

Examiners' Report Summer 2007

GCE

GCE O Level Economics (7120)

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7120 GCE O Level Economics

Examiners' Report - June 2007

There are some centres which are producing candidates of a very high calibre. This can be seen from the examples contained in this report. Teachers in these establishments have used previous reports and addressed the common mistakes identified within them.

Once again the examination has highlighted problems which centres should consider when delivering the subject to their students in order to improve their performance. It is imperative that teachers study this report as there are serious issues with some of the responses.

Improvement can be attained if candidates,

- Keep answers brief when the instruction is 'identify'. E.g. 1(a) "Identify one leakage from the circular flow of income." (1 mark)
- Remember to include an example or a diagram if the question asks for it.
- Understand that the instruction, "explain" requires some development and look at the marks allocated to gain some indication of how much development is required.
- Understand that the instruction, "to what extent" requires candidates to offer a judgement which implies that there may be more than one outcome.
- Read the questions carefully and understand the difference between "causes" and "effects".

Centres must ensure that when candidates continue a question at the bottom of a page or on another page or separate sheet they should indicate where the continuation of the question can be found.

It is hoped that the following comments and examples will be of use to centres in their delivery of the specification.

Section A

Question 1

(a) Few problems as candidates seemed familiar with the concept of the circular flow of income.

Question 2

Candidates should realise that data at the beginning of questions should be studied. In (a) candidates correctly identified a consumer good and capital good. However, in (b) and (c)(i) the data in Figure 1 was ignored and so answers were incorrect. In part (c)(ii) candidates gave a variety of ways in which a government can achieve economic growth.

Question 3

This question produced some of the weakest answers. Localisation is a topic which is clearly not covered by most centres. Not only were there many incorrect answers but this question produced the most blank responses.

(a) This required a simple definition and an example. Confusion with the term 'location' and 'localisation' is understandable but examiners are still wondering why many candidates defined 'privatisation' instead of 'localisation'. Another common mistake occurred as candidates defined it as "*industries located in the same area*" instead of firms.

"A number of firms in the same industry all locate in a particular area e.g. the furniture industry is located in the Panthopath area of the capital city, Dhaka."

(b) Some candidates did manage to score some marks, especially when they identified 'pollution' as a disadvantage of localisation and were able to explain government measures to overcome this disadvantage.

Question 4

This question produced some very disappointing responses as candidates continued to repeat the mistake of previous years by confusing 'public' in public limited company with the state owned, public sector. This common mistake has been highlighted in previous reports and centres should have addressed this issue. The candidates who correctly identified the owners of Barclays Bank p.l.c. as *"the shareholders"* went on to correctly identify the main aim as profits. The most popular correct responses to forms of finance in (c) were *"shares"* and *"bank loans"*. However, stating an advantage and disadvantage proved more difficult. Examples of good responses are:

*"Shares: Advantage: the company does not have to pay money back or pay interest.
Disadvantage: the company has to share its profits with its shareholders."*

*"Loans: Advantage: the bank does not have votes in the running of the company.
Disadvantage: the money has to be repaid with interest even if the company is making a loss."*

Question 5

Candidates showed a sound comprehension of the graph which showed interest rate changes in Japan. Most understood the relationship between the rate of interest and economic objectives suggesting employment and economic growth as the main reasons for a reduction in the rate. Whilst inflation was a popular answer to (c)(i) there were also some good answers in response to balance of payments problems in (c)(ii).

Question 6

"Progressive taxation takes a higher percentage/proportion of a person's income as income rises." This is not the same as *"the more you earn the more you pay."*

Fortunately, despite an incorrect definition most candidates managed to give a correct numerical example,

| | | | |
|----------------|----------------|-----------------------|------------|
| <i>Income:</i> | <i>\$5000</i> | <i>% taken in tax</i> | <i>10%</i> |
| <i>Income:</i> | <i>\$10000</i> | <i>% taken in tax</i> | <i>15%</i> |

(b) The ability to pay and the disincentive to work arguments proved the most popular answers to this question.

"Advantage: the rich are more able to pay than the poor so a higher percentage is taken from their income. This helps to reduce the gap between the rich and poor."

"Disadvantage: Workers may be reluctant to work longer hours or achieve promotion if they know that they will be taxed at a higher rate. It is a disincentive to workers."

Section B

Question 7

A very popular topic which was well taught and produced good responses.

Part (a) was straightforward and produced good, clear features of state planned and mixed economies.

(b) This was divided into effects of privatisation on (i) consumers, (ii) firms and (iii) government. A minority of candidates gave responses centred on workers and shareholders in (i) instead of consumers and therefore lost marks. Similarly in (ii) there was much repetition which was more relevant to consumers than firms. In (iii) the problem of unemployment was identified but unfortunately there were no reasons given in (ii) or (iii) as to why this should occur. An example of a good response:

Consumers:

(b)(i) "Privatisation can reduce the prices of goods. Privatised firms compete with each other, so firms will lower the prices of their goods and services to increase market share. The quality of the goods and services will also increase when privatised firms compete using non-price factors. Privatisation of government monopolies will cause consumers to be exploited since monopolies can increase prices as much as they wish since they have full market share. This is what happened after Japan privatised its postal system. Prices of sending letters and parcels increased rapidly."

Firms:

(b)(ii) "When privatised firms are free to operate in a way to maximise profits. Firms can increase product range and quality to gain market share. This will increase profitability of firms. The firms will go bankrupt if it makes a loss because the government will not back the firm up to cover any losses made. There may be unemployment due to rationalisation because firms want to increase efficiency so get rid of inefficient workers and introduce machinery."

Government:

(b)(iii) "The sale of government owned firms can be a quick way of raising revenue for the government. However the government cannot obtain any profits which will be made by the privatised firm. The government can obtain corporation tax if the privatised firm is profitable. This will increase revenue for the government in the long run. However, the government will lose its control over the economy when privatising firms. Since the privatised firms tend to shed labour as government owned firms tended to be over employed. When privatised firms shed labour the government must step in and provide unemployment benefits to the redundant workers. This is a cost to the government."

Question 8

Another popular question. It was apparent from some responses that several centres had prepared their candidates for a question on ageing population and so some candidates struggled. The definition for dependency ratio was often incomplete. The complete definition is as follows,

(a)(i) "Dependency ratio is the ratio of the dependant population (the population below school leaving age or above retirement age - economical inactive group) to the working population."

Dependency ratio = Dependent population/working population x 100"

Centres must help candidates to distinguish between causes and effects. Too many candidates lost marks because they gave the effects in (a)(ii) and the causes, not consequences in (b).

(a) (ii) "The likely cause of an increase in the dependency ratio are:

High birth rate: Dependency ratio increases if there is a high birth rate. This may be due to a higher living standard so couples can afford larger families.

Low death rate: Dependency ratio increases if there is a low death rate. This may be because of good medical facilities.

High emigration of workers to other countries: If many of the working population emigrate to other countries then the dependency ratio will be higher. They may leave to earn higher wages and have a better standard of living."

Many answers for (b) lacked a clear structure and consisted of random points. The answer could have been planned in a variety of ways. Here are a few suggestions:

1. Consider the economy from the point of view of;
 - An increase in the ageing population.
 - An increase in the younger population.
 - An increase/decrease in the working population.
2. Consider the economy from the point of view of:
 - Effects on government objectives: economic growth, inflation, balance of payments, employment, standard of living.

Candidates were also required to consider the consequences on the environment. Points here could have included:

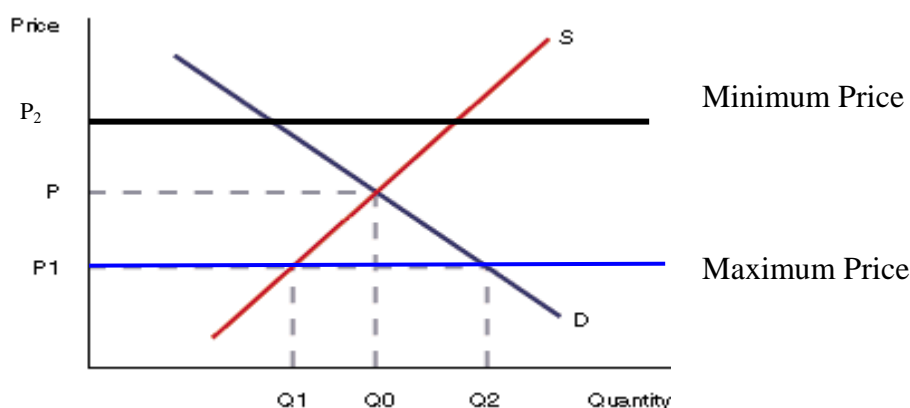
- Pollution from factories, transport.
- Congestion - vehicles, housing.
- Overcrowding - problems with sanitation
- Deforestation/using up scarce resources.

Too many candidates gave the consequence of "unemployment" but put forward an illogical, incorrect argument. An increase in population will increase demand and therefore create jobs rather than make them scarce. Examiners were also concerned about the answer "the government should increase the death rates".

Question 9

This was probably the least popular question on the paper. In (a) the most common mistake was to confuse maximum with minimum on the diagram yet give correct explanations of both.

The diagram should have looked similar to the one shown. The explanation needed to refer to maximum price being below the equilibrium and minimum price being above the equilibrium price.



"Maximum price is a price ceiling legally imposed by the government. Firms cannot charge higher than the legally imposed price level. To be effective the price ceiling is set below the equilibrium price.

Minimum price is a price floor legally imposed by the government. Firms are not allowed to sell at a price lower than the legally imposed level. To be effective the price floor is set above the equilibrium price."

(b) Good responses are shown below:

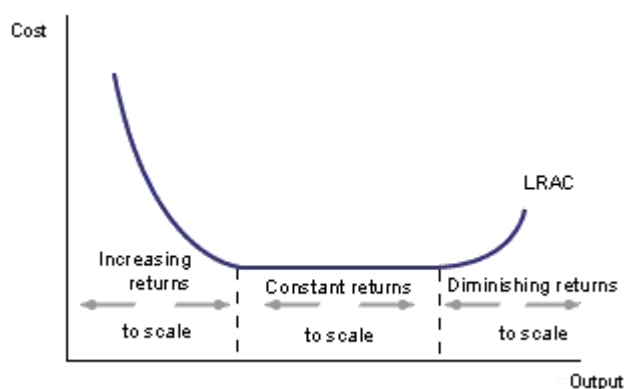
- i. *"Maximum rent controls will see an increase in demand for rented accommodation since they are legally cheaper and a contraction of supply since the price is lower and profitability of rented accommodation will decrease. The quality of rented accommodation might deteriorate because landlords will cut back on maintenance to preserve their profit margins."*
- ii. *"Minimum wage controls will increase the price of labour and firms will shed labour to preserve their operating cost. Therefore there will be a contraction of demand for labour. Many workers will be made redundant. The supply of labour will increase since the reward for labour is increased. This will see a further rise in unemployment rates since there is job shortage."*

(c) It was this part that produced the weakest responses. Too often candidates gave supply factors including level of skills, training, and promotion prospects instead of the requested demand factors. An excellent response is shown below:

"The market for the product, fashion, technology and wages determine the demand for factory workers. When the market for the products grows, it needs more factory workers for production. Demand for factory workers decreases when the market contracts. Moreover fashion will also determine the demand for factory workers as labour is a derived demand. Improvements in technology can take away the jobs of factory workers who will then become redundant as they are replaced by machines. In addition as wages rise, due to union power or minimum wage rates then demand for labour will fall."

Question 10

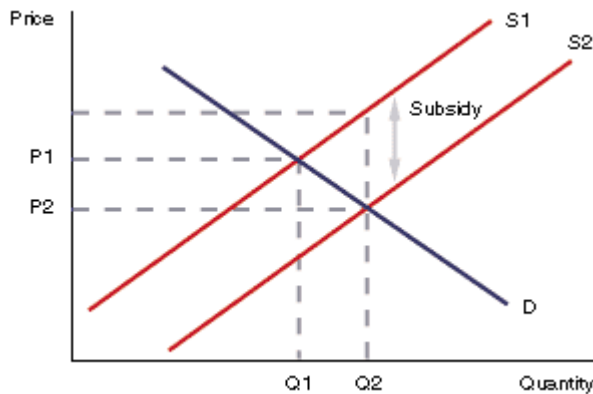
Apart from part (a)(i) the quality of the responses was very high indicating that the candidates have been well taught. The diagrams varied from the correct to those which had nothing to do with economies of scale e.g. demand and supply, drawings of factories, circular flow of income. The diagram should have been as below which shows cost and output on the axes and a U shaped average cost curve.



In (a)(ii) candidates easily identified two economies but sometimes these were not applicable to a supermarket. Part (b) resembled the popular multinational type question which is very popular with candidates and for which centres prepared their candidates well. The standard was therefore high.

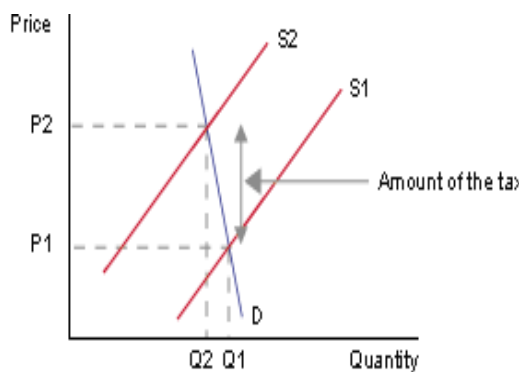
Question 11

At last centres have noted and acted upon my past comments about the teaching of International Trade. There was a marked improvement in the responses for this International Trade question. A main function of the WTO was usually identified and described in (a). The diagram in (b) was usually well drawn (see below) although some candidates still insist on shifting demand to the right.

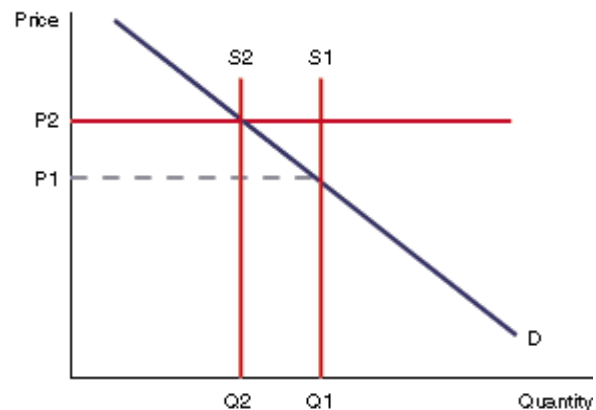


In (c)(i) candidates appreciated that tariffs are a tax on imports which increase the price of imports but failed to realise that quotas by limiting supply also increase the price of imports. Although both space and time was limited some candidates impressed the examiners as they included diagrams to support their explanations.

Tariff diagram



Quota Diagram



The effects of tariffs on an economy are numerous. Candidates who listed the effects could not achieve full marks, some development was needed. Some of the effects that could have been included are,

- Revenue for the government.
- Favourable effect on balance of payments.
- Increased demand for domestic goods, increases demand for labour.
- Protects domestic industry especially newly established firms.
- Price rises for consumers and firms who buy imports.
- Less competition could lead to inefficiency in domestic firms.
- Retaliation from other countries.

Question 12

The majority of candidates who attempted this question had a general grasp of types of unemployment but failed to give accurate explanations of the causes of cyclical and structural unemployment.

(a)(i) *“Cyclical unemployment normally occurs due to recession. If there is less money with the consumers then their total demand for goods and services will fall, production will fall and so will employment. A recession could be caused by an increase in the world price of oil as many countries are dependent upon imported oil for energy and transport systems.”*

(a)(ii) *“Structural unemployment occurs due to the decline of a particular industry. If demand for a certain kind of good falls then the production of that good will fall and there will be no need for labour in that industry. This will give rise to a large number of unemployed workers. This has occurred in the textile industry in the UK because of cheap imports from Asia.”*

The policies that could be used to reduce cyclical and structural unemployment were usually well known by candidates. For cyclical unemployment the main policies which were explained were fiscal policy (increased government expenditure, decreased taxation) and monetary policy (reduction in interest rates). Both these policies would lead to an increase in demand leading to an increase in demand for labour. Structural unemployment requires occupationally immobile workers to acquire new skills and new jobs. The government would therefore have to implement training schemes as well improving information services about job vacancies.

Question 13

Accurate definitions are very important. In this question (a) two concise definitions were worth 4 marks. In (a)(iii) the answers were often one-sided. The phrase ‘to what extent’ should signal to candidates that both sides are required for maximum marks. Some candidates ignored the fact that the question mentioned ‘income per head’. Population changes would therefore have already been taken into account. The following response does consider both sides of the question.

“An increase in income per head should lead to an increase in the amount of goods and services to be consumed (standard of living). People may be able to afford not only more necessities but also more luxuries. However, there are limits to the extent to which it can really show an increase in the standard of living.

Rate of inflation - If the rate of inflation is higher than the rate of increase in the gross domestic product, the real income per head will fall. Therefore, an increase in income per head will not lead to an increase in the standard of living.

Composition of goods produced - If an increase in GDP is brought about by an increase in the production of harmful goods or demerit goods, people’s quality of life will deteriorate.

Distribution of income - Increase in the gross domestic product means that economic growth has occurred. If economic growth is not well planned, its benefit only goes to few lucky people as the income is not evenly distributed.

Negative externalities - Economic growth may lead to an increased level of pollution and congestion. As a result, people’s health may deteriorate and their life expectancy may fall. Economic growth also lead to deforestation, soil erosion, ecological disasters as well as a contributor to the global warming. Therefore, an increase in GDP may not lead to a higher standard of living.”

There was great variation in the standard of responses for part (b). Most candidates were aware of the problem of repaying a loan but became confused as to how the government of a country would do it. This response gives a clear account of the problems.

(b) "When governments borrow from abroad, they face problems in repaying back the debt. Debt servicing (paying back plus interest) accounts for a large proportion of export earnings. Many developing countries borrow huge funds from abroad. Debt servicing from these countries has reached as high as 25% of their export earnings. Being unable to service the debt, they find the magnitude of their overseas borrowings piling up. This is made worse by the low capital and low exportable base of the developing countries which does not allow them to manufacture and export manufactured goods. Their economies are based on agriculture. Their exports consist of one or two primary products. So, during a bad harvest, export earnings fall sharply. Moreover the prices of primary commodities have halved in the past years. Therefore, the countries fail to earn money from exports and fail to repay their international debt."

7120 Statistics

| Grade | A | B | C | D | E |
|------------------|----|----|----|----|----|
| Grade Boundaries | 65 | 54 | 44 | 39 | 32 |

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