

Examiners' Report Summer 2008

GCE

O Level Economics (7120)

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Once again this report wishes to give credit to those centres which have prepared their candidates well for the examination. The use of past papers facilitates this process and those who have read previous reports use them and ensure that past mistakes are avoided.

It is important that centres pay particular attention to the points made in this report. The following points address some areas where some candidates are confused and this has caused them to lose marks.

- The difference between the terms 'causes' and 'effects' as in question 8(a), where the question asks for causes of population changes but many candidates gave effects.
- Some candidates thought that a balance of payments deficit and a government's budget deficit were the same.
- Factors affecting elasticity of supply were not known by the majority of candidates.

When candidates face difficulties and are uncertain they often decide to write about what they do understand, unfortunately this often results in time being wasted as their answers are irrelevant. They must answer the question set and not the question they wish had been set. Teachers must therefore give their students the opportunity to perform well by ensuring that the entire specification has been taught and that students understand the terminology.

Section A

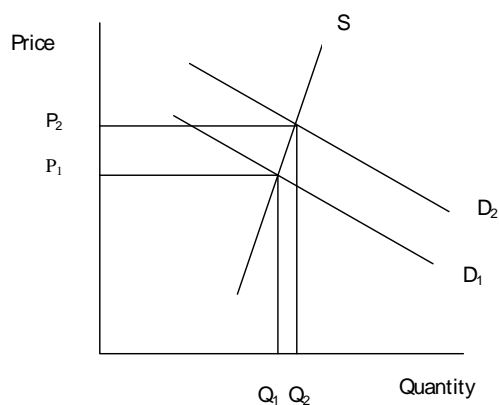
Question 1

Most candidates could correctly define horizontal and vertical integration but it is a pity that, in the course of their studies, candidates don't learn examples from their own economy.

Question 2

In (a) candidates were required to draw a new demand curve D_2 to show an increase in demand for chocolate as shown on Figure 1 below.

Figure 1



Elasticity of supply caused a great deal of confusion. This is a problem which must be addressed by centres. Even when correct responses were given in (b)(i)(ii) candidates were unable to explain two reasons why the supply of cocoa beans is less elastic than the elasticity of supply of chocolate bars. Many listed factors affecting elasticity of demand e.g. availability of substitutes, or factors which shift the supply curve e.g. the weather. The factors which they should have considered are

- spare production capacity,
- stocks of the good,
- the ease with which factors of production can be increased or substituted,
- the time period involved.

“Cocoa beans are agricultural goods. If the price changes then the supply doesn’t change much because it takes a long period of time before cocoa plants bear fruit. Manufactured goods like chocolate bars can be increased easily if there is spare capacity especially in the short term when variable factors can be changed.”

Question 3

Explanations of visibles and invisibles in (a) required more than *"can be seen," "can't be seen"*.

"Visibles refer to goods e.g. cars. Invisibles are services e.g. insurance."

The calculation in (b) aimed to test the candidates' knowledge of economics not mathematics so was simply.

Balance of payments on current account = Balance of trade + Balance of invisibles
+\$25bn + -\$10bn = \$15bn

Part (c) required candidates to consider ways in which the value of exports could be increased - this is not the same as increasing the price of exports. Some responses stated that if the currency appreciated the value of exports would rise but failed to realise that this is untrue - the price of exports would rise. Similarly ways of reducing imports proved incorrect. A correct response is shown below.

"The government could devalue the country's currency making exports more competitive to the foreigners where they appear cheaper so the demand for exports rises. Another method is when the government sets up agencies which can advise exporters on foreign markets. This will encourage domestic firms to seek out export markets."

Question 4

Candidates are still confusing public corporation with public limited company. Fortunately the majority can define 'privatisation'. In (b)(ii) candidates were asked to explain one advantage and one disadvantage of privatisation but too many ignored the reference to consumers.

"An advantage of privatisation is that it can lead to increased competition and lower prices for consumers. A disadvantage is that as the firm now aims to make a profit then non profit making parts of the firm may be closed down e.g. a bus company may stop running buses on loss making routes so consumers suffer."

Question 5

The majority of candidates scored highly on all parts of this question but a few confused the two types of mobility.

(a) *"Geographical immobility of labour is when a worker cannot transfer between jobs due to location problems. E.g. a worker cannot leave his family behind and move to another country to work. Occupational immobility of labour is when a worker cannot change jobs due to problems with changing skills. E.g. a shoemaker may not be able to become a computer programmer because he doesn't have the right skills."*

(b)(i) *"One method a government can use to increase geographical mobility is to give money incentives. It can pay for the cost of renting a house in a new area."*

(b)(ii) *"One method a government can use to increase occupational mobility is to retrain the labour with specific skills needed for another job e.g. computer programming."*

Section B

Question 6

This was the least popular question in section B. Many candidates who attempted this question failed to provide correct definitions and to relate income and cross elasticity demand to public transport. Too often their responses were centred around aspects of demand ignoring elasticity.

(a)(i) *“The income elasticity of demand for public transport is most likely to be negative because when the income of consumers increases they will be able to afford to buy their own cars, hence the demand for public transport will decrease. When the income of consumers falls they would be less able to afford to buy their own cars and therefore would demand more public transport. Income elasticity of demand measures the responsiveness of demand to a change in income.”*

(ii) *“Public transport and cars are substitute goods. The cross elasticity of demand for public transport in relation to the price of cars is most likely to be positive. As the price of cars increases many people will not be able to afford buying them hence the demand for cars decreases and the demand for its substitute in this case, public transport, increases and also as the price of cars decreases the demand for its substitute (public transport) decreases.”*

In (b) candidates were asked to consider the arguments for and against subsidising public transport. One sided responses meant that candidates could not achieve maximum marks for this part of the question. Credit was given to the relevant diagram showing how a subsidy works to reduce the price of public transport.

(b) *“As the government subsidises public transport services more would be supplied and at a lower price so the demand for public transport would increase and this would mostly benefit the low income earners who are not able to buy cars. Also medium income earners might prefer using the public transport services now especially if the price paid for using them is lower than the cost of purchasing their own vehicles and buying the petrol for them. So in this way fewer vehicles will be on the road so there will be less traffic, less pollution and overall less negative externalities. If less cars are purchased this might negatively influence the sales of cars and ancillary firms that supply the car manufacturers so this might lead to structural unemployment. Instead of subsidising public transport services, the government could have spent the money on new training centres which would have created a more skilled labour force and increased productivity and economic growth. The government could have also spent the money on recreational facilities or research centres or building hospitals or museums.”*

Question 7

International trade is usually unpopular with candidates and this question proved to be no exception. The term 'dumping' in (a)(i) produced a variety of responses varying from the correct *"when firms flood a foreign market with a product priced below the cost of production"* to incorrect ones *"dumping of waste materials," "dumping of expired goods"* whereas parts (a)(ii)(iii) often scored full marks.

Although the World Trade Organisation (WTO) is known by candidates, few knew sufficient about trade liberalisation to score maximum marks. A good response is given below.

(b) *"WTO was set up with the main objective of promoting free trade between economies. This is because they can benefit from the following advantages:*

A wider variety of goods and services will be available as now countries can obtain those goods and services easily which otherwise it would have been impossible to produce. This can lead to a higher standard of living.

Trade will improve relations between countries which is quite useful. Producers have access to larger markets which generates huge revenue and also competition and efficiency. Countries can specialise which increases production according to the law of comparative advantage. As a wider variety of goods and services are available the economies can benefit from better standard of living and as more and more is produced in the domestic market, the GDP rises resulting in economic growth."

Question 8

Population is always a popular question. In (a) two of the three causes of an increase in the population over 65 years, low birth rate and low death rate, were easily identified by candidates but many failed to explain migration of either younger people out of the country or older people into the country as another contributory cause. Listing the effects of a population over 65 achieved no marks!

Many candidates had been well prepared for a question on ageing population but unfortunately for them this question required them to look specifically at two aspects - (b)(i) government expenditure and revenue and (b)(ii) economic growth.

(b)(i) *"Government's expenditure will rise as it has to spend more on old people's health and pensions. The opportunity cost of this spending might be less spent on education or infrastructure. The number of workers falls so there is less revenue from income tax. At the same time older people have low incomes and so the government does not raise as much money from indirect taxation. There could be a gap between revenue and expenditure leading to a government deficit."*

(b)(ii) *"With an increase in the population over 65 economic growth will fall. The older population will not work and if they do will be occupationally and geographically immobile so production will fall. There are fewer workers and, as they will have to pay higher taxes, they will lack motivation so productivity will fall. As the government has less money to spend on education and infrastructure the economic growth in the country will fall. Lower demand, a smaller labour force and less government spending on the economy will all lead to a lower economic growth."*

Question 9

The first parts of this question (a)(b) allowed candidates to score highly. However, in (c) many failed to follow the question which required them in (c)(i) to give three measures a government could use to increase the supply of nurses and in (c)(ii) discuss the problems which might arise from these measures. Some continuity was required.

(c)(i) *“Increase the number of training colleges for nurses and provide this training free of charge.*

Provide other benefits to entice them into the public sector e.g. housing benefits, free childcare.

Advertise abroad for nurses and allow them to have work visas easily so that foreign nurses would join the supply of nurses in the country.”

(c)(ii) *“Both increasing the number of training colleges and giving nurses benefits will increase government expenditure. This has an opportunity cost and could have been used to improve defence or infrastructure in the country.*

Once trained the extra nurses might leave the public sector and move to the private sector who may also have decided to give more benefits. This means the government has spent money on training for no return.

Nurses from abroad may not be as well trained, may not speak the language and this may lead to a fall in standards in the public sector.”

Question 10

No problems with (a) as candidates understand primary and secondary but it was bewildering to see some also included the definition and an example for tertiary which was not required. All relevant factors affecting location were accepted in (b).

(b) *“Three factors that affect the location of secondary industry in a country, for example Japan, would be the availability of labour. The labour may need to be skilled and efficient for the secondary industry. Another factor would be the cost of land. A firm may not want to locate in an area where the rent would be really high as it would add to costs. Another factor would be the level of infrastructure and the facilities which will enable the industry to work efficiently such as better roads. These factors may affect the location of a secondary industry.”*

Part (c) caused the most problems as many candidates confused transferring with transporting and wrote of transporting the resources from primary to secondary. One of the few good responses is given below,

(c) *“When a country decides to transfer its resources from the primary to secondary sector it becomes a more developed country. Many less developed countries specialise in agricultural, primary products which are dependent on the weather. This means that the export earnings can fluctuate. When a country shifts its resources to the secondary sector it can earn more from exporting these goods, move away from specialising in one good and achieve economic growth. However, if the primary sector declines then some people will be made unemployed. They may be occupationally immobile and even geographically immobile as they don't want to move to towns which might be more expensive. Imports of food might increase as the primary sector declines. There may also be pollution from the secondary industries which will be detrimental to the country.”*

Question 11

A very popular question and candidates scored highly on part (a)(b). There were also some very good responses in (c) but two problems were highlighted.

1. Some candidates argue that interest rates must fall to control inflation. Their reasoning was confused and they lost sight of the causes of inflation.

2. The relationship between savings and investment is not understood. In National Income analysis equilibrium requires withdrawals to equal injections. This is not the same as savings must equal investment or if savings falls, investment falls. Those candidates who reasoned that when interest rates rise, savings rise and so does investment do not understand the relationship between savings, investment and rate of interest.

(c)(i) "Balance of payments problems. Inflation causes the prices of goods and services to rise. Exports will now be more expensive and imports cheaper so demand for imports will rise and demand for exports will fall. This will lead to a worsening of the balance of payments on current account and may cause a deficit.

Lower standard of living. People on fixed incomes will find that their purchasing power has fallen - they can't buy as much with their money. Other people, who can ask for higher wages, will not suffer as much so the gap between the rich and the poor may grow and lead to some having a lower standard of living."

(c)(ii) "Increasing interest rates is an effective way of controlling inflation. When they are increased households are encouraged to save and so spend less. At the same time loans are more expensive so people borrow less and firms invest less, thus reducing demand in the economy. However, if inflation has been caused by an increase in costs then raising interest rates may not help as workers will demand higher wages to help them pay off loans and firms will face higher charges on their borrowing adding to costs."

Question 12

A topical question in the year of the Olympics in China and it proved popular with candidates. Part (a) was well done by candidates. A typical response is given below.

(a) *“Increased exports: during the Olympics more foreigners and athletes will visit London. They will spend money on hotels, meals and shopping and thus the U.K. visible and invisible exports will increase.*

Reduce unemployment rate: for the Olympics in 2012 the government will need to build stadiums and accommodation for the athletes. Therefore there will be more employment opportunities and the rate of unemployment will fall.

Advert of London: the high profile of the Olympics will show London to the world which may increase tourism in the future and may also lead to more foreign investment.”

The first part of (b) was often long winded and confused. Candidates who stated *“direct taxes are taken directly from income and indirect taxes taken indirectly”* did not score any marks. A correct, succinct response is given below.

(b)(i) *“Direct taxation is a tax imposed on income and wealth of individuals and firms. E.g. income tax and corporation tax.*

Indirect tax is a tax on expenditure. E.g. VAT is paid at a % rate on goods and services.”

Part (ii) required candidates to identify two other ways in which the government could fund the 2012 Olympics. As taxation (direct and indirect) had already been mentioned in (b)(i) candidates needed to look at alternatives so *“customs duties”* was incorrect as it is a type of tax. Examples of correct methods are, sponsorship, selling media rights to TV companies, borrowing (but not from IMF or World Bank) and profits from state owned enterprises.

In (b)(iii) most candidates managed to pick up some marks and quite a few managed to score maximum marks as shown in the example below.

(b)(iii) *“The advantages of increasing indirect taxation include helping to raise revenue for the government. This extra revenue can be spent on improvements in the country like health and education. The increase can lead to a fall in demand for demerit goods like tobacco and alcohol which will lead to a healthier society and reduce spending on health care in the future. The disadvantages include inflation as the tax is passed on by the producer in the form of higher prices. This could lead to demands by workers for higher wages which may lead to cost push inflation. Indirect taxation is also regressive in nature. The rich and the poor pay the same tax on goods so that it takes a higher proportion from the poor than from the rich. The gap between the rich and the poor will widen.”*

7120 Statistics

Grade	A	B	C	D	E
Grade Boundaries	70	60	50	45	38

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