines or who appear to have no idea of this basic diagram. It was pleasing to see, however, a number of really well drawn and labelled diagrams that went beyond what was necessary to gain full marks.

(b) There were a few excellent answers that not only used the sources and their own knowledge, but also applied the concept of elasticity to examine the effects of a minimum wage. Many candidates used their diagram, from 2(a), but did not go beyond Source E and, therefore, offered a sound, but limited answer.

### Question 3

Candidates tended to find this question difficult mainly because they did not refer to the sources, but tried to answer it purely from their own knowledge. These answers did not get more than half marks. Good answers not only used the sources, but often offered perceptive comments such as 'low wages are relative and reflect the supply and demand conditions in their country'.

### Question 4

The best answers were those that not only used the sources and made sensible reference to their own country, but also used economic concepts such as supply and demand to explain the reasons. A more common approach was either to use the sources or to refer to the candidates' country, but not both. Weaker answers showed some knowledge and application to their country, but lacked any use of economic terms or concepts.

### Question 5

(a) Most candidates were able to handle the argument for benefits better than the argument for costs with weaker candidates often confining their responses to the latter to 'it will cost more to transport goods'. Good answers often referred to factors such as: 'it costs more to train the unskilled workers' or 'in many countries there will be a language barrier which can lead to costly mistakes'. It was disappointing to see a number of promising answers not gaining their full reward because they did not come to a supported decision.

(b) Again, most candidates were able to explain the benefits, but struggled with the costs with many not getting beyond 'these industries will cause pollution'. There were some good attempts at benefits with many mentioning not only job creation and skills transference, but, also, explored the whole idea of economic development often referring to their own country. If this was then linked to at least one cost, explained, and a supported conclusion reached then all the marks were available.

## 4350 - Statistics

### Option 1 - Foundation tier paper (1F) and paper 03

| Grade            | Max Mark | C  | D  | E  | F  | G  |
|------------------|----------|----|----|----|----|----|
| Grade boundaries | 100      | 55 | 48 | 42 | 36 | 30 |

### Option 2 - Foundation tier paper (1F) and coursework (04)

| Grade            | Max Mark | C  | D  | E  | F  | G  |
|------------------|----------|----|----|----|----|----|
| Grade boundaries | 100      | 58 | 51 | 44 | 38 | 32 |

### Option 3 - Higher tier paper (2H) and paper 03

| Grade            | Max Mark | A* | A  | B  | C  | D  | E  |
|------------------|----------|----|----|----|----|----|----|
| Grade boundaries | 100      | 78 | 67 | 56 | 46 | 40 | 37 |

### Option 4 - Higher tier paper (2H) and coursework 04

| Grade            | Max Mark | A* | A  | B  | C  | D  | E  |
|------------------|----------|----|----|----|----|----|----|
| Grade boundaries | 100      | 84 | 72 | 60 | 49 | 43 | 40 |

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