

Examiners' Report/ Principal Examiner Feedback

Summer 2010

IGCSE

iGCSE Economics (4350) Paper 2H

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PE Report on Examination Paper 4350/2H

General Comments

This report focuses on some of the common mistakes made in this examination together with examples of good practice. The following list suggests some of the simplest ways in which candidates at this level could improve their performance.

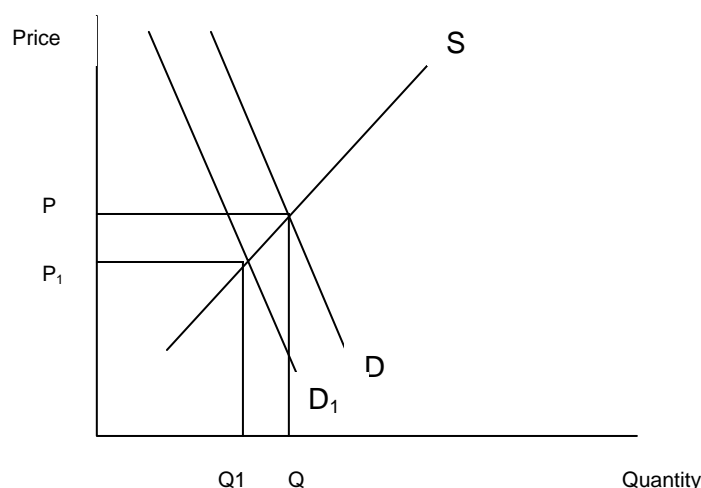
- Learn diagrams and definitions.
- Learn the difference between total revenue and profits.
- Understand the relationship between economic growth and Gross Domestic Product.
- Read the questions carefully. E.g. in 3b(iii) candidates gave a response which was not required i.e. candidates gave the benefits of economic growth not the problems.
- In questions which require some evaluation candidates must consider both sides of the argument.

When this examination is replaced by the single tier Economics IGCSE, centres who have prepared their candidates well will have little difficulty adjusting to the new examination. Past examination papers and the specimen material produced for the new examination will provide additional help.

Comments on Individual Questions

Question 1

This question dealt with demand and supply of cigarettes and went on to ask about elasticity and wage rates. The questions which related to Figure 1a required candidates to in (a)(i)(ii) draw a new demand curve D_1 , to show the effect of a government health campaign warning against cigarettes. The correct diagram is shown below.



In (b) the majority of candidates correctly defined price elasticity of demand (b)(i) and explained a reason for cigarettes being price inelastic. *"Cigarettes are addictive so as price rises smokers will only reduce demand by a very small amount."* Explanation of the elasticity of supply of tobacco proved more difficult as candidates didn't associate tobacco with being an agricultural good and therefore in the short

run being inelastic as supply can't respond to a change in price due to the growing period.

Part (iv) required some knowledge of the effect of price elasticity of demand on indirect taxation. A good response which looks at elastic and inelastic demand curves is given below.

1b(iv) *"An indirect tax is a tax which is on goods and services. Such a tax will therefore increase the cost of buying cigarettes. An elastic demand means the percentage change in the quantity demanded will be more than proportionate to the percentage change in price. The tax will reduce consumers' demand and lead to a healthier population. An inelastic demand means that the percentage change in the quantity demanded will be less than proportionate to the percentage change in price. There will be only a small reduction in demand. This leads to a net gain in revenue. This tax revenue will help the government with its finances. On the other hand the fact that demand is inelastic means that an indirect tax will not do much to curb addiction. The government therefore needs other policies, such as educational courses, to teach people why smoking kills and hopefully make demand more elastic. Thus inelastic demand will encourage the government to implement an indirect tax, but also compel them to implement other policies."*

Part (c) dealt with workers, wages and production. In (c)(i) the most popular ways identified in which a cigarette manufacturer could increase the amount produced by each worker were division of labour and motivational factors e.g. performance related pay, working environment including improved working conditions.

In (c)(ii) candidates were asked to decide which are the most important factors affecting wages in a cigarette factory. It was here that some candidates struggled as they failed to realise that wages are the price of labour so a good starting point for this response would be to look at demand and supply factors.

1c(ii) *"Workers in cigarette factories tend to earn relatively low wages because of the low levels of skills required for the job. Not many qualifications are needed, unlike professions such as lawyers and therefore supply is elastic. On the other hand, wages may actually rise due to a number of factors. A minimum wage may be implemented by the government, and trade unions may push for higher wages. The unfavourable conditions (workers need to work with chemicals which may be harmful) may also push up wages. Also increased demand for cigarettes can increase wages due to a shortage of labour. Overall the wages are largely determined by the supply of the workers which depends on their skills, but it can depend just as much on demand which is derived from the demand for cigarettes."*

Question 2

Few problems were encountered in (a).

In (b)(i) it was obvious that some candidates were uncertain of their definitions of monopoly and oligopoly. In (b)(ii) the majority of candidates gave well structured responses with only a few giving one sided responses or writing of workers rather than consumers. A good response is shown below.

2b(ii) *"Privatisation: the selling of state owned firms to the private sector may make firms more efficient as they have to attract consumers to survive increased competition and since they no longer receive financial help from the government. Thus consumers may experience higher quality goods and services and, through increased competition, lower prices. However private firms are profit motivated"*

and if they still have a monopoly position in the market consumers may experience higher prices.

Therefore, advantages of privatisation may outweigh the disadvantages, but there are other factors affecting it such as the firms' market power and the government's regulations regarding competition and monopoly."

Areas of industrial decline are usually associated with unemployment (c)(i). The government can offer financial and no financial incentives to firms to locate in these areas. Unfortunately some candidates could not distinguish between the two and gave two examples of financial incentives. The evaluation in (c)(iii) is shown clearly in the example below.

2c(iii) "Financial incentives will directly improve a firm's profits and can make operating in an otherwise non-profitable area profitable for firms. Subsidies can allow a firm to sell its goods more cheaply so they may have increased demand and revenue. However, non-fiscal incentives like improving transport services to an area like roads and public transport can be much more effective at attracting a retail firm that needs to have good access for customers in order to make a profit. However an office firm running accounting or something similar won't need such good access to customers to function. So it depends what kind of firm the government wants to set up there."

The concept of external costs appeared to be understood by most candidates. They were able to identify an external cost and give a brief explanation of a method a government can use to reduce the cost identified.

2c(v) External cost = pollution

"Introducing pollution permits; this way firms have to pay for the waste produced. By internalising an externality, firms would pay for this external cost and so they would try to reduce the pollution created by them, becoming more efficient."

Question 3

Figure 3a showed inflation rates for Armenia and Germany 2007-2009. The comparisons which could have been made included,

- The inflation rate in Germany was always greater than that of Armenia
- The highest inflation rate was 4% in Germany but only 3% in Armenia.
- From 2007-2008 the inflation rate in both countries increased.
- From 2008 - 2009 the inflation rate in both countries fell.

Candidates who referred to the figures in the table achieved full marks,

Only a few candidates correctly calculated the cost of the basket of goods in 2007 for (a)(ii). (a)(ii) *The basket of goods cost 100 euros in 2007.*

In 2008, prices had increased by 4% (the rate of inflation) so the goods would now cost 4% more.

4% of 100 = 4

In 2007 it cost 100 euros so in 2008 it would cost 100+4 = 104 euros.

Most candidates understood that creditors on fixed incomes suffer during inflation. Unfortunately they made no attempt to compare them to more fortunate groups in the economy during times of inflation.

3a(iii) "People on fixed incomes get the same amount of money even if its value decreases, so over time their purchasing power becomes less and less with inflation.

Creditors are repaid the same amount of money that was loaned even though it is worth less, so they have lost some of the value they lent. However people on variable incomes may have their wages increased over time to make sure they are given the same real value of money. Borrowers are paying back the same amount of money even though it is worth less in real terms so they don't lose out at all. So yes, creditors and people on fixed incomes do suffer more than others during inflation because they can't increase their incomes."

Figure 3b showed the economic growth of Armenia and Germany 2007-2009. Gross Domestic Product (GDP) is used to measure economic growth. (b)(i) required candidates to explain what is happening to GDP in Armenia from 2007-2009. Although the rate of economic growth is falling this does not mean that GDP is falling. *"GDP is growing but at a slower rate."*

A similarity and a difference from 2007 and 2008 is given below.

3b(ii) *"One similarity in the economic growth rates of Armenia and Germany from 2007 and 2008 is that in both countries it decreases (Germany from 2.5% to 2%; Armenia from 14% to 10%). A difference in the economic growth rate of Armenia and Germany is that the % change from one year to another is much greater in Armenia where it decreased by 4% and in Germany only by 0.5%."*

The most common mistakes in (b)(iii) included

- Candidates gave benefits of positive economic growth not its problems.
- Candidates seemed determined to bring in inflation for both positive and negative economic growth.
- Answers were one sided.

Some candidates did respond with some excellent answers.

3bii *"The problems associated with positive economic growth are an increase in pollution because of increased manufacturing and the using up of scarce, non renewable resources.*

However, the problems associated with negative economic growth are a rise in unemployment as firms face falling demand. This leads to a lowering of the average income as more are unemployed, the lowering of living standards as people can no longer afford to buy as much. As they buy less so GDP falls even more. This vicious circle of falling GDP is very hard to break and can increase poverty. Firms being poorer means that they can't afford to use clean energy sources like solar energy because it is too expensive, so they both use fossil fuels and this really hurts the environment. So to a large extent the problems of negative economic growth are much greater than the problems of positive economic growth, as all the problems of positive economic growth are experienced in times of negative economic growth. The problems of pollution can be remedied by government regulations but the problem of unemployment and recession are much more difficult to remedy."

Question 4

Multinationals caused few problems for candidates in (a)(i)(ii). There were some excellent responses for (a)(iii).

4(a)(ii) Although there was a change in terminology between the stem and the question there was no evidence that candidates struggled to reconcile the two terms. It did not alter the aim of the question, which was about reasons for international relocation - no knowledge of Central or South America was required and on the whole candidates answered this question very well.

4a(iii) *“When multinationals set up in a country they usually produce a lot of social costs such as pollution. Furthermore the foreign owners usually send profits back to their country, which is an invisible import on the current account. They can create unemployment when they set up as domestic firms can’t compete and so close down. Some of the problems of leaving are the same as setting up. The firm may leave behind polluted land and lots of unemployed workers. When firms set up they do create employment and this might offset the unemployment they cause. When they leave the unemployment is likely to be more severe so I think when a multinational firm leaves is more of a problem than when it sets up.”*

Figure 4a required simple calculations for (i) Balance of trade and (ii) Balance on current account.

Million US Dollars	2007
Goods: exports	115.0
Goods: imports	162.0
Balance of (i) trade	(ii). $115.0 - 162.0 = -47$ Too many omitted the -ve sign
Invisible exports	35.1
Invisible imports	28.1
Balance of invisibles	7.0
Balance on current account	(iii). $-47 + 7 = -40$

It was surprising that some candidates did not choose the most obvious policies to solve the current account balance (deficit) in (b)(iv) e.g. tariffs and quotas. Instead they wrote long and confused responses about fiscal and monetary policy.

Definitions of trading bloc were usually accurate and succinct. In (c)(ii) arguments for and against were given rather than one sided responses.

4c(ii) *“Being part of a trading bloc will allow domestic firms free access to a larger market. If they are very efficient they will be able sell more because the market is larger and take advantage of economies of scale. However becoming part of a bloc also exposes domestic firms to much more competition from foreign firms that may be more efficient. This may mean that domestic firms go out business because demand falls so much. It may encourage them to become more efficient and increase their output increasing their country’s GDP. So membership may have mixed effects depending on how efficient domestic firms are and how well they adapt to the larger market.”*

Grade Boundaries - June 2010

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

Grade	A*	A	B	C	D	E
Grade Boundaries	82	73	64	55	50	47

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

Grade	A*	A	B	C	D	E
Grade Boundaries	86	75	64	54	50	48

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