ECONOMICS 7120, JANUARY 2006, EXAMINERS' REPORT

This examination highlighted some areas of good practice but unfortunately also some areas that require attention in the future. There are clearly teachers who are consistent in their teaching and cover all sections of the syllabus. Their students' results will reflect this diligence. However, there are ways teachers can improve their approach to help candidates achieve better results. Teachers will hopefully recognise some weaknesses while reading this report and will strive to overcome them and reach the highest standards their candidates can attain.

General mistakes appeared in several of the answers. Too often candidates made unsubstantiated claims in questions where they were asked to 'identify and explain'. In answer to the effects of privatisation (question 7) such answers stated the "government revenue will fall, government revenue will rise" but gave no explanation as to why this would happen. Similarly in the same question, "unemployment will fall, unemployment will rise" and "prices will rise, prices will fall" were vague statements which required some development to achieve full marks.

It would save time in examinations and increase candidates' scores if they learnt definitions, as these were often vague and incorrect. Knowledge and understanding are basic skills and at times these were lacking in answers given. Repeating the terminology in answers without any explanations will not achieve success e.g. "savings is when a person saves".

Although there is detailed reference to candidates' errors, many model answers are provided, and this report should encourage and the hope is that those teachers who read it will be impressed by some of the examples shown. There were more scripts at the highest grade this session and it is hoped that this report will help more centres to raise student attainment.

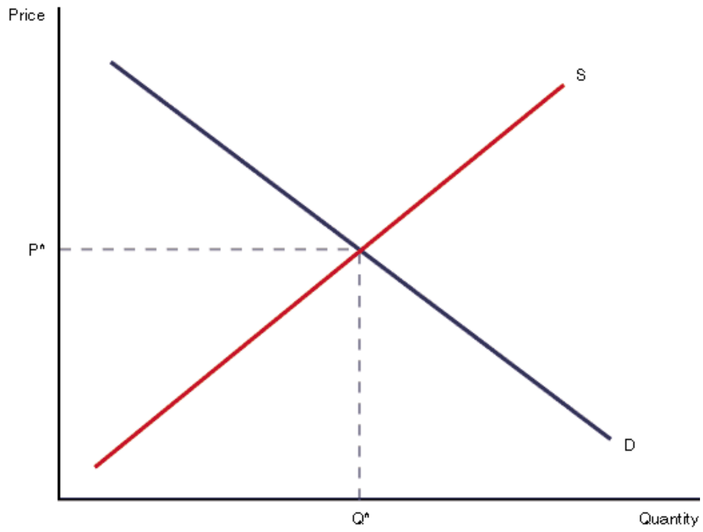
Section A

Question 1

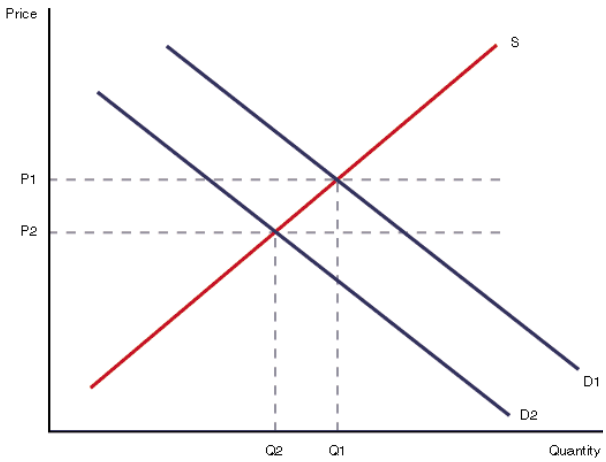
Candidates were required to apply their knowledge of opportunity cost. Only the weakest candidates had any difficulty identifying plausible opportunity costs in this question.

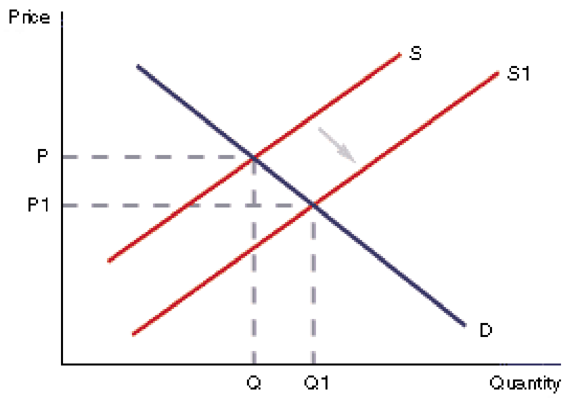
Question 2

All candidates should be well practised in drawing demand and supply diagrams. All parts to (a)(i) could have been shown on a single diagram or on two. In part (i) a simple demand and supply diagram showing equilibrium price and quantity was required.



In parts (ii) and (iii) either a demand curve shifting to the left or the supply curve shifting to the right should have been drawn with the corresponding new equilibrium price and quantity. Candidates who showed both shifts were not penalised.





Shift of demand to left.

Shift of supply to right.

In part (b) candidates were asked to give two reasons why the government might want to reduce the amount of imported apples. This proved too difficult for weaker candidates. Similarly part (c) proved difficult, with many candidates confusing possible government actions and those of the growers. A simple answer could have been:

(i) *"The Government could use import barriers like tariffs to raise the price of the imported apples, thereby reducing the demand for imports and making British apples relatively cheaper so demand for them would increase."*

(ii) *"Growers could use advertising to promote the sales of British apples. They could emphasise the taste and goodness of home grown apples."*

Question 3

The most common mistake in this question was for candidates to simply repeat the terms and not explain them, e.g. *"saving is when a person saves some of their income. Investment means someone investing."* A good response would show the difference between the two terms:

> *"Savings is income not spent, it is a leakage e.g. putting £20 a week into a savings account at a bank where it will earn interest."*
> *"Investment is using money to buy capital, it is an injection e.g. the owner of a business may buy more machines for his/her factory."*

In (b) there is still some confusion with the relationship between savings and investment. A correct response:

> *"If the rate of interest falls, savings will fall as the return on money saved falls so people prefer to spend their money. Investment will increase as the cost of borrowing falls so business people will borrow more to buy capital goods."*

This response does not include the following: "*a decrease in interest leads to fall in savings and a fall in investment as savings will always equal investment*". Although it is true that in an economy in equilibrium savings will equal investment, this logic is incorrect when considering the effect of a decrease in interest rates on levels of savings and investment.

Question 4

When a question requiring knowledge of different types of integration appears in Section B of a paper it is usually popular and candidates score highly. This straightforward question required knowledge of horizontal and vertical mergers. Full marks here were common as many candidates provided succinct definitions and good examples:

> *"A horizontal merger occurs when two firms in the same industry at the same stage of production merge e.g. car manufacturers Ford and Jaguar.*
> *Vertical mergers are when two firms in the same industry but at different stages of production merge e.g. a chocolate manufacturer, (e.g. Cadburys) merges with a cocoa plantation. This is backwards vertical integration."*

Question 5

This straightforward question allowed many candidates to score the full eight marks but too many struggled to identify factors affecting the demand and supply of labour in part (a). The question referred to labour "in an economy", not specific occupations, so sound responses included:

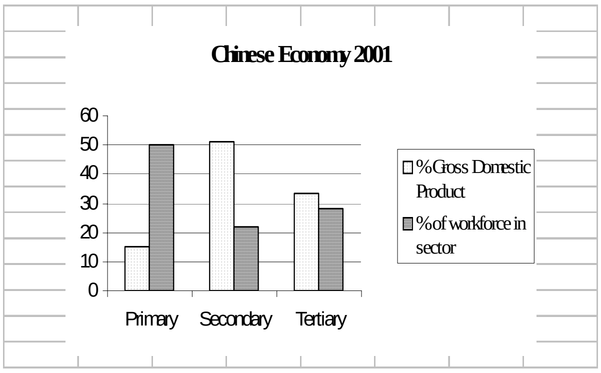
> *"Supply factors: the size of the population, the composition of the population i.e. how many people are of working age.*
> *Demand factors: aggregate demand in the economy, whether industries are mainly labour or capital intensive".*

In (b) many candidates misread the question and wrote about the causes rather than consequences of the demand for labour being greater than the supply. Special care is needed when reading questions in a second language. One good answer was:

> *"When demand is greater than supply, price (wages) rise and this could lead to increased costs of production. Firms might decide to replace workers with machines so that eventually wages will fall."*

Question 6

A simple definition gained good candidates two marks in (a). Similarly, knowledge of the three sectors shown in the diagram earned another three marks. It was part (c) which gave cause for concern. The diagram clearly shows the % of GDP alongside the % of work force in each sector.



Reading the figures from the diagram results in the following:

Primary: GDP% = 15% % of workforce 50%

Secondary: GDP% = 51% % of workforce 21%

Tertiary can be disregarded as GDP% and % of workforce is almost the same.

Productivity can be calculated by dividing %GDP by % of workforce. This results in the secondary sector clearly being shown to have the highest productivity and the primary sector having the lowest productivity.

Section B

Question 7

This was the most popular question, the one on which candidates most often scored maximum marks and the one on which most candidates picked up their best mark. However, there were candidates who confused public limited companies (private sector) and public sector, and so could not answer any part of the question successfully.

Many responses referred to the changes in the level of employment which might occur due to privatisation as an effect on the economy. It is insufficient to state that on the one hand privatisation can lead to unemployment and then to state that it can also lead to more employment. These statements must be explained if candidates wish to score marks.

> *"An immediate effect of privatisation would increase the rate of unemployment in the previously public sector firms. Public sector firms may have employed more people than they need in order to reduce the level of unemployment. However private sector firms may become more efficient and make some workers unemployed. In the long run privatisation may increase employment by increasing the level of investment and increasing the size of the firm."*

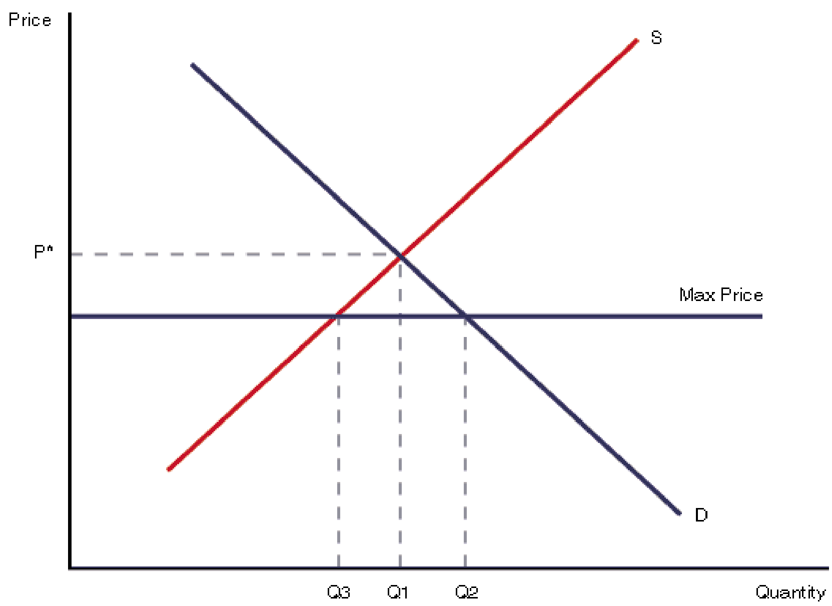
In (c)(iii) the most obvious change in government revenue was often omitted, notably that the government earns revenue from the sale of the firms to the private sector! Instead candidates preferred to note [validly] that government revenue may rise in future due to increased tax revenue from the privatised firms making profits.

Question 8

In section 3.3 of the syllabus it states that candidates must be able to "explain the impact of government intervention e.g. taxes, subsidies, minimum and maximum prices". In previous examinations questions about minimum prices have centred on minimum wage rates. In this examination this question required the candidate to consider the impact of government intervention on rents. This requires knowledge of maximum prices set by the government, which candidates were often unable to show. Most of those who attempted Question 8 gave poor answers. Had they read it carefully before attempting it, they might have chosen a question for which they were better prepared.

Parts (a) and (b) should have given candidates no problems. A simple definition of 'real terms', referring to constant prices or allowing for inflation,n would have gained full marks. In (b) other factors leading to rises in house prices apart from the increase in incomes could have included increase in population (increased demand), decreasing interest rates (cheaper loans therefore increasing demand) and limited supply.

Part (c), for which the majority of the marks were awarded, needed knowledge of maximum rent controls. The diagram shown below, together with a brief explanation, would have earned six marks. The second part of (c) needed further knowledge relating to rent controls.



In nt is below the equilibrium price therefore demand (Q2) is greater than supply (Q3). This means that more people (Q2-Q1) can afford rented accommodation than before the rent controls. However the supply of rented accommodation may fall (Q1-Q3).

In the last part of the question candidates should have considered the effects of the controls.

> *"As rents fall due to the maximum price imposed by the government, more people can afford rented housing. This might lead to less overcrowding and an increase in the standard of living for those who cannot afford to buy a house. However, landlords may decide that their income from rents has fallen so much that they do not do repairs on the houses or they may even sell them. If this happens then the poorer sectors may find themselves living in poor housing or even without any housing as fewer and fewer houses become available to rent."*

Question 9

At last an international trade question which proved popular and was well attempted by many of the candidates. Fewer candidates than ever before made the mistake of confusing trading blocs e.g. European Union with trading blocks e.g. tariffs.

In part (b) simple accounts of three barriers gained many candidates maximum marks.

> *"Tariffs are indirect taxes on imports which increase their price. The higher price on imports decreases their demand.*
> *Quotas are physical restrictions on the number of particular goods that can be imported into a country. It cannot be overcome by reducing prices thus it will always reduce imports.*

Exchange control will limit the amount of imports by restricting the amount of foreign currency available to importers. If people importing goods cannot exchange the home currency for foreign currencies then they cannot pay for imports so the amount imported goes down."

Part (c) proved to be more difficult but nevertheless there were some excellent responses.

"Countries in the trading bloc will increase specialisation based on comparative costs due to free trade between member countries. The market size will increase so the firms can take advantage of economies of scale so costs will fall. Due to the increase in competition, as barriers to trade fall, the firms will become more efficient in order to survive. There will be easier transfer of raw materials and technology as barriers fall and in some cases labour will be able to move freely between member countries and this will reduce unemployment. Consumer choice will increase, and due to the removal of tariffs and increased competition prices may fall."

Question 10

On the whole most candidates who attempted this question could define dependency ratio although many did not refer to the figures for New Zealand as the question requested.

In (b) a large number failed to explain why the factors they stated would cause an increase in the dependency ratio and therefore could not achieve full marks.

"An increase in the birth rate will cause an increase in young dependents. This can come about due to governments encouraging people to have more children by giving financial incentives like free child care."

"A fall in the death rate will increase the number of older dependents. This can come about due to improved medical care."

For those candidates who had revised ageing population, part (c) provided few problems. In (c)(i) the problems for the government centred around increasing expenditure and lower revenues.

An excellent response for (ii) moved away from the more usual "walking sticks and toys".

"The main problem for firms due to an increase in the dependency ratio will be an inadequate supply of labour. The number of people in the working age group is relatively low so they may use this situation to demand higher wages which will increase the costs of production. Due to the inadequate supply of labour some firms may become capital intensive but this too will increase costs as they buy new machinery. The demand patterns may change, more medicines for the old and more baby food for the young may be demanded so firms will have to change their production to satisfy this demand."

As for the problems for the growth of the economy, a good response included:

"Old people are usually geographically and occupationally immobile and this will lower the output of the economy. They are less efficient and find it difficult to adapt to new technology so economic growth may slow down. A

lack of labour may decrease supply and increase imports, leading to balance of payments problems."

Question 11

This was a popular question in which many candidates achieved very high marks. Simple definitions in (a) could gain maximum marks.

> *"Monetary policy is the deliberate manipulation of the rate of interest or money supply to achieve desired economic objectives, e.g. reducing the rate of inflation and unemployment.*
> *Fiscal policy is the deliberate manipulation of taxes and government expenditure to achieve economic objectives, e.g. reducing the rate of inflation and unemployment."*

In (b) identifying and explaining one measure of each enabled candidates to achieve maximum marks.

> *"Monetary policy: if the rate of interest on savings is decreased people will save less and hence consumer spending will increase. An increase in consumer spending will increase aggregate demand. Firms will need to produce more and will need more labour. Thus unemployment will decrease. If the rate of interest on loans is decreased, entrepreneurs will borrow to expand their business and more job opportunities will be created so the level of unemployment will decrease."*
> *"Fiscal policy: the government can lower the rate of taxes on income. If people are left with more disposable income they will spend more and this will increase aggregate demand in the economy which in turn will increase production and so employment."*

Part (c) caused some problems as candidates found it difficult to identify other measures to reduce unemployment, i.e. other than fiscal or monetary. The following shows that some were able to score highly on this part of the question.

> *"The government can increase labour mobility by the following:*
> *Job centres: The government can set up job centres which provide information to workers about the availability of jobs. The workers could easily match their skills to available jobs, thus increasing mobility and decreasing unemployment.*
> *Training and education centres: These could be set up to train and educate workers to improve their skills so that more jobs are available to them. If there present skills are no longer required in the labour market they can be trained and given new skills e.g. a coal miner learning to use computers."*

Question 12

Usually location questions are popular. However, this was not a straightforward location question as it dealt with localisation and location. Too many weaker candidates attempted this question without seeming to understand the term 'localisation'! Well rehearsed location of industry answers failed to respond to the question set. However, as shown in the example below, some candidates were aware of the difference between the two terms.

"Location occurs when firms situate themselves in a particular area with the intention of production and gaining other benefits within the area e.g. a chemical firm locating near a river for the benefit of getting ample water supply.
Localisation occurs when many firms belonging to the same industry situate themselves in a particular area with the intention of gaining benefits like co-operation, and other external economies of scale, e.g. car industries like General Motors, Ford and Chrysler are situated in Detroit, Michigan, USA."

In (b) the advantages and disadvantages of localisation were required.

"Firms can gain from specialised labour, ancillary services, co-operation and commercial facilities which are available where the industry is localised. Such external economies of scale will lead to a reduction in their costs.
The disadvantages to the country may include: regional disparity as firms locating in certain areas will create employment opportunities, but if the industry closes down then it may result in high unemployment in this particular region. There may be unequal use of resources and natural resources may be depleted in the localised area and left untouched in other areas. Pollution and congestion, negative externalities resulting from localisation of an industry, may be ignored."

Part (c) required ways in which a government could overcome these problems.

"A regional policy which would promote the setting up of industries in other areas, e.g. by giving cheap land, retraining workers, tax holidays, could solve the problem of regional disparity. The infrastructure of other areas could be developed and as firms moved to less developed regions so the pollution and congestion would decline in areas where industry was localised."

Question 13

A definition would have secured four marks for (a) but these marks were achieved by very few candidates. Part (b) required four ways in which economic growth could be increased and here there were many excellent responses which included examples and which were worthy of full marks.

"Investment spending on research: Increased research would mean greater technological development in the form of improved machines, better factory layouts or even better management schemes. This should lead to increased productivity and thus stimulate economic growth. Possible tactics would be: giving scholarships to researchers, providing funds to universities to carry out research, subsidising private firms to undertake research, setting up research institutions e.g. hybrid seed research in Bangladesh.
Education, skills, health: Improvements in labour can lead to increased output, productivity. A skilled and healthy labour force can lead to economic growth. A government's human resource programme can include, more schools, incentives for education e.g. free primary education, free education for workers and as in Bangladesh the food for education programme.
Accelerate privatisation: Increased privatisation will mean that there will be a greater number of private firms in the economy. To survive private firms must be more efficient due to competition as inefficiency may lead to

bankruptcy. This will lead to a more dynamic and productive economy. Ways of accelerating the process include, converting public corporations to plcs, leasing nationalised industries to the private sector.
Encourage private investment: Investment is the addition to capital stock, thus there is greater production since there are more producer goods. To stimulate greater levels of economic growth the government can encourage investment. Possible measures could include: tax holidays to encourage investment, decreased interest rates to reduce the cost of investment."

ECONOMICS 7120, JANUARY 2006, GRADE BOUNDARIES

Grade	A	B	C	D	E
Lowest mark for award of grade	66	54	43	38	34

Note: Grade Boundaries may very form subject to subject and from series to series, depending on the demands of the question paper.