

# ECONOMICS

---

Paper 2281/01  
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	21	D
2	C	22	A
3	D	23	A
4	D	24	C
5	B	25	D
6	D	26	B
7	B	27	D
8	A	28	B
9	B	29	C
10	C	30	D
11	B	31	A
12	C	32	C
13	D	33	C
14	B	34	A
15	C	35	A
16	B	36	C
17	B	37	A
18	C	38	A
19	C	39	D
20	B	40	B

4239 candidates took this paper this session, more than last year, and the mean mark was 27.5 slightly higher than the mean mark of 26.5 in 2005 and 25.6 in 2004.

The easiest questions proved to be **Questions 2, 6, 7, 15 and 28** with over 87% of the candidates choosing the correct answer. These questions were on different sections of the syllabus and tested different skills. **Questions 2, 6 and 7** tested knowledge, **15** tested application and **28** analysis. There is no one skill, therefore, that the candidates find easier than others.

**Question 12** was the only question which proved to be more difficult than the limits expected by the examination. In this question candidates were required to realise that with unitary elasticity the total revenue from the sale of the good remains the same whatever the price change. The correct answer was **C**. 22% obtained the correct answer, 25% chose **A**, 21% chose **B** and 33% chose **D**.

Although within the limits expected, other difficult questions were **3, 8, 9, 10, 23, 25 and 29**. All the other questions were answered correctly by at least 56% of the candidates and sometimes by as many as 95% of the candidates.

For **Question 3**, the correct answer was **D** but 29% chose **A**, forgetting that the factor land includes the sea.

**Questions 8,9, and 10** relate to demand and supply and require an understanding of the market equilibrium demand and supply diagram.

For **Question 8**, 45% chose the correct answer, **A**, but 29% chose **B** and 19% chose **C**. This is evidence of a confusion about the relationship between the demand and supply of complementary goods. It would be good for candidates to practice drawing the demand and supply diagrams for such relationships as there are always questions on this area on the paper.

For **Question 9**, 34% gave the correct answer **B** but 36% gave answer **C** which relates to a situation of price below equilibrium. Again, practice and familiarity with the demand and supply diagram should help resolve such confusion.

It was surprising that 31% of the candidates gave **D** as the answer to **Question 10** instead of **C** which was chosen by 46% of the candidates. This question related to the demand schedule, not its shift. All but the price of the good is held constant in calculating the schedule.

34% of the candidates chose the correct answer **A** for **Question 23**. 37% chose **C** but this is likely to increase growth through increased investment. Indeed, this idea formed part of **Question 25** where the correct answer was **D** chosen by 47%. 34%, however, chose **A**. An increase in interest rates might have a detrimental effect on investment and therefore on growth – the opposite of the situation in **Question 23**.

**Question 29** was a question on the meaning and application of real income. 40% chose the correct answer **C**, but 54% chose **B**. There is always a confusion about the meaning of 'real' income. Here, the rate of inflation was higher than the increase in incomes so money incomes would buy less goods and services and, therefore, real incomes would have fallen.

The remaining questions were within the tolerance allowed for the paper and for many a high proportion of candidates were able to choose the correct key. They are to be congratulated for so doing.

# ECONOMICS

---

Paper 2281/02

Structured Questions (Extended)

## General comments

The quality of the answers was, in the majority of cases, of a good standard. There were some very good answers from a number of candidates who demonstrated a sound knowledge and understanding of economics and a mature ability to analyse and evaluate key economic concepts and issues. The quality of some answers, however, was much weaker with candidates failing to demonstrate very much knowledge or understanding. There were very few rubric errors and only a small number of candidates answered more than the required four questions.

Candidates need to pay attention to the precise instruction in the question. For example, if the question asks the candidate to identify something, as in **Question 2 (c)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to explain something, as in **Question 1 (a), (b) (ii) and (c) (i), Question 2 (a), Question 3 (a), Question 4 (b), Question 6 (a) and Question 7 (a) and (b)**, he or she needs to go into much more detail. If the question requires the candidate to discuss something, as in **Question 1 (c) (ii), Question 2 (b) and (d), Question 3 (d), Question 4 (d), Question 5 (b) and (d), Question 6 (c) and Question 7 (d)**, he or she needs to develop the answer much more fully, often giving two sides of an argument and then coming to a conclusion.

Candidates also need to look very closely at the number of marks given to each part of a question as this gives a clear indication of how much time should be allocated to that part of the question and how much detail is required.

One problem for the examiners is that a few candidates fail to put the answers in the correct order, often mixing up answers to different questions. This makes it very difficult for the examiners and candidates really need to allow time at the end of the examination to put their work in the correct order.

## Comments on Specific Questions

### Question 1

- (a) Most candidates were able to draw a demand and supply diagram correctly to show the likely change in the market for oil in India in the next 15 years with the demand curve shifting to the right. The change in the equilibrium positions of price and quantity, unfortunately, were not always clearly shown. It is always disappointing to see that some candidates still get demand and supply the wrong way round. The explanations were generally clear in the majority of cases, pointing out that the equilibrium price and quantity would be likely to rise.
- (b) In (i), many candidates recognised that the purchase of foreign oil would be recorded in the current account of India's balance of payments as visible imports. Some candidates, however, incorrectly argued that they would appear in the capital account. In (ii), most candidates were able to explain two possible disadvantages to the Indian economy of its dependence on imported oil, such as the likely worsening of the balance of payments account and the effect of the volatility in world oil prices.
- (c) In (i), most candidates were able to define strong industrial growth as a rapid expansion of output. In (ii), there were some very good discussions of the possible effects of strong industrial growth. There were several possible advantages, such as the increase in employment and incomes, possible disadvantages included the environmental impact and the likely increase in inflation. The better answers offered a balanced discussion which paid attention to both the advantages and disadvantages.

## Question 2

- (a) Most candidates were able to identify and explain the four factors of production: land, labour, capital and enterprise. Some, however, still explain the concept of capital in terms of money rather than in relation to capital equipment and some are convinced that there are only three factors of production, enterprise being the one usually omitted.
- (b) There were some very good answers to this part of the question. Most candidates recognised that, despite the potential advantages of large firms, many small firms continue to exist and they were able to include a number of reasons for this in their discussion, such as the difficulties of raising the necessary finance to expand, the limited size of the market and the need to give more personal attention.
- (c) Most candidates recognised that horizontal integration applied to the first situation and vertical integration to the second; some, however, failed to add that the second example involved vertical integration in a backwards direction, i.e. linking up with the suppliers of raw materials.
- (d) Many candidates offered a very good discussion in the last part of the question, pointing out that there were likely to be both advantages and disadvantages of integration. Advantages might include the benefits of economies of scale, reducing both costs of production and prices charged to the consumers; disadvantages might include the possibility of less competition and therefore a reduction in choice for the consumer. The better answers offered a good balance of both perspectives, arguing that in certain circumstances, integration might be beneficial but that in other situations, this might not be the case. It was therefore the case that integration was not always beneficial.

## Question 3

- (a) There were some very good answers to this first part of the question. Candidates were able to explain the term 'scarcity' in terms of the contrast between unlimited wants and limited resources. Opportunity cost was also explained well in terms of the next best alternative foregone.
- (b) The first part of the question was answered well by the majority of candidates who were able to describe a range of factors that might affect an individual's choice of occupation, such as the remuneration, working conditions, location, prospects of promotion, holiday entitlement, pension provision and various other benefits. The second part of the question was answered less successfully; some candidates struggled to apply the concept of opportunity cost and did not seem to grasp that there was likely to be a trade-off between various jobs, i.e. the idea that choosing one particular occupation needed to be seen in the context of the next best alternative occupation foregone.
- (c) Answers to this part of the question varied a great deal. There were some very good answers where the candidates were able to analyse how a person's earnings would be likely to change during their working life as they progressed through a particular occupation, gaining more experience and possibly promotion, or as they changed occupations. Some candidates, however, failed to appreciate how and why earnings might change over a period of time.
- (d) Again, answers to this part of the question varied enormously. There were some very good discussions by many candidates on why different occupations have different rates of pay. They were able to place the discussion within the context of the theory of demand and supply, explaining that if demand was high and supply was low, rates of pay were likely to be higher. Some of the better candidates brought in the concept of the elasticity of supply of labour, pointing out that where supply was relatively inelastic, i.e. where the labour was highly skilled, rates of pay were likely to be higher. Some used diagrams to good effect to aid the discussion. The weaker candidates, however, offered purely descriptive answers and made no reference at all to demand or supply.

## Question 4

- (a) This proved to be a difficult question for many candidates who did not understand what was required to get the correct answer. The answer was 41,100 and this was calculated by subtracting 1,500 from 42,600.

- (b) There were some good answers to this part of the question. Most candidates were able to explain why the pattern of employment might change, such as because of the greater number of part-time workers, job-sharing, flexitime and the impact of changes in technology on patterns of employment. Many candidates also brought in the movement away from the primary sector towards a greater proportion of employment in the secondary and tertiary sectors.
- (c) This also proved to be quite a difficult question for many candidates who did not seem to understand how the rate of unemployment might fall at the same time as a decrease in the number of people employed. The reason why both of these statements could be true at the same time was that the rate of unemployment was a relative figure, i.e. a proportion of the working population, whereas the number employed was an absolute figure.
- (d) This part of the question was answered reasonably well by the majority of candidates who were able to discuss the possible economic consequences of unemployment. These included the possible need to support more people in terms of welfare benefits and transfer payments, the waste of valuable resources and the possible impact on the rate of economic growth. Some candidates, however, spent far too much time discussing the various causes of unemployment rather than focusing on the consequences.

#### Question 5

- (a) Most candidates were able to offer a clear distinction between the private sector and the public sector of an economy, stressing that the former involved private control and ownership with the aim of making profits whereas the latter involved government or state control and ownership with the aim of providing particular services.
- (b) Again, there were some good answers to this part of the question with the majority of candidates able to discuss clearly the possible disadvantages of allocating resources through the public sector. These included the fact that crucial decisions would be taken by bureaucrats and/or politicians rather than business people, the lack of a profit incentive and the possible lack of efficiency and competition.
- (c) Most candidates understood that when airports were planned, there may often be people who actively campaign to stop them being built and they were able to consider a number of possible disadvantages that the building of an airport might have. These included the environmental costs such as congestion and noise and the possible destruction of property to create space for the airport. The possible reduction of property values in the area was also considered.
- (d) There were some good answers to this final part of the question where most candidates were able to offer a useful contrast between income tax and a specific (flat-rate) tax as a means of paying for the construction of an airport. There was some good discussion of the relative advantages and disadvantages of such direct and indirect taxes and candidates then opted for one or the other although a number argued that a combination of the two might be the most appropriate solution.

#### Question 6

- (a) The first part of the question was answered well by most candidates who were able to explain a number of indicators that might be used to determine whether a nation was poor. These included real GDP per head, life expectancy, literacy rate, number of doctors per thousand of population and access to clean water. Some candidates, unfortunately, only offered a list of possible indicators despite the fact that the question clearly required them to explain the indicators.
- (b) The majority of candidates did very well in this part, describing the various methods which might be used to protect industries from foreign competition in international trade. These included tariffs, quotas, subsidies, embargoes, exchange controls and various types of regulations and administrative controls.
- (c) The final part of the question required candidates to discuss whether it would be better for a country to engage in free trade or to use some form of protection from foreign competition. There were some very good answers with candidates demonstrating a sound knowledge and understanding of the advantages and disadvantages of both free trade and protectionism.

### Question 7

- (a) The majority of candidates were able to explain why the rate of population growth in developed countries was often different from that in developing countries. They pointed out that developing countries had higher rates of natural increase in population with death rates having fallen faster than birth rates. Birth rates were usually significantly higher in developing countries and candidates offered a range of explanations for this, including the traditions of the country, the relative lack of contraception and information on family planning and the limited levels of education.
- (b) Most candidates were able to explain why a country might want to try to limit the growth in the population of its country, especially in terms of trying to limit the pressure on the available resources. A number of candidates made some useful comments on famine and the standards of living generally and on the problems of overcrowding.
- (c) The majority of candidates were able to describe the likely change in the relative importance of the different sectors of production as countries became more economically developed, explaining the gradual movement away from the primary sector towards the secondary and tertiary sectors.
- (d) Most candidates were able to discuss how governments might deal with a situation of a large increase in the proportion of older people in many developed countries during the next 10 to 15 years. They considered the possible raising of the retirement age, the need for retraining of the older workers and the need to maintain the level of the pension. This latter point brought in some very useful discussion in relation to how this might be financed and the effect of this on the taxes paid by the working population.