

Principal Examiner Feedback

November 2009

IGCSE

IGCSE Economic (4350) Paper 2H

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Examiners' Report Economics IGCSE 4350 Paper 2H

There were considerable differences in the abilities of candidates entered for this tier. Centres must take care to consider the level of entry for each candidate as it was clear that in this examination some were entered for the wrong tier. These candidates found difficulty gaining marks at the Higher tier and may have been more successful at the Foundation level where the questions are more heavily weighted to the lower level skills. There were some exceptional candidates who achieved the highest grades and who are to be congratulated for their ability to display, not only their knowledge and understanding of the subject, but also to analyse and evaluate to the highest levels.

Common mistakes and ones which teachers must address in the future include

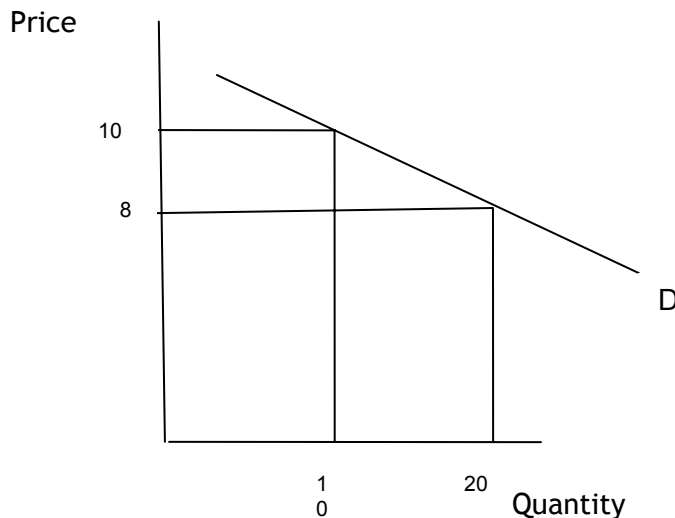
- Inability to produce clear, concise definitions,
- Misreading the questions,
- Little or no reference to the data provided in the question,
- Lack of balanced arguments in the higher skills questions.

Centres should use previous examination papers and reports to familiarise candidates with the different types of questions they will be required to answer. The examples of good responses in this report can be used to show candidates how the higher grades can be achieved.

Question 1

Most candidates correctly added a vertical supply curve to indicate an elasticity of supply = zero on figure 1a. Most could also give an example of a product which might have a perfectly inelastic price elasticity of supply e.g. rice, apples, mangoes. Parts (iii)(iv) and (v) related to price elasticity of demand. Product B in Figure 1b was correctly identified by the majority of candidates as having an elastic demand curve but few could explain how they had reached this conclusion in (iv).

Figure 1b
Product B



(iv) *“The demand curve for product B is price elastic because the small change in price, 10 to 8, produces a large rise in quantity demanded, 10 to 20. In terms of total revenue as the price has fallen the total revenue rises.*

Price 10	Demand 10	Total revenue	100
Price 8	demand 20	Total revenue	160.

This relationship between a fall in price and total revenue indicates an elastic demand curve.”

In (v) candidates were required consider the elasticity of demand of two different commodities, rice and chocolate. Rice was seen as a staple food, a necessity in some countries with few substitutes whereas chocolate was regarded as a luxury with many close substitutes. For these reasons rice was reasoned to have a less elastic demand curve. To obtain the marks for evaluation candidates might have concluded that *“In some countries rice does have close substitutes e.g. potatoes and pasta which will make it less inelastic and chocolate can become addictive but nevertheless it would be unusual for chocolate to have a demand less elastic than rice.”*

Characteristics of a mixed economy should not have caused problems at this level but it did and too many candidates failed to achieve full marks for (b)(i). Even fewer could explain two reasons why wage rates might rise in a mixed economy in (b)(ii). (b)(ii) *“The government might introduce a minimum wage rate which would increase wages for lower paid workers. This might lead to other workers asking for higher wages to maintain wage differentials. Trade unions also play a part in a mixed economy and may, especially in a period of boom, put pressure on employers to achieve higher wage rates for their members.”*

Candidates must take time to read the questions carefully. A common mistake in (b)(iii) led candidates to explain the impact of an increase in wage rates on the economy in general and not on unemployment. A correct response is given below. (b)(iii) *“An increase in wages causes the cost of production to rise so producers will try to cut costs by reducing the workforce so unemployment increases. Increased wages may also lead to an increase in prices so inflation rises. This might lead to a fall in demand for both domestic and export driven industries. This in turn will lead to a fall in demand for workers. The impact of an increase in wages on unemployment may be reduced by the strength of the trade unions. The stronger the trade union fewer workers will lose their jobs. However, the unions may not be able to completely reduce the effect of an increase in wages on unemployment.”*

Question 2

Although candidates were familiar with total costs = total fixed costs + total variable costs, too many did not understand that fixed costs have to be paid even if output is zero.

Surprisingly the definitions of economies of scale, usually a very popular and well attempted question, were poor. Vague references to *“benefits obtained by large firms”* were common whilst the precise definition, *“as output increases the average cost of production falls”* were few. Some candidates did redeem themselves and gain marks in (c)(ii) by referring to specific types of economies of scale. A good response with an element of evaluation is given below.

“When a firm expands it is likely to benefit from economies of scale. These include technical and managerial economies which help it to increase productivity. Financial economies enable the firm to obtain bank loans at a lower rate of interest. These economies of scale lead to lower average costs and increase the firm’s profits. However, when a firm expands diseconomies of scale may arise. There may be

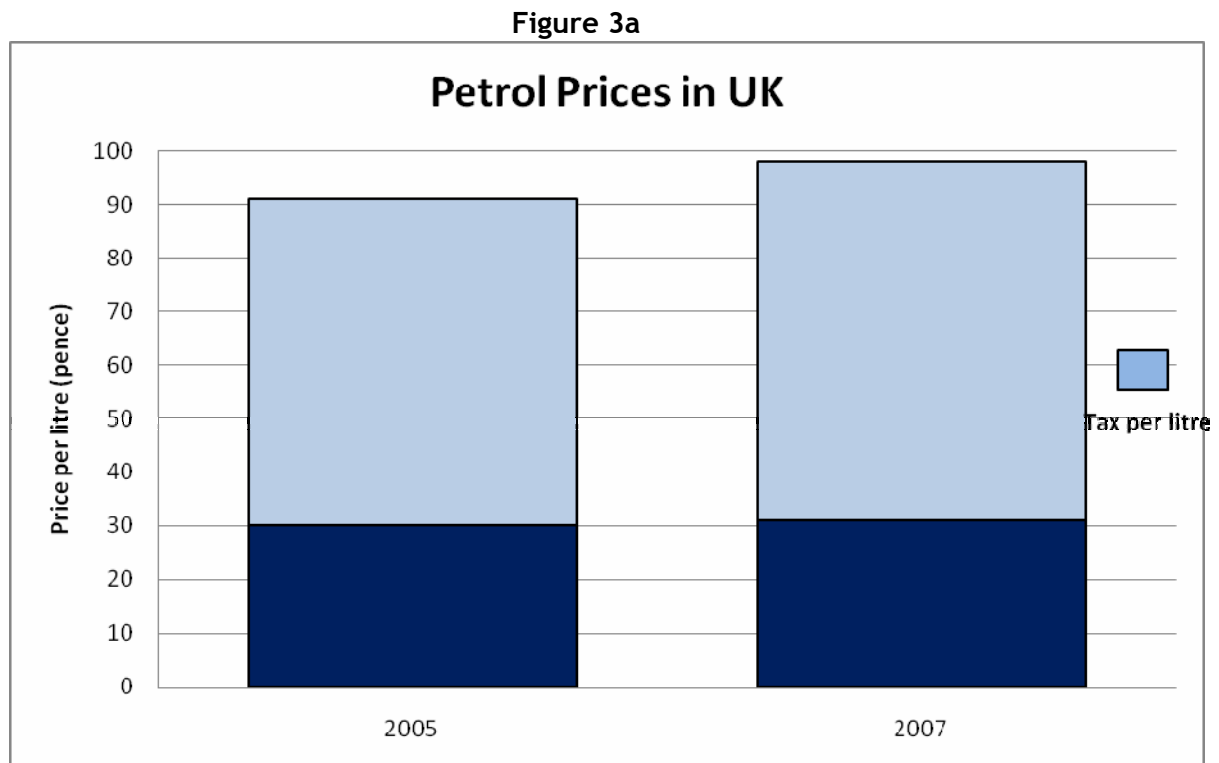
increased bureaucracy leading to communication problems as the structure of the firm becomes too complicated to allow it to function efficiently. Whether or not expansion brings benefits to the firm depends on the extent of the expansion and the measures the firm takes to avoid the diseconomies.”

The most common benefits of competition to consumers identified in (c)(iii) were reduced prices, improved quality and variety.

Pollution is an external cost (d)(i) and in (d)(ii) candidates were asked to identify and briefly explain two other policies, apart from fines, which the Chinese government could use to reduce pollution. The most popular were taxes and pollution permits. Some weak candidates confused pollution with demerit goods and referred to cigarettes and alcohol in (d)(ii) and (d)(iii). The question of whether or not consumers benefit from pollution policies (d)(iii) has an element of evaluation. (d)(iii) *“Consumers may benefit from anti-pollution policies for, if they live in the producer country, they may have better health as the air and water is no longer contaminated by industrial waste. On the other hand prices may rise as firms have to pay fines or increased taxes if they pollute. However, an increase in price is small payment for a longer life!”*

Question 3

Figure 3a below shows petrol prices in the UK in both 2005 and 2007.



Question (a)(i) asked for a description of what happened to the tax on petrol using the data in the figure. Unfortunately either many candidates did not interpret the data correctly or they misread the question. A common partially correct response was that tax increased (1 mark) from 91 pence per litre to 98 pence per litre. (incorrect) instead of from 61 pence per litre to 67 pence per litre (1 mark).

The tax on petrol is a regressive tax (a)(ii) but few who correctly identified this could explain the nature of regressive taxation.

(a)(iii) *“Regressive taxes are usually taxes on expenditure like petrol. A poor person buying a litre of petrol pays the same amount of tax as a rich person buying a litre of petrol. The proportion of income taken in tax is more for the poor person than the rich person.”*

Many reasons why governments might impose a tax on petrol were given by candidates e.g. to raise revenue, to overcome balance of payments deficit, to reduce pollution, reduce congestion, stimulate other means of transport.

Parts (a)(iv) and (a)(v) should have enabled candidates to go on to answer (a)(vi) which required them to examine whether the benefits of taxing petrol outweigh the disadvantages to the economy.

(a)(vi) *“The tax increases government revenue and this could be used to improve infrastructure and education and training which might lead to economic growth and improved standards of living. However, the tax may lead to inflation as goods have to be transported so an increase in the price of petrol will mean increased transport costs. There are advantages and disadvantages of taxing petrol and it should be up to the government to plan ahead and try to overcome the problems so that pollution from petrol can be reduced for the sake of the health of the people.”*

Once again a simple definition proved surprisingly difficult for candidates. Structural unemployment (b)(i) occurs when there is a **fall in demand** for the goods produced by an **industry** e.g. textile industry in UK. Those who were unable to define structural unemployment also experienced problems in (b)(ii) and (b)(iii). A good response to (b)(ii) is shown below.

(b)(ii) *“Increased expenditure on education and training will improve the skills of the workers increasing the mobility of those workers who find themselves unemployed because their skills are no longer needed. With new skills they can find jobs in growing industries e.g. computers, hence leading to less unemployment. However, retraining takes time and by the time the workers are retrained there may be no jobs available. It also depends on the workers to make the most of these new skills - some may be too old. The government may have increased tax rates to pay for unemployment benefits and the training schemes. The higher tax rates may be a burden to the tax payer which may lead to a disincentive to work. Thus education and training alone cannot reduce the level of structural unemployment.”*

Policies which improve the mobility of labour, occupational and geographical, can be used to reduce structural unemployment e.g. job centres, information, aids to set up small business.

Question 4

The European Union (EU) is probably the most well known trading bloc. An increase in trade between members of a trading bloc is to be expected as trade barriers e.g. tariffs, are removed between members whilst non members suffer from a common external tariff on goods they export to the bloc.

Candidates needed to know how the balance of trade is calculated for (a)(iv).

Value of visible exports - value of visible imports = Balance of Trade

\$70 billion - (iv)? = \$6.5 billion.

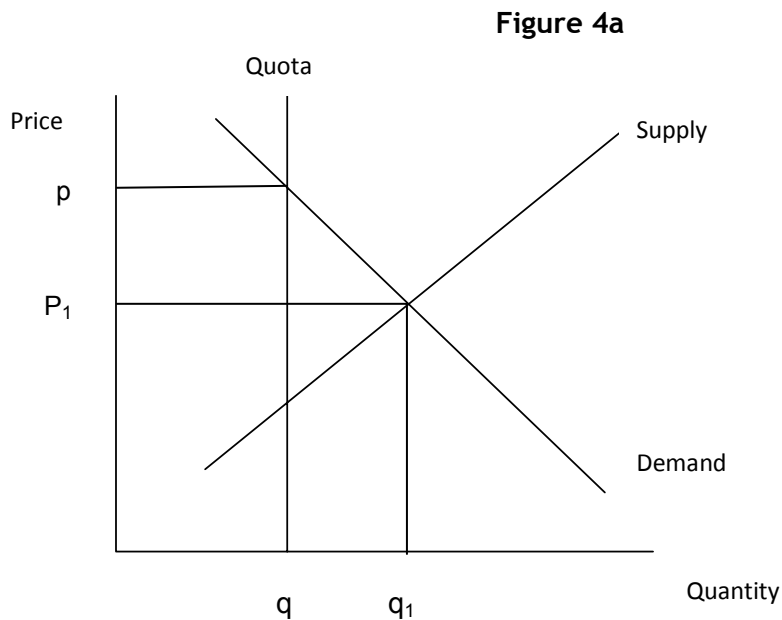
Thus the value of visible imports = \$63.5 billion not \$76.5 billion!

Too many candidates failed to understand that a change in the exchange rate from 1 euro = 3.9 zloty in 2004 to 1 euro = 4.5 zloty in 2006 showed that the value of the zloty had depreciated (b)(i). The following question referred the candidates back to the original table not to their response giving them the opportunity to correct their

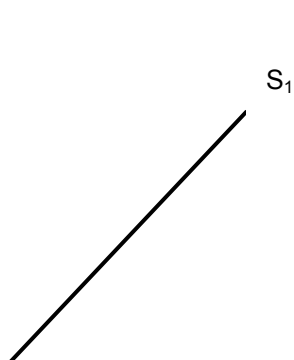
mistake. Unfortunately most compounded their mistake and in (b)(ii) wrote of the effects of appreciation on the balance of payments on current account. A correct response is shown below,

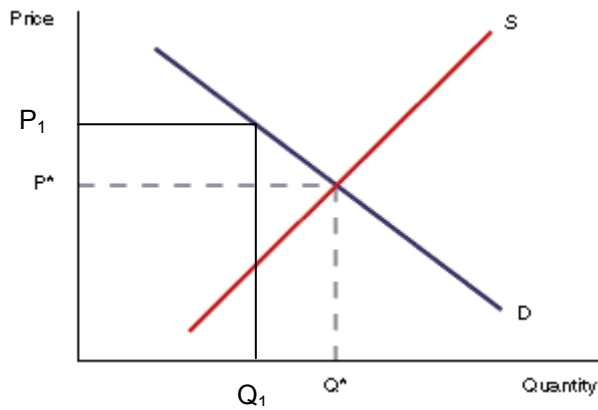
“The zloty has fallen in value (depreciated) against the euro. This would lead to exports appearing cheaper to consumers in other countries so they would buy more. At the same time imports into Poland from the E.U. would become more expensive as more zloty have to be exchanged for each euro. The increase in exports and the decrease in imports would lead to an improvement in the current account balance of payments. However, elasticity of demand may have an adverse effect. If imports from the E.U. are essential to Poland e.g. machinery, then as the price rises the amount spent on them may rise due to imports being inelastic in demand.”

Part (c) required knowledge and understanding of tariffs and quotas. Unfortunately too many candidates did not follow the instructions and left the diagrams blank! The impact of removing quotas is shown on Figure 4a. Price falls from p to p_1 and quantity rises from q to q_1 .



The impact of introducing import duties/tariffs is shown on Figure 4b. Supply shifts to the left, S to S_1 , price rises p to p_1 and quantity falls Q to Q_1 .





(c)(iii) This question continued the theme of tariffs and quotas.

“Tariffs will earn revenue for the government but they may not help the balance of payments. Tariffs restrict demand of elastic goods but inelastic goods will not contract by very much so may not help the balance of payments. Quotas are more beneficial to correcting a deficit of the balance of payments because they restrict the demand for goods irrespective of their elasticity.”

Previous reports have highlighted the common mistake made by candidates in questions requiring knowledge of the World Trade Organisation (WTO), the WTO does **not** provide financial aid to countries. It does, through negotiations, try to increase international trade. This can be done by agreements relating to reduction in trade barriers e.g. tariffs and settling trade disputes.

(d) *“WTO aims to promote free trade by reducing tariffs between countries and eliminating subsidies and quotas. This has led to more competition because of free trade. Competition has led to increased efficiency. It aims to settle disputes among trade partners leading to better understanding between countries and co-operation. However, trading blocs such as EU, NAFTA do not follow the rule. They impose tariffs against non- members which has discouraged free trade.”*

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