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Principal Examiner Feedback

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International GCSE Economics (4EC0)  
Paper 01

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## Report 4ECO/01

The first January session of this new examination has presented challenges to centres and candidates. Unlike the GCE O level 7120, which it has replaced for the January session, there is no choice. All questions are compulsory. Therefore the teaching of the specification must not omit any section or part of a section otherwise candidates will be disadvantaged. All examiners agreed that there were more blank responses than in previous sessions of either GCE O level or International GCSE 4350. This reinforces suspicions that in some centres parts of the specification had been omitted from the course.

In order to improve the performance of their candidates centres should emphasise the importance of

- attempting every question,
- learning definitions and being able to produce them succinctly in the examination,
- reading questions carefully,
- referring to data and giving examples when required.

In questions which require evaluation, candidates should learn to

- identify and explain points which relate to both sides of the argument/discussion referred to in the question,
- come to a reasoned/justified conclusion.

Centres should study the following comments relating to each question. Teachers can use the examples given in some of the questions to show candidates examples of good responses.

### Question 1

**(a)(i)(ii)** The majority of candidates proved that they are familiar the concept of equilibrium, excess demand and excess supply. The most common mistake in (i) occurred when candidates gave 400 as the equilibrium price when in fact it is the quantity demanded and supplied.

**(a)(iii)** This was the first question which asked for a definition. Too many responses lacked precision and some incorrectly referred to elasticity of supply.

**(a)(iv)(v)** The multiple choice question (iv) produced a majority of correct responses. However the responses to (v) were disappointing. In the 'Illustrative Guidance for Teachers' in the Specification booklet the notes alongside the subject content for price and income elasticity state:

*Calculations using the formulae are **not** required.*

and

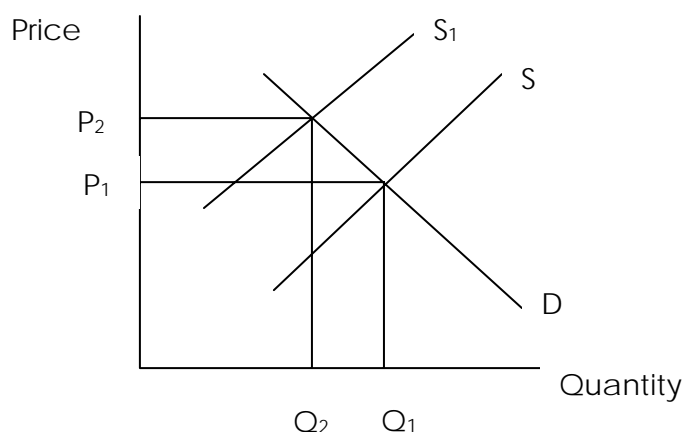
*Use of total revenue calculations to show the relationship between a change in price and the change in total revenue for differing elasticities is important.*

Centres need to work with the guidance provided to give their candidates the opportunity to improve in this area. The majority of correct responses used the data to calculate price elasticity of demand and state that as it is greater than one and therefore elastic. Very few candidates used total

revenue, as recommended in the guidance notes, to prove elasticity. Weaker candidates referred to price rising and demand falling with no reference to price elasticity.

**(a)(vi)** Opportunity cost posed few problems except when some candidates gave the cost in terms of a monetary value.

**1(b)(i)** A tax on laptops is a sales tax and the effect on price is brought about by a shift to the left of the supply curve as shown below.



Common mistakes included, shift of the demand curve, shift of supply curve to the right and shifts of both curves.

**(b)(ii)** It was hoped that candidates would use this question as an opportunity to show their knowledge of the factors affecting demand and supply by choosing one factor and explaining why this leads to a change in price. Although many identified relevant factors e.g. substitutes, income, population, fashion, costs of production, subsidies few went on to explain which curve shifts and whether price would increase or decrease. The following are examples of simple, concise responses, one a demand factor and the other a supply factor.

*If incomes rise demand for laptop computers will increase. As the demand curve shifts to the right price will rise.*

*If wages increase the costs of production rise, the supply curve will shift to the left and price will rise.*

Incorrect responses included *inflation*, *a bad harvest* and *VAT* (a sales tax). The latter response was an example of candidates not reading the question which clearly states: Identify and briefly explain **one other** factor besides a sales tax that might change the price of laptop computers.

**(c)(i)(ii)** Once again definitions were imprecise. In (ii) only the most able students scored marks for evaluation. A good response which includes both sides of the argument and evaluation is shown below.

*"The people who benefit most from an increase in the minimum wage are the disadvantaged workers (women, ethnic minorities) who will see their living standards rise. In counties like Jamaica this may be a large proportion of the workforce. Others may be disadvantaged. Minimum wage legislation has the potential to create job losses and firms may suffer losses as their costs increase. However the negative effects can be avoided if the economy is growing at the same time and if worker productivity rises at the*

same time. If productivity rises and it might do so, as workers are more satisfied with their wages, the whole economy benefits. The firms become more efficient. As a result I would disagree with this statement. Minimum wage has the potential to benefit the whole economy with less income inequality and higher productivity."

**(d) (i) (ii)** Division of labour must not be confused with specialisation. Division of labour is usually applied to the manufacturing process where a process is divided into simple tasks each performed by a different worker or groups of workers. The most popular examples included Adam Smith's famous pin factory, car and garment manufacturing.

In (ii) the question asks candidates to make reference to the advantages and disadvantages for the firm. A common mistake occurred when they concentrated on the advantages and disadvantages to workers without reference to the effects of these on firms.

*"Division of labour has its fair share of advantages and disadvantages. As a firm implements division of labour into its production process, it tends to become much more efficient and productive. This occurs due to labour speeding up the production process as they become more skilled. Mistakes can be reduced and quality can rise. Furthermore, division of labour allows average costs to fall due to rising productivity. On the other hand, since workers are doing the same job on a daily basis, they may become demoralised due to the monotony of the task. This creates job dissatisfaction which eventually leads to inefficiency. Firms may also encounter bottlenecks or clogs in the production process due to interdependence between departments.*

*All in all, division of labour is a concept that can prove to be very effective. Some of the problems may be overcome with good motivational management. If workers are given rest breaks or paid by how much they produce then the problems associated with their dissatisfaction might be overcome."*

## Question 2

**(a) (i)** Once again definitions were imprecise. The entrepreneur organises the factors of production, bears the risk to achieve a profit.

**(a) (ii) (iii) (iv)** The aim of this specification is not to test the mathematical ability of candidates but there are sections which do involve simple numerical calculations. In (ii) candidates had to place three costs under the two headings fixed and variable. Most were able to complete this task and (iii) where, from the data given, candidates were asked to calculate total costs. However the calculation of profit proved more difficult. The most common mistake occurred when candidates used a variety of incorrect formulae for profit.

Correct formula = Revenue – Total Costs (Fixed cost + Variable cost)

Most common incorrect formula = Revenue – Variable cost.

**(b) (i)** Candidates identified many correct methods by which a government can help individuals to start their own businesses but in too many cases these lacked development.

*“A government can help by giving tax holidays. This encourages small businesses as many look forward to using the money they earn to reinvest in the business. Subsidies can also be given which will reduce the cost of production so small businesses will be able to set up and compete against larger firms.”*

**(b) (ii)** The question asks candidates to consider whether or not the schemes are important. It does **not** ask them to compare the schemes. “The importance of government schemes to encourage the setting up of small firms depends on various factors, such as the state of the economy. By helping small firms establish, the government can increase competition in an economy, this will result in lower prices and more choice to consumers. Aggregate demand in the economy will rise leading to an increase in GDP (economic growth) and higher levels of employment in the economy. However, if a government increases expenditure on small firms it would mean that government funds for other services such as education and healthcare would fall. This may cause living standards to plunge. The importance of schemes to encourage small firms depends on the state of the economy and the government budget. A fall in public services might outweigh the advantages of stimulating competition through encouraging small firms.”

**(c) (i) (ii)** The majority of candidates know that privatisation involves the public and private sectors but once again only the correct definition could achieve full marks. Once firms are privatised problems may occur which require regulation. Unfortunately although many could identify such a problem too many did not explain it. *“Many of the firms which are privatised were public sector monopolies. The government should regulate these firms as monopolies in the private sector can exploit consumers by charging high prices.”*

**(c) (iii)** Lists are discouraged in this examination. Candidates cannot achieve more than half marks for a list of points. There needs to be some development. *“Privatised firms exist to make a profit. They will try to achieve this by becoming more efficient. When a public sector firm is privatised then it may face competition. This will lead to reduced prices and more variety. It may even make it more competitive in the international market. However efficiency may lead to unemployment as firms in the private sector rationalise and only keep the best workers. A firm which has been a monopoly in the public sector e.g. electricity, may remain a monopoly and exploit consumers with high prices. This will bring down the standard of living in the economy. The government should ensure that privatised firms don't have adverse effects on an economy. They can regulate them so that their prices are not too high e.g. Ofgem regulates the gas and electricity industry in the UK.”*

### **Question 3**

**(a) (i) (ii)** Too many candidates omitted reference to prices in their responses.

In (i) once again definitions were vague when they should have been simple and straightforward.

In (ii) the most common mistake occurred when candidates looked at the chart and saw that the level of inflation between 2008 and 2009 had fallen and thought that this meant that prices too had fallen! A correct response is shown below.

*"The rate of inflation in 2008 was about 23% but in 2009 it had fallen to 6% showing that prices were rising throughout the period but at a slower rate in 2009."*

**(a) (iii) (iv)** Candidates performed better on (iii) than on (iv).

**(a) (iv) (v)** The functions of money are different from the characteristics of money. The functions are important in understanding the working of the economy and the government's economic policy. The following examples show the functions of money and how they can be affected by inflation.

- *Store of value: as money loses its value through inflation people save less. They will be losers if the interest rate is less than the inflation rate.*
- *Medium of exchange: as money loses its value it becomes more difficult to trade so people revert to using something which doesn't lose its value e.g. gold..*
- *Unit of account/measure of value: as the price changes due to inflation people can't put a monetary value on goods.*
- *Standard of deferred payments: people who are owed money (creditors) lose out as money loses its value so won't give new loans.*

**(b) (i)** Figure 3b shows the Current Account Balance for Vietnam. There is a deficit in all three years. Unfortunately the majority of candidates were unaware that

- A negative account balance is called a deficit
- When the deficit changes from -7bn dong in 2007 to -10.5bn dong in 2008 this can be referred to as a *"worsening of the deficit"* or an *"increase in the deficit"*.

To state that the balance is *"increasing"* or *"decreasing more"* or *"reducing"* without reference to the deficit or figures resulted in confused and often incorrect responses.

**(b) (ii) (iii)** Few problems except some candidates didn't give examples instead they gave synonyms i.e. visible = goods, invisible = services. Part (iii) did bring some amusing responses when candidates gave literal examples of "invisible" e.g. *"gas"* and *"undergarments"*!

**(b) (iv)** The majority of candidates reasoned that exports would be more expensive so demand would fall and imports would seem cheaper so demand would rise. The more able candidates referred to the effect of price elasticity of demand for exports and imports.

*"Inflation does not always worsen the balance of payments on the current account. Due to inflation the price of home produced goods increases, therefore this results in a fall in demand for exports but a rise in demand for imports as they appear cheaper. As imports increase and exports fall the balance of payments on the current account worsens. But if the exports are*

*necessities (price inelastic), for example medicine, and the imported goods and services are also necessities e.g. food, the balance of payments on current account may not worsen. Therefore inflation does not always worsen the balance of payments on the current it depends on the price elasticity of demand for exports and imports."*

**(c) (i)** Some candidates still think that interest rates are part of fiscal policy!

**(c) (ii)** It was expected that candidates would look at the increase in the rate of interest from the point of view of an individual (see example below) instead many tried to explain how firms would react. This caused problems. If firms decide not to take loans for expansion then this is not creating unemployment it is not creating employment. Those who referred to firms achieved marks for referring to

- firms would cut back investment, would not replace old machines so demand in the capital goods industry would fall.
- Costs on current loans would increase so firms might need to cut back on labour in order to pay the extra interest.
- Interest rate rises would lead to an appreciation of the currency so exports would fall leading to unemployment in those industries.

*"When there is an increase in the rate of interest people would tend to save more as it is attractive. When people save more there would be less money in hand to spend, leading to a fall in consumption level. When consumption falls the aggregate demand would fall leading to the demand for labour to fall as well, which increases the level of unemployment. Another reason is when the rate of interest increases, borrowing would be less attractive so borrowing would fall. Therefore individuals would have less money in hand leading to a fall in the consumption level, a fall in aggregate demand which increases the level of unemployment."*

**(c) (iii)** Too many candidates did not attempt this question. As can be seen below supply side policy appears on the specification together with its main limitation i.e. time.

### **Supply side**

- Supply side policies: privatisation; deregulation; education and training; productivity of the workforce.

Candidates should understand that supply side policies operate over a longer term than demand side policies.

Candidates who had been taught the specification should have been able to identify and explain at least two supply side policies and give some reason for their failure or limitations.

*"Supply side policies such as education and training would greatly improve the quality of labour increasing the chances that people have adequate skills to get hired and reducing unemployment. However training takes time so it would not have an immediate effect. Deregulation and privatisation would encourage new firms to set up, make industries more competitive and might result in them employing more labour. Whilst these measures might solve some types of unemployment like structural unemployment by giving*



*workers new skills they would not solve cyclical unemployment which requires an increase in aggregate demand. Supply side policies can also be costly which means the government would have to reduce its expenditure in other areas. The extent to which supply side policies reduce unemployment depends on the state of the economy and the types of unemployment it faces."*

#### **Question 4**

**(a) (i)** Few problems.

**(a) (ii)** The most popular correct responses included more choice, no tariffs, no quotas, lower prices and the most popular incorrect response was *"free movement of labour"*.

**(a) (iii)** The majority of candidates managed to score some marks on this question but few identified disadvantages and explained them.  
*"Developing countries are still in process of trying to develop their economies. With free trade there no trade barriers and when locals want buy more cheaper imports this may affect their balance of payments as imports may increase. Demand for products of local small firms still developing in these countries may fall and suffer due to the competition of foreign companies that are larger."*

**(a) (iv) (v) (vi)** In the past the topic of multinationals has always been popular with candidates scoring highly on set questions. The majority of candidates in (iv) scored the mark for identifying Foreign Direct Investment (A). In (v) the most popular correct responses centred around factors which affect the location of industry and included, cheap work force, proximity to raw materials, large market, government incentives. Unfortunately most responses lacked explanation/development.  
*"First, when the Ford Motor Company builds a third plant in China, it may benefit from the lower wages compared to host country so that Ford can maximize profit and minimize cost. China has a huge population so there is the potential to sell more cars and increase profits."*

**(a) (vi)** Candidates are familiar with the advantages and disadvantages of multinationals. The more able students related these to the standard of living and ended with some evaluation.  
*"When multinationals invest in other countries unemployment might fall since they usually demand local workers. The standard of living of these previously unemployed workers will increase. Multinationals will provide variety and choice at cheap prices for the people of the country as their goods will now be tariff free. However, multinationals can destroy local business due to competition. The multinational may undercut the prices of domestic producers. This might lead to closure of these firms and so unemployment may rise. The unemployed workers will suffer lower standards of living. Even the workers employed by multinationals may suffer from low wages and poor working conditions. The multinational may only care about profits and keeping costs low so may cause pollution."*

*In conclusion, multinationals can improve the standard of living in a country but the government must regulate these firms. Regulations about pay and conditions of work as well as fines on pollution may help to maintain the improvement in the standard of living that multinationals bring to a country."*

**(b) (i) (ii)** Candidates should know definitions of common economic terms. The responses to (i) subsidies were better than those for (ii) dumping. *"Subsidies are money given to firms by the government to reduce their costs of production".*

As for dumping there were clues in the leading paragraph. *"Chinese producers were dumping steel pipes.....on the American market".* Too many candidates thought that dumping must be related to waste products – they should have asked themselves why waste products would be dumped onto a market. The definition of a market: where buyers and sellers come together to trade means that the steel pipes referred to must have a value and not be waste products. Candidates should not ignore the information they are given in the questions.

*"Dumping occurs when foreign producers export to other countries below the cost of production."*

**(b) (iii)** The penultimate question on the paper and one which caused many problems. Candidates should know the advantages and disadvantages of tariffs. This question simply asked them to look at these and relate them to a developed economy and to come to a conclusion.

*"The benefits of tariffs include a decrease in imports as prices are increased. This might help the balance of payments. At the same time as imported goods increase in price there might be an increase in demand for domestic goods which appear cheaper.*

*On the other hand tariffs will increase the price of goods to not only consumers but also to firms who might use imports of raw materials to make the domestic goods.*

*Whether or not tariffs are of benefit to a developed economy depends on many factors. Developed countries import raw materials from developing countries so prices of domestic goods as well as the imports will rise leading to inflation. If developing countries retaliate then developed countries may not be able to sell their manufactured goods abroad. The developed country may find itself with a fall in exports, inflation and poor relations with developing countries so perhaps the disadvantages of tariffs are greater than the benefits."*

**(b) (iv)** The most popular method identified was quotas, a limit to the amount/value of a good which can be imported. Despite the question stating "other than tariffs" some candidates still gave *"tax on imports"* as their chosen method.

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