

Examiners' Report January 2007

GCE

GCE O Level Economics (7120)

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January 2007

Publications Code U0018825

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Examiner's Report

Economics 7120
January 2007

General Comments

The purpose of this report is to give students and teachers an opportunity not only to learn from some of the common mistakes made by candidates but also to appreciate the very high standard that it is possible to achieve.

The failure of some candidates to achieve grades which reflect their potential can sometimes be attributed to their failure to read and understand the requirements of the questions. In two questions in particular a number of candidates misunderstood the instructions and therefore failed to score marks. In the compulsory Section A this occurred in question 5(d). Instead of answering the question with "two ways in which a government can increase the rate of economic growth" too many candidates wrote about *why* a government should want to increase the rate of economic growth. Similarly in Section B, question 10(c), instead of answering the question with "measures a government can use to influence the location of industry in a country" too many candidates wrote about *why* the government should want to influence the location of industry in a country. This reflected an impulsive choice of questions by some candidates who were attracted by part (a) when the later parts of other questions might have been more productive for them. It is important to consider the whole question and perhaps to focus particularly on their grasp of sections with more marks.

The high standard achieved by many candidates reflects the commitment and expertise of their teachers. However, there are some common mistakes appearing in some candidates' knowledge of economics which require attention. In particular, the relationship between interest rates, savings and investment causes confusion. There were several questions on this paper which required knowledge of this relationship. Teachers should try to simplify the relationships as follows:

- interest rates rise, savings rise [whereas falling rates lead to less saving]
- interest rates rise, investment falls [and falling rates lead to more investment]

The link between investment and savings should be dealt with when looking at the circular flow of income. When an economy is in equilibrium (stable national income) savings will equal investment. It is not the case that savings will always automatically generate investment or that an increase in savings will lead to an increase in investment. An increase in savings (usually caused by an increase in interest rates) will often accompany a decrease in planned investment (due to an increase in the cost of borrowing).

More and more candidates showed by their responses that they had studied economic data pertaining to their own countries. Such familiarity is essential not only because it can improve the performance of candidates, but also because it can show them that economics is a dynamic and important subject which will enable them to understand many of the problems faced by their countries.

Section A

Question 1

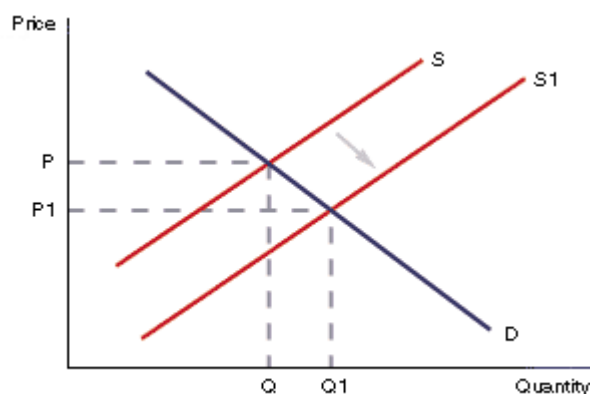
In (a) some candidates gave the functions of money e.g. measure of value, store of value, rather than the characteristics of money e.g. durable, portable. Occasionally marks were lost in (b) when candidates failed to give an example.

Question 2

Only a small minority of candidates encountered any problems with this question.

Question 3

An acceptable diagram for this question is shown below:

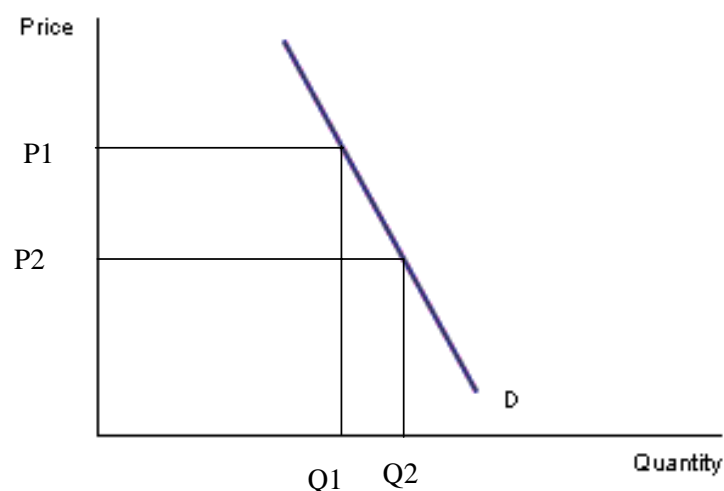


Candidates who either referred to or showed on the diagram the increase in demand as being less than the increase in supply scored maximum marks. Unfortunately, a common mistake was to shift the demand curve to the left which, of course, showed a decrease in demand and was therefore incorrect. The question asks for an explanation of the fall in price, i.e. the increase in supply (3.6%) outweighed the increase in demand (1.5%), reasons for the changes in supply and demand were not required.

Most candidates appreciated that tea and coffee are substitute goods and understood the relationship between the demand and prices. However, significant numbers of candidates started out on the right track yet stopped short of identifying a fall in the price of tea - thus missing the focus of the question.

Question 4

Demerit goods, their effects and elasticity, appear to be well understood by most candidates. However, a few did confuse a movement along the demand curve (correct) with a shift of demand (incorrect) when drawing the diagram. The correct diagram is shown below.



Question 5

When economic growth appears in Section B it is usually a very popular question. It was therefore surprising to see the number of poor responses. Even the definition caused some candidates to struggle. Having identified the Japanese economy as being in a state of recession in (c)(i), few candidates could then give two correct characteristics of recession in (c)(ii) [where inflation was a surprisingly popular choice]. In (d) too many ignored the role of the government in increasing the rate of economic growth by simply stating e.g. "technology" instead of explaining that by reducing the rate of interest firms might borrow to invest in new technology. The confusion between interest rates, savings and investment was also clearly seen here as many candidates incorrectly reasoned that an increase in interest rates would increase savings and this would lead to an increase in investment.

Section B

Question 6

This was not a very popular question and there was a higher than average proportion of poor answers. In (a)(i) some candidates ignored the information given in the question when defining opportunity cost. An example of a good response for (a)(ii);

“Gold is easily recognisable and accepted by everyone. Although money is also recognisable by everyone people will not be ready to accept money for exchange of goods when the value of money fluctuates through inflation. The value of gold may increase over time so many people may prefer to keep gold as it seems more profitable. The Chinese people may also not have faith in their local banks.”

In (b) weaker candidates had little idea about the meaning of capital equipment. The confusion about the relationship between interest rates, savings and investment, mentioned above, was evident here.

Part (c)(i) should have brought responses that considered the demand of consumers, firms and the government but the majority concentrated upon consumer demand and therefore did not achieve maximum marks.

“When interest rates rise consumers will demand less as they may be attracted to save more from their incomes leaving them with less to spend. At the same time the cost of borrowing rises so they will borrow less, this also applies to firms so a reduction in borrowing for investment will occur. A fall in consumer demand will lead to firms reducing supply and therefore reducing their demand for raw materials. The government too will have to consider its spending (demand) as much of it is funded from borrowing.”

(c)(ii) As interest rates rise foreign firms and individuals will want to save their money in the country’s banks to take advantage of the higher returns on their savings. To do this they must buy the currency of the country. This will increase demand for the currency and so the exchange rate will rise.

Question 7

Many candidates saw this question as an opportunity to score highly on part (c) for which they were well prepared at the expense of parts (a) and (b) about which they had little knowledge. In (a)(ii) and (b) candidates struggled to explain the term “low exchange rate”. Some seemed to think that low means that more of one currency is given for another e.g. £1 = 15 yuan, therefore the yuan is low. This is inadequate, a low exchange rate implies a change:

(a)(ii) “A low exchange rate means that the value of a currency has fallen in terms of other currencies. If, for instance, the Chinese yuan fell against the US dollar then this would mean that more Chinese yuan would have to be paid for one US dollar. E.g.

Year1 \$1=7 yuan

Year2 \$1=10 yuan.”

(b) "A low exchange rate means the Chinese yuan has fallen in value against the US dollar. It also means that the US citizens have to pay less dollars to buy more yuan than before. The low exchange rate makes the imports from China cheaper in terms of US dollars and at the same time makes US exports to China dearer in terms of Chinese yuan. As a result the demand for Chinese goods imported into the US will rise but exports from US to China will fall thus benefiting the Chinese firms."

Question 8

Population questions are always popular in this section. However, whilst part (b) usually produced good responses, part (a) showed how little candidates know about the size and age distribution of population in their own countries. A common mistake made by many was to ignore the changes and just give a description of the population structure.

Candidates felt more comfortable with ageing population problems in part (b) with responses to government problems usually scoring higher than the problems encountered by firms.

(c)(ii) "Due to an ageing population and shortage of labour firms would have to attract workers by offering them higher wages. This would increase the cost of production. Due to the shortage of labour firms might decide to adopt new labour saving machines but introducing new technology can be expensive. Old people might have lower productivity and may not adapt to new machinery. Older workers might be occupationally and geographically immobile adding to the problems of firms. The structure of demand would change and firms might have to change their supply to fulfil the demand of the ageing population or go out of business."

Question 9

A popular question that caused problems only for the weaker candidates, some of whom still confused "public sector" with "public limited company".

In (b) some ignored the effects on the car manufacturer and gave the wider effects of minimum wage rates and free trade, therefore not gaining marks. Good candidates demonstrated their knowledge with clear accounts of the effects on a car manufacturer e.g.:

(b)(i) "An increase in the minimum wage will mean that the labour charge will increase. This might result in many workers losing their jobs if the company cannot afford them. Even then since costs have increased the car manufacturer's profit margin might decline. But since car production is a capital intensive industry it might not have a significant effect or any effect at all! Even so the manufacturer could raise the price of cars to keep his profit margin but he may then lose demand."

(b)(ii) "Free trade will raise the competition for the firm as foreign firms enter the market. This might cause them to improve the quality of the cars they produce or lower their price so that demand does not fall. Free trade may also allow the firm to take advantage of cheaper imported raw materials like steel so that the costs of the car manufacturer are lowered and profits rise. The firm will have a wider market and this might lead to economies of scale reducing the average cost of production and increasing profits."

Question 10

Many candidates were attracted by parts (a) and (c) both of which were answered well. However, too many ignored the word "changes" in (b) and therefore limited their scores to 12 out of a possible 20 marks. It is possible that the wording of this question, particularly (b) and (c), caught out candidates with weak English comprehension skills. Good responses to (b) were few;

(i) *"Within some years Bangladesh improved its secondary sector. More garments firms have been set up in the country with exports of different types of clothing. As a result more labour is needed in this sector to produce the goods. Labour from primary sector has become interested in doing these jobs as it pays higher salaries than farming. So employment in the primary sector has decreased and in the secondary sector it increased. There has been only a slight growth of employment in the tertiary sector."*

(ii) *"The main change has been in the manufacturing sector as now the garment industry in Bangladesh is mainly located in Savar and Narayanganj instead of being scattered around the country. Industry is moving to these areas because of cheap labour and good facilities. Bangladesh also has established an export processing zone (EPZ) in Chittagong and this has attracted many industries to the area. There are plans to set up more EPZ's and this will have an effect on location of industry in the country."*

Question 11

Candidates who attempted this question usually achieved full marks on (a) and made good attempts at (b). The most common mistakes in (b) occurred when candidates introduced changes in monetary policy into their answers instead of keeping to the question which asked for changes in government expenditure and taxation (fiscal policy). Whilst part (b)(ii) caused few problems some candidates found little to write in (b)(i).

(b)(i) *"If the government increases direct taxation and if the tax is progressive then more money will be removed from the rich people than the poor. This will reduce the gap between the rich and poor. The increased government revenue can be spent on public and merit goods and services like education and medical facilities. This will improve the standard of living of the poor. The government can also reduce indirect taxation, especially taxes on necessary goods like housing and staple food. The poor can now consume more due to the reduced price. The government can also increase unemployment benefits and pensions which will increase the incomes of the poor and their standard of living."*

Question 12

This was not a popular question and was often only attempted by weaker candidates. Definitions of the working population in (a)(i) were often poor and concentrated on the age range of the working population i.e. 16-65 ignoring the phrase "all those who are working or actively seeking work". This was continued in (a)(ii) so measures which could influence the voluntary unemployed were not given.

In (b) the standard reasons for income differences were given i.e. skills, education and training, whilst market forces of demand and supply were ignored. The minority who successfully used market forces as Economics 'toolkit' in their analysis scored high marks.

7120 Statistics

Grade	Max Marks	A	B	C	D	E
Lowest mark for award of grade	100	68	56	44	39	28

Note: Grade boundaries may vary from year to year and from subject to subject, depending on the demands of the question paper.

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Order Code U0018825 January 2007

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