

ECONOMICS

Paper 2281/11
Multiple Choice

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

The mean mark was 25.1 which compares favourably with the mean of 23.9 last year.

The questions for which most candidates selected the correct answer were 1, 4, 15, 16, 18, 19, 25, 26, 36 and 37. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 10, 13, 14, 20 and 22. These questions were answered correctly by 40% or fewer candidates.

Question 10 asked candidates to select an example of a market failure. The correct answer was option C. Option B was a popular choice for some candidates, but the existence of scarcity does not indicate that the market has not worked. Price, demand and output produced can be determined by a market even though a particular good is scarce. The general existence of scarcity is part of the basic economic problem and is not an indication of a market failure.

Question 13 asked what type of share a person might buy in order to gain a long-term profit with as little risk of short-term loss as possible. The correct answer was option D. Supermarkets are likely to face increased demand as population, and possibly incomes, increase and are likely not to face much risk in the short run as they stock necessary food items. Some candidates chose options A and C. Option A, however, could well present high risk in the short run if the coffee crop failed due to a poor harvest. Option C might well not enable a long-term profit as high-tech electronics and gadgets are likely to be superseded in the long run by new innovations.

Question 14 asked candidates about banks. The correct answer was option B. Commercial banks do not hold the financial accounts of the government, central banks do not determine government spending policies nor do they supply foreign currency directly to members of the public. Option C was a popular choice for some candidates, but those who chose this option probably confused the determination of the rate of interest with decisions about the level of spending.

For **Question 20**, the correct answer was option D. Average revenue is the same thing as the price. It rose from \$10 to \$15. Total revenue is the average revenue multiplied by the number of units sold. This also increased from \$2000 to \$2250.

The correct answer for **Question 22** was option A. Total fixed costs are constant in the short run. Average fixed cost is obtained by dividing the figure for total fixed cost by the output produced. Candidates are told that the firm increases its output. As the output figure increases, the average fixed cost must, therefore, decrease.

ECONOMICS

Paper 2281/12
Multiple Choice

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

The mean mark was 27.7 which is a commendable result on the part of the candidates.

The questions for which most candidates selected the correct answer were 3, 4, 5, 14, 15, 19, 21, 22, 24, 34 and 37. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 8, 13 and 20. These questions were answered correctly by 40% or fewer candidates.

Question 8 asked candidates to select an example of a market failure. The correct answer was option C. Option B was a popular choice for some candidates, but the existence of scarcity does not indicate that the market has not worked. Price, demand and output produced can be determined by a market even though a particular good is scarce. The general existence of scarcity is part of the basic economic problem and is not an indication of a market failure.

Question 13 asked candidates about banks. The correct answer was option B. Commercial banks do not hold the financial accounts of the government, central banks do not determine government spending policies nor do they supply foreign currency directly to members of the public. Option C was a popular choice for some candidates, but those who chose this option probably confused the determination of the rate of interest with decisions about the level of spending.

The correct answer for **Question 20** was option A. Total fixed costs are constant in the short run. Average fixed cost is obtained by dividing the figure for total fixed cost by the output produced. Candidates are told that the firm increases its output. As the output figure increases, the average fixed cost must, therefore, decrease.

ECONOMICS

Paper 2281/21
Structured Questions

Key messages

For **Question 1** in **Section A**, which is the compulsory question, it is very important that candidates read all the data provided before they start writing and use it where appropriate in their answers. Such an approach was essential in order to gain full marks in **Questions 1(b)** and **1(d)**.

For **Section B**, candidates should read through all questions on the paper before deciding which three questions they may be best at answering. In particular, candidates should look at each last sub-question since this carries the most marks. Some candidates were able to give good answers to parts **(a)** and **(b)** and then did less well with parts **(c)** and **(d)**.

Candidates should also take account of the number of marks (shown in brackets after the question) in determining the length of their answers. For example, on **Question 3** some candidates wrote longer answers on part **(a)**, which carried 4 marks, than on part **(d)**, which carried 8 marks.

Where possible, candidates should avoid listing or excessive use of bullet points since this prevents a full explanation or discussion being given. Very short comments mean that the development of the explanation or discussion is missing, which may significantly reduce the marks that can be awarded on questions that ask for a discussion.

Reference to local examples to illustrate answers is welcomed as it shows a candidate's ability to apply economic concepts to their local environment.

General comments

It was encouraging to see that there were very few rubric errors and that most candidates were able to complete four questions.

A number of economic terms and concepts were well understood by most candidates. This included, for example, opportunity cost (**Question 1**), monopoly (**Question 4**), inflation and unemployment (**Question 5**) and exchange rates (**Question 7**). However, the concepts of market failure (**Question 2**), perfect competition (**Question 4**) and the current account (**Question 7**) were often not well understood.

As reported in previous years, candidates need to look very carefully at the command words at the beginning of questions in order to determine the level of response that is required. For example, 'identify' means that a simple answer is required without explanation as it only requires a candidate to show their knowledge or select from data provided, whereas 'explain' requires a candidate to show their understanding of a term or topic and perhaps include an example from their own experience. Where a question requires a discussion, candidates need to ensure that there is a balanced discussion with a conclusion at the end. This is difficult to achieve if answers are in the form of a list of bullet points that are not connected.

Finally, there is no need for candidates to copy out the questions before answering them, although it is important to record the part of the question being answered in the margin. Writing out the question uses up time that candidates could usefully spend in preparing and writing an answer, thereby potentially achieving better marks.

Comments on specific questions

Question 1

- (a) Most candidates correctly identified taxation – both direct and indirect. Aid was also a common choice but a few candidates did not identify a second source or gave incorrect answers, such as revenue from exports or nationalised industries (rather than profits).
- (b) Candidates gained full marks for giving a clear definition of opportunity cost and identifying that in spending money on preparing the city for the Olympic Games, an opportunity had been foregone to address the slum areas, reducing the high crime rate or addressing poverty. Most candidates gave the correct examples, although a few referred to education and housing which were not in the data provided but were relevant for Rio de Janeiro. Most candidates also gave a clear definition of opportunity cost. Those who did not usually had some understanding of the alternative use of the funding.
- (c) This question required an explanation backed up by a diagram. Many candidates drew a diagram first and then commented upon the diagram, which often meant that a full explanation was not given so they did not get full marks. The diagram, which many candidates drew and labelled correctly, was one which showed a shift in the demand curve to the right, with a new equilibrium showing a higher wage and higher number of employed workers. However, often the diagrams were labelled incorrectly with output rather than workers or included a shift in the supply curve to the right and a new equilibrium which may have had a higher or lower wage. Most candidates described the shift in demand curve and the new equilibrium point and correctly identified that increased demand led to higher wages; however, they then needed to state that it also led to increased employment in order to gain all 6 marks.
- (d) The data in the stem provided a significant amount of information for candidates and it was good to see that the majority of candidates used it well to answer this part of the question. Very good answers came to an overall conclusion on whether or not Rio de Janeiro would benefit. Nearly all candidates were able to identify correctly what were the advantages and what were the disadvantages and give a balanced argument. However, some candidates needed to distinguish between the impact on the City and the impact for Brazil as a whole, for example by referring to the impact on inflation in the country or the balance of payments. The strongest answers came from candidates who were able to select relevant information, rather than simply lifting information from the stem without providing sufficient discussion, explain why they were advantages or disadvantages and come to a conclusion. One-sided answers without a conclusion gained fewer marks.

Question 2

- (a) Candidates were required to write about the advantages of a market system. Good answers referred to how the price mechanism worked, the benefits for consumers, how profit acted as an incentive for producers and how competition ensured efficiency and low prices. Answers which addressed only some of these points gained fewer marks.
- (b) Good answers referred to the existence of monopolies and the over-consumption and under-consumption of particular goods and services. Many answers referred to merit, demerit and public goods, although these terms are not in the syllabus so it was not necessary to use them in order to gain full marks, and there were some excellent answers explaining why market failure resulted in external costs. Some candidates related market failure to individual businesses making a loss, which is incorrect.
- (c) Good answers made reference to controlling monopolies, provision of subsidies, higher taxation on goods such as alcohol and tobacco as well as the provision of certain goods by the government, for example education and health. Some candidates who were unclear about the causes of market failure in part (b) were still able to provide reasonable answers on why the government might intervene in a market.

Question 3

- (a) This part of the question offered an opportunity for candidates to explain the role of commercial banks and was a test of knowledge and understanding. Good answers related to commercial banks accepting deposits, offering loans, enabling customers to receive and make payments, and offering sound financial advice. Some candidates confused commercial banks with central banks and others did not provide an explanation, either listing activities carried out by commercial banks or giving a very brief description in a few sentences.
- (b) This was also a straightforward test of knowledge and understanding of the four main functions of money. The majority of candidates did well and were able to describe at least three of the functions. This was an improvement upon recent exams. Some candidates need to understand that describe means more than just listing a function. They also need to be clear about the difference in meaning between functions and characteristics of money as a minority wrote about the latter, such as portability and durability, which could not be rewarded.
- (c) Good answers explained that earnings were low when an individual starts their first job and then rose through experience, age and promotion, before falling on retirement. A few candidates also commented that the highest earnings tended to be just before retirement. However, answers which referred to factors affecting earnings for a particular job or events such as recession, unemployment, changes in demand for the job and inflation gained very few marks.
- (d) Good answers were those that gave a balanced discussion on the relative importance of wages and other factors in determining the choice of occupation. The best answers were those which explained why wages were also important and gave a conclusion. Many candidates only made a brief reference to wages and most of their answer related to other factors, such as working conditions, location and fringe benefits. These answers were not balanced and therefore could not achieve high marks.

Question 4

- (a) Most candidates had a good understanding of the key features of a sole proprietor, although not all of them fully understood what unlimited liability meant.
- (b) Many candidates were clear about the advantages of turning a sole proprietor into a partnership. Comments on sharing responsibility for the business and financing, and on the number of partners that could be in a partnership were very common. However, fewer candidates were able to explain why a lawyer would want to do so, although some made correct reference to specialism in certain aspects of the law.
- (c) This should have been a relatively straightforward description. Where candidates clearly understood the characteristics of perfect competition, full marks were obtained. Candidates who were unaware of the theoretical model wrote instead about competitive markets and often described the characteristics of oligopoly with a few firms competing through non-price competition for market share.
- (d) Candidates who were unclear about perfect competition were at a disadvantage in making a comparison with a monopoly. Nonetheless, most candidates showed a reasonable understanding of monopoly and therefore were able to gain a few marks, though this often meant that these answers were one-sided. It is also important to note the key words of 'always' and 'preferred' in the question, which sought a discussion of the advantages of these two economic models and a judgement at the end of the discussion. Some candidates misinterpreted the question and included discussion of the disadvantages as well, which was not required.

Question 5

- (a) Most answers gave a very clear definition of inflation and gained full marks. Those who defined it in terms of a fall in the value of money could not gain full credit.
- (b) It was good to see that most candidates were clear about demand-pull and cost-push inflation and quite a few also made a correct reference to imported inflation. This was generally well done.

- (c) Most candidates were able to identify and explain two types of unemployment and gain full marks. Those who did not often confused structural with technological unemployment.
- (d) This part of the question was challenging for most candidates in that the answer required an explanation of why both inflation and unemployment were problems followed by a conclusion as to which was the greater problem. Many candidates made a good attempt and identified several issues for each. A few gave a one-sided answer. There was no right answer as to which was the greater problem and marks were awarded on the basis of the discussion which led to a conclusion. Some candidates stated that they were both major problems. Others thought that unemployment was the bigger problem since it affected some people significantly and took longer to resolve. Some candidates decided that inflation was the bigger problem since it affected everybody. Overall, the responses were most encouraging to see.

Question 6

- (a) Few candidates scored well on this part of the question because their answers lacked sufficient depth. The age section was generally answered more satisfactorily than the other two, chiefly because of the focus on birth and death rates. Occupational structure was only understood by a few, although most candidates would have known that as countries develop they develop secondary and then tertiary sectors. Equally, many candidates seemed to be unfamiliar with the term geographical structure. Answers needed to relate to the drift in population away from rural areas to more urban areas where the secondary and tertiary jobs are to be found.
- (b) Answers to this part of the question needed to be focused on a region and to provide reasons why there were differences in living standards between regions within a country, as stated in the syllabus. References were often made to higher income and wealth in some areas without explaining why this would be (for example, natural resources, local infrastructure farming versus services sectors). Overall too many answers lacked specific details.
- (c) Good answers to this part of the question would have addressed the regional differences in living standards identified in part (b). If the response to part (b) did not do this, answers were likely to be limited to national rather than regional policies such as, subsidising industry, addressing poverty, and improving education and training, rather than those that would have a regional effect such as, improving local infrastructure and attracting new investment into the area. Only a few candidates were able to state which were the most effective policies and so obtain full marks.

Question 7

- (a) Most candidates were able to identify demand and supply for a currency as being the two most likely causes of a change in a country's exchange rate.
- (b) The majority of answers identified that a fall in a country's exchange rate would make exports cheaper and imports more expensive. However, not many went on to explain that this would have a positive effect on production in the country through greater exports and import substitution. Relatively few made reference to the fact that the overall impact depended on the price elasticity of demand or that if imports were used in making the products to be exported this would increase costs and negatively affect exports.
- (c) This should have been a relatively easy 4 marks for most candidates since it only required knowledge and understanding of the current account. Many candidates gained all 4 marks by referring to trade in goods and services, although full marks could also have been obtained by reference to income and transfers. It was clear from other answers that candidates needed to develop their understanding of the current account, with several confusing it with a current account at a bank.
- (d) This was generally not answered well and some responses seemed incomplete, which might partly have been due to its being the last question part the candidates answered. Some candidates were able to explain that if the improvement came from an increase in exports it would lead to additional production and therefore an increase in employment. They then needed to relate it to an improvement in services such as tourism, for example, which would also have impacted favourably on employment. Very good answers would have included reference to circumstances where an improvement would have no impact upon employment, such as investment income and wages earned by residents working abroad.

ECONOMICS

Paper 2281/22
Structured Questions

Key messages

Candidates need to focus on the command or directive word that is being used in each question. For example, some questions required candidates to identify (as in **Question 1(c)** and **Question 2(c)**) whereas other questions required candidates to discuss (as in **Question 3(c)** and **Question 4(d)**). These words give an indication of what candidates are required to do and this is reflected in the number of marks allocated to these questions.

Candidates must read the rubric carefully. On this paper they are required to answer **Question 1** in **Section A** and then three questions from **Section B**. A few candidates answered all seven questions, which clearly reduced the time that they could allocate to each question.

General comments

It was pleasing to see many very good answers from a number of candidates who successfully demonstrated a sound knowledge and understanding of economics and a mature ability to describe, explain and discuss a number of key economic concepts and issues.

Where candidates are required to use a demand and supply diagram (as in **Question 2 (b)**), they should ensure that these are drawn as neatly and as carefully as possible and that all parts of the diagram are labelled correctly.

Comments on specific questions

Question 1

- (a) Many candidates were able to explain correctly that an entrepreneur is somebody who takes decisions and who takes a risk in organising the factors of production being employed.
- (b) There were some good answers to this part of the question, with candidates demonstrating an understanding of what a stock exchange was and the role it could play in a country's economy, such as providing a facility for firms to raise capital in order to expand and increase production.
- (c) The majority of candidates were able to identify correctly two possible reasons why the supply of mobile (cell) phones might increase. These included a decrease in the costs of production, improvements in technology, the provision of a financial incentive by a government or in response to an increase in the demand for them.
- (d) In this part of the question, candidates were required to explain two financial incentives, other than subsidies, which a government could offer multi-national companies to locate in its country. Good examples included a tax holiday, a lower rate of corporation tax on profits or the provision of infrastructure. Candidates must ensure that they read the questions carefully, as those who explained non-financial incentives or considered subsidies could not gain credit.
- (e) There were many extremely good responses to this final part of the question, with candidates discussing both the potential advantages of a multi-national company locating in a country, such as in relation to the creation of employment opportunities, and the possible disadvantages, such as the repatriation of some of the profits back to the home country.

Question 2

- (a) The majority of candidates demonstrated a sound knowledge and understanding of what was meant by a subsidy, stressing that it was a form of payment to a producer, such as by a government, to help reduce the cost of production.
- (b) Most candidates recognised that a subsidy would cause a shift of the supply curve to the right, leading to a fall in equilibrium price and a rise in equilibrium quantity. Candidates needed to ensure that the demand and supply diagram was correctly drawn and clearly labelled, especially in relation to the change in the equilibrium positions.
- (c) The vast majority of candidates answered this question very well, correctly identifying the three questions faced by every type of economic system.
- (d) In this final part of the question, candidates were required to discuss why virtually every country today had a mixed economy. Candidates demonstrated a good understanding of some of the weaknesses of a market economy, such as the under-consumption of some goods and the over-consumption of others, giving rise to the need for different forms of government intervention.

Question 3

- (a) There were some very good answers to this question, with candidates describing a variety of different factors that could affect the demand for a product, such as the price of the product, the prices of substitutes and/or complements, changes in income and the impact of an advertising campaign.
- (b) Many candidates were able to explain that price elasticity of demand is the percentage change in the quantity demanded of a product divided by the percentage change in the price of the product. They then went on to develop the explanation through a consideration of the various situations from perfectly inelastic to perfectly elastic. A number of candidates made good use of appropriate diagrams of demand curves to support their explanation.
- (c) Candidates generally recognised the link between price elasticity of demand and revenue. To gain full credit, candidates needed to focus on magazines and on how the knowledge of price elasticity of demand could be used specifically by a firm producing and selling magazines.

Question 4

- (a) This part of the question was answered very well by many candidates, who were able to describe the factors, other than possible membership of a trade union, which could affect an individual's choice of occupation. Candidates described factors such as remuneration, location, working conditions, fringe benefits and promotion prospects. Candidates who wrote about possible membership of a trade union could not gain credit for this, as the question instructed them to consider factors other than this.
- (b) The majority of candidates recognised that it could be true that some individuals might be paid more as they got older, recognising their greater experience, but that it would not necessarily always be true.
- (c) There were some good answers to this part of the question, with candidates offering a useful explanation of the possible benefits that an individual might receive from being a member of a trade union. These included the process of collective bargaining to increase the pay of union members.
- (d) Many candidates offered a balanced discussion of whether trade unions always had a harmful effect on the wider economy. They were able to contrast the potential benefits of trade unions, such as giving workers a stronger voice in disputes with employers, with the potential disadvantages, such as the problems that firms could face if there was industrial action by trade unions.

Question 5

- (a) In this first part of the question, candidates were required to describe the disadvantages of a sole proprietor business. These included the problems of unlimited liability and the difficulties that could arise in trying to raise funds to finance the expansion of the business. Candidates who offered a list-like answer, which did not really develop the description of the disadvantages, could gain no more than two marks.
- (b) Many candidates demonstrated a sound understanding of the differences between a private limited company and a public limited company, especially in terms of issuing shares. Most candidates recognised that a key reason for a private limited company wishing to become a public limited company was to be able to raise more finance by quoting their shares on a country's stock exchange.
- (c) There were some good answers to this part of the question, with candidates explaining how firms could grow in size through both internal growth, such as by gaining an increased share of a market, and external growth, such as through a merger or takeover. Many candidates demonstrated a very thorough understanding of the different forms of integration that can exist in an economy.
- (d) In this part of the question, candidates were required to discuss whether some firms might benefit from reducing their size. Many of the answers were extremely well balanced. Candidates considered the possible advantages of this, especially if a firm was experiencing diseconomies of scale, and the possible disadvantages, in that if firms became smaller they would be less able to benefit from economies of scale and the consequent cost savings that would otherwise have been possible.

Question 6

- (a) The majority of candidates were able to explain successfully what was meant by inflation in terms of a persistent or sustained increase in the general level of prices in an economy over a given period of time.
- (b) Many candidates were able to offer a thorough description of how a retail or consumer price index was constructed, demonstrating a sound knowledge and understanding of the key features in terms of a basket of goods and services, the selection of a base year and the allocation of weights to the particular products in the basket to reflect their relative importance.
- (c) Most candidates were able to offer a clear explanation of demand-pull inflation in terms of a situation where the level of aggregate demand in an economy was in excess of aggregate supply. Many candidates used an appropriate diagram to good effect to support the explanation.
- (d) Most candidates were able to demonstrate an understanding of the possible disadvantages of a high rate of inflation, such as a fall in the real value or purchasing power of a nominal sum of money. To gain a mark of more than four, it was also necessary to indicate an understanding that inflation could be beneficial in certain respects, such as higher profits for firms (assuming that the increase in prices was greater than the increase in costs). It was pleasing to see some candidates discuss exactly what might be meant by a high rate of inflation.

Question 7

- (a) There were some good answers to the first part of the question where candidates were required to describe how living standards in a country could be measured. Many candidates answered in terms of changes in real GDP per capita, but it was pleasing to note the number of candidates who also referred to changes in the Human Development Index and to other possible criteria relating to the quality of life, such as the quality of water available in an economy.
- (b) In this part of the question, candidates were required to explain two reasons why the measurement of living standards in a country might not always be accurate. Reasons included the extent of the hidden or underground economy and the difficulties involved in obtaining accurate and up-to-date information in some countries.

- (c) There were some good answers to this final part of the question. Candidates were able to discuss a number of possible actions which a government might take to reduce poverty, such as the introduction of a minimum wage, the use of fiscal and/or monetary policy to expand demand and, therefore, reduce unemployment, encouragement of family planning and a move away from the primary to the secondary and tertiary sectors. Candidates needed to focus the discussion specifically on the reduction of poverty in order to gain a mark of more than five.