Examiners' Report Summer 2009

GCE

GCE O level Economics (7120)

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7120 Examiners' Report

General Comments

Once again there were some outstanding candidates, but there were also candidates who made simple mistakes.

One of the most serious concerns relates to price elasticity of demand. Too many candidates who could calculate price elasticity of demand could not identify a factor which affects it. In past sessions this has not caused such a problem so centres should address this issue.

To improve the performance of candidates centres should

- provide candidates with accurate definitions so that they can achieve marks easily and quickly, leaving time for other lengthy responses
- provide a list of easily confused terms such as trade deficit and budget deficit, productivity and production
- study this report and give candidates the opportunity to examine the examples of good practice contained in it.

The new iGCSE will replace this examination in Summer 2011. It is hoped that centres will continue to prepare their candidates for this new examination to the same high standards as they have done for the O level examination.

Section A

Question 1

The majority of candidates scored maximum marks on this simple question concerning integration and sectors of the economy.

Question 2

Elasticity of demand is usually a topic in which candidates score highly but this particular question highlighted some gaps in their knowledge. Most candidates scored at least one mark for the calculation (a)(i), usually for the correct equation, but could not complete the question. Part (a)(ii) relied on the correct answer in (a)(i) ie 4 which is greater than 1 so the elasticity of demand is elastic. However, in the final part (a)(iii) candidates showed a distinct lack of understanding, as the majority could not give a factor affecting elasticity of demand. Many simply stated that as price rises, demand falls. Too many referred to demand factors, for example increase/decrease in incomes, advertising, taste and fashion, instead of explaining how close substitutes or the degree of necessity determines elasticity.
"Mobile phones are still a luxury to many people – they are not essential to everyday life. However, if the price fell, even by a small amount, then many more people would buy a mobile phone – a change in price brings about a more than proportionate change in quantity demanded. Demand is elastic."

Question 3

Definitions of inflation were usually concise and accurate. In (b) the most common mistake was that candidates simply expanded on their definition of inflation with no reference to the functions of money. Many candidates correctly identified a function of money but not all could explain the effect of inflation on the function.
Function: Medium of exchange.
"Money is a medium of exchange which means that consumers use money to purchase a good or service. As the rate of inflation increases, people are less ready to accept money so therefore they use the barter system instead. In the barter system, goods are exchanged for other goods, for example six chickens for a cow."
Function: Standard of deferred payment.
"Money is used as a means of deferring payments. In times of inflation lenders won't want to give loans as the borrowers pay back less in real terms and lenders lose the purchasing power of their money as the value of money falls. Only if the rate of interest is higher than the rate of inflation would lenders win in times of inflation."

Question 4
Candidates who had learnt the definitions for productivity, entrepreneur and division of labour scored highly on part (a). Time saving and increased skill were the two most common responses to ways in which division of labour can increase productivity. Part (c) proved a little more demanding but there were many who did score maximum marks.
"Workers do not learn many skills as they are only trained to do one job and this may cause occupational immobility if the worker quits or is asked to leave. Occupational immobility is when a worker is unable to move from one job to another type of job.
Workers may also get bored of doing the same job every day and this will demotivate the workers."

Question 5
This question was based on the following table:

Before specialisation	**Country X**	**Country Y**
Tonnes of wheat	300	150
Tractors	150	50

The first part (a)(i)(ii) required candidates to calculate the opportunity cost of producing one tractor in Country X and one tractor in Country Y. The ratios are
(i)Country X 300:150 ie 2 wheat to 1 tractor, Answer = 2 wheat
(ii)Country Y 150:50 ie 3 wheat to 1 tractor, Answer = 3 wheat
(iii)Specialisation (the best country to produce tractors) = Country X
(iv)After specialisation Country X would produce 300 tractors, and Country Y 600 wheat

In part (b) candidates had to consider the problems of specialising in agriculture:
"If there is bad weather the country will not be able to make as much of the agricultural product. As the country is specialising in an agricultural product they will not have anything to fall back on and this will have a negative impact on the economic growth of that country.
Agricultural goods are perishable and therefore cannot be stored. If there is good weather and the supply of the good is higher than the demand for the product the country will have to 'dump' the product, ie sell it into the foreign market at a price below average costs or destroy it."

Section B

Question 6

A very popular question which allowed many candidates to achieve high marks.
Internal economies of scale (a)(i) refer to the cost benefits to the firm when it grows in size. Many candidates failed to achieve maximum marks because they omitted to state that economies of scale refer to falling average costs as output rises. Those who did not give examples, as asked for in the question also lost marks.

"Internal economies of scale is when a firm grows within itself, average cost decreases as output increases.
Examples: Financial economies of scale – firms can borrow large sums of money from banks, at low interest rates, as they are considered more reliable.
Purchasing economies of scale – firms buy in large quantities thereby receiving a discount and lowering the average cost of production."

External economies (a)(ii) refer to the advantages a firm gains due to the growth of the industry. These can lead to a fall in average cost for the firm. Some common errors referred to "horizontal integration" or the vague phrase "outside the business". Many candidates expanded the internal economies they had identified in part (a)(i).
In part (b) candidates had to apply their knowledge of external economies of scale to the location of industry. Unfortunately too many related their answers to general location factors not those associated with external economies of scale. A good example is shown below.

"Examples of external economies of scale include when an area is heavily localised (ie many firms of the same industry in one area) educational institutes set up in that area to train the workers this will cause average costs for the firm to fall as they do not need to train workers. Also if the area is heavily localised with car manufacturers, like in Detroit, USA, specialist firms such as tyre manufacturers enter the area. This saves the firm in the industry the cost of transporting component parts; this will make average costs fall."

In (c) candidates had to consider how and why governments might seek to influence the location of industry. This part was well done by most candidates with many referring to the financial incentives used by the government. The main reasons given were the "regional problem" and "pollution".
"The government will influence the location if there is a high level of unemployment in an area in order to create jobs for those unemployed. As more workers take on jobs this will reduce government expenditure on unemployment benefits and increase the revenue from income taxes.
If an area is clustered by many firms the government may influence them to relocate in other areas as it is congested and can create pollution."

Question 7

This was one of the least popular questions on the paper.

Reasons for introducing a minimum wage rate and privatisation were usually accompanied with a definition for which the candidates received credit but they should have known that a minimum wage set by the government is a price floor not a price ceiling! Too many gave the effects of minimum wage on level of employment answer which should have been saved for part (b). There were some who thought that a minimum wage might be below the equilibrium and some who did not refer to wages but simply to minimum prices of goods and services. Candidates must read the question.

(a)(i) "A government might introduce national minimum wage rate if the present wage rate is too low for the labourers to maintain a basic standard of living. On the other hand it could also be used to overcome voluntary unemployment in which people stay unemployed as the wage rate is too low and they can get more on benefits."

(a)(ii) "Since profit is the main motive for privatised industries they are forced to be efficient and this leads to a more efficient use of scarce resources. Also the sale of the asset itself gives the government revenue which can be used in the health and education sectors. Private firms' profits are taxed and this in turn increases government revenue again."

Candidates gave valid reasons why both minimum wage rate and privatisation might create unemployment although there were some who misread the question and gave reasons for increased employment (difficult to justify for minimum wages!).

"When imposing a minimum wage rate, the costs of production increase. This conflicts with the private sector's aim of maximising profit and so firms are likely to demand fewer workers and may even fire current workers.

As for privatising public utilities, they may close off certain parts (rationalisation) as they do not generate enough profit or to concentrate on others, resulting in workers being made redundant. Firms may also try to become more capital intensive to become more efficient and make more profit, resulting in more unemployment."

Supply side policies always cause problems for candidates. Some referred to monetary and fiscal policies. The simpler the explanation proved to be the better.

"Supply side policies aim to improve the working of the economy so that aggregate supply can be increased."

Training and education were usually identified as the main ways in which supply side policies can reduce unemployment. Other correct methods mentioned included reducing trade union power, cutting minimum wages and unemployment benefits.

"Supply side policies can reduce unemployment. Structural unemployment may be reduced by supply side polices. They aim to provide workers with training which will give them new skills. This will make them more occupationally mobile. Increased availability of information about jobs at job centres may make them more geographically mobile. However, these policies will take time so structural unemployment may not fall to a great extent in the short run. Demand deficient (cyclical) unemployment is not helped by supply side policies as, even if the workers have new skills, there may be no jobs available because of a downturn in the economy."

Question 8
Too many candidates were unaware that the labour force includes the unemployed. This mistake cost many marks as they answered a question based on reasons for unemployment and how to reduce it. Correct reasons for the growth of the labour force falling could have included, outward migration, high death rates, ageing population, low birth rates. In (a)(ii) the problems associated with a fall in the growth of the labour force include a fall in production, higher wages but not unemployment.
"If there is a shortage of workers then wages will rise and this will lead to increased costs and increased prices of goods and services. This may make the country less competitive in the world market. At the same time the higher dependency ratio means that there would be a greater burden on the taxpayer. Taxes would have to be increased to pay for medical facilities for the older generation. There is a disincentive to work as those in the labour force would have to pay increased taxes."

Methods to increase the size of the labour force could have included lowering the school leaving age, increasing the retirement age, incentives to entice women back into the workforce and immigration measures. Unfortunately many candidates gave ways of increasing productivity, for example increased use of machinery, education and training. Part (c) was dependent upon the responses given in (b) so many candidates compounded their earlier mistakes.

A candidate who gave the following for (b): "increase foreign workers and lowering the school leaving age" could have given the following response in (c).

(c)(i) Increase foreign workers.
"This would quickly give the country more workers. The government could advertise in foreign countries through the press and television. By reducing the immigration requirements and letting the workers obtain work permits quickly and easily workers can enter the country. If the advertising has worked they will expect a better standard of living. However, if the government has promised housing and health benefits it may prove costly. At the same time workers may send some of their wages home to help their families, this transfer of money will be an invisible import on the balance of payments."

(ii) Lower the school leaving age.
"By lowering the school leaving age the workforce will increase as soon as the school term ends. Young workers will be keen to earn money and will be enthusiastic to learn new skills. It may also mean that firms don't pay them as much as older experienced workers. However, young people need to be trained and this will cost money. Education helps economic growth and it could mean that in the future the economy will suffer as people are less educated."

Question 9

Weaker candidates confused appreciation of a currency with inflation and exchange rates with interest rates and so lost marks. Fortunately most candidates did correctly define the appreciation of the Euro and went on to explain two factors which might have caused it.

a(ii) "When exports of a country increase the demand for currency rises and this leads to an increase in its price (appreciation). Similarly if interest rates in the country rise it will attract savers from other countries to deposit their money in the country's banks (hot money). This too leads to a rise in demand for the country's currency and a rise in its price."

In b(i) some candidates repeated their definition of appreciation instead of

"If currency appreciates then the volume of imports will increase will increase, because imports seem relatively cheaper than before. This will have a negative effect on the balance of payments.

If currency appreciates, exports will decrease as the commodities of that country would seem more expensive, thus reducing demand for their exports. This also has a negative effect on the balance of payments current account and both factors may cause a deficit on the balance of payments."

Questions concerning multinationals are usually very popular but this one b(ii) required candidates to think about a multinational's decision to site in a country with a high exchange rate. Some ignored the question and wrote "their" answer which simply listed advantages and disadvantages of multinationals. A correct response is given below.

"Multinational companies will have to give up a lot of their currency in order to obtain the currency required this will make it more expensive to build the factory. However when profits are made they can receive a higher exchange rate when they send profits to their home country.

The multinational company can import the raw material required at a cheap rate and this will reduce their cost of production but they will find it harder to export their finished product due to the high exchange rate."

The link with unemployment was succinctly answered in the following response.

"An appreciation of the currency can cause the demand for exports to fall. Firms in the export sector will cut down production and as a result lay off workers. As more cheap imports enter the country consumers will spend more on cheap imported goods, as a result domestic firms will lose out and their revenue will fall. They will also reduce the number of workers employed. Unemployment will rise with appreciation of the currency."

Question 10

This was the least popular question on the paper.
In part a(i)(ii) some candidates gave reasons for the rise in the price of oil rather than the effects. Candidates who correctly assumed that the demand for oil is price inelastic gained maximum marks for responses like the one below.

a(i)"The country's total revenue will increase as the demand for oil is inelastic (a change in price leads to a less then proportional change in demand). This will strengthen the balance of payments as the value of exports increase. This will also promote economic growth as aggregate demand will increase since exports is one of its main components."

a(ii)"This will worsen the balance of payments since the value of imports will increase. The non-oil producing country will still be forced to buy oil in large quantities as it is a necessity therefore considered to have inelastic demand. This also might cause cost push inflation because as the price of oil rises then firms cost of production will increase as they will need oil to make and transport the finished goods."

In b(i) most candidates identified the promotion of cheaper substitutes and indirect taxes on oil as two ways in which the demand for oil could be reduced. Other ways suggested included improved public transport and high taxes on cars so that less is spent by consumers on oil.

Part b(ii) proved more difficult and candidates struggled to discuss two factors which influence the supply of oil in the world market. Some made the mistake of identifying demand factors which might have gained marks if they had reasoned that an increase in demand will increase price which in turn will lead oil producers to try to increase supply.
A good and topical response is shown here.
"War and conflicts. If there is a crisis going on in an oil producing country, for example the war in Iraq, then the supply of oil will be restricted from the conflict stricken country. If the supply from this country is normally a high percentage of world supply then this will have a large impact on total supply and prices will rise.
Technological advancements. Innovation into how to discover oil reserves and how to improve drilling and oil rig techniques will increase supply. If oil can be extracted more efficiently then less will be wasted when extracted and those oil fields which were previously thought to be uneconomical can be opened up. Oil supply will increase."

Question 11

This was the most popular question. Most candidates correctly stated two characteristics for planned and free markets economies. Some weaker candidates confused a free market with free trade.

In b(i) most candidates correctly identified the relationship between the rate of interest and inflation.

"Increased interest rates would make firms less willing to borrow money as they have to pay back more to the bank. As a result, aggregate demand falls as investment falls. Increased interest rates make savings become more attractive as you could earn more by depositing your money into a savings account. As a result consumption falls and aggregate demand falls. Increased interest rates makes costs of consumer credit becomes expensive to use and as a result consumption falls and aggregate demand falls. When demand falls, it reduces demand pull inflation and prices will fall."

The next part, b(ii), proved more challenging but there were some very good responses.

"When interest rates fall, the cost of borrowing becomes cheaper so firms will feel that it is the time to borrow money for investment in new machinery, factories and research and development. Investment leads to economic growth as new machinery etc can lead to increasing the productive potential of the country. The increased consumer demand resulting from the reduction in interest rates (less savings, more borrowing) will fuel the firm's desire to invest more in order to produce more to satisfy demand. Therefore more workers will be employed as production increases, more resources employed and economic growth will increase."

The WTO does not give financial help to its members. The following gives a comprehensive discussion of advantages of membership to this organisation.

"The World Trade Organisation aims to promote free trade. It does this by meetings called "rounds" where countries agree to reduce trade barriers. When this happens then developing countries like Vietnam will find it easier to trade with other countries. Since labour costs for a developing country are low they can sell their goods at lower prices and hence their sales will increase. Also Vietnam will have better international relations with other countries. They will be subject to competition with other countries and so domestic firms will become more efficient and provide a wide range of goods at lower prices. This will stimulate economic growth in Vietnam as their GDP increases which results in a higher standard of living for its people."

Question 12

Some candidates wrote of imports and exports as they confused budget deficit with trade deficit. In (b) the weaker candidates did not read and understand the question. The question clearly states that the budget surplus has been achieved (i) through cuts in education and training and (ii) by cuts in unemployment benefit. Yet many responses included references to "the money saved could be spent on other things like education". The candidates did not understand that the surplus would then not exist.

b(i) "When the money a government spends on education and training decreases the workforce becomes less skilled. Workers become less productive and so less is produced and this leads to a fall in economic growth. Firms may have to train their workers and this would lead to the cost of production increasing, prices would rise and create inflation. Workers would be less occupationally mobile so will find it more difficult to find jobs leading to an increase in the rate of unemployment."

b(ii) "A cut in unemployment benefit will reduce the standard of living for the unemployed as their "income" has been reduced. As they are among the poorer members of society this will lead to great hardship. Those who are amongst the voluntary unemployed may seek work as they want to maintain their standard of living, this will reduce unemployment."

Once again the weaker candidates did not correctly interpret the question and wrote of tax rises not tax cuts. A correct response is shown below.

c(i) "Cuts in direct taxes will increase the disposable income of workers and their standard of living will rise. However the cuts in direct taxes are likely to widen the gap between rich and poor, as direct taxes are often progressive taxes which take more from the rich than from the poor so cuts will give more back to the rich than to the poor."

c(ii) "The advantage of cutting indirect taxes (ie taxes on expenditure) is that income inequalities will be reduced as indirect taxes are regressive. As income increases the % of tax falls and lower paid workers will be able to afford more goods and services.

The disadvantage is that demand will increase but this might be an increase in demand for imports which may no longer be subject to tariffs (a form of indirect taxation) and so the balance of payments may suffer."

7120 Statistics

Grade	A	B	C	D	E
Grade Boundaries	69	58	48	43	37

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