Examiners' Report/ Principal Examiner Feedback

January 2010

GCE

GCE O Level Economics (7120) Paper 01

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PE Report on Examination Paper 7120 01 January 2010

General Comments

As always there are some areas which require attention.

Questions which ask for definitions are straightforward and should be completed quickly and concisely by candidates. Too often the definitions are vague or candidates simply repeat the wording of the question e.g. savings = the amount a person saves.

Candidates misread questions. They should take time to read the whole question and the read it again. Sometimes the mistake may result in the loss of only one or two marks or it may result in lost time e.g. when asked for **two** other methods in question 8 many candidates identified tariffs, a type of protection already identified in the question and therefore not another method! Sometimes the candidate may be risking many more marks e.g. in question 7(a)(ii) the question asked for two disadvantages to the **country** but some candidates gave two disadvantages to the **company**.

This report can not only be used to identify common mistakes but can also be used to show candidates examples of good responses.

Comments on individual questions

Section A

Question 1

(a) The definition of opportunity cost, 'the alternative foregone', caused few problems for candidates. The examples required in part (b) proved more of a problem. Acceptable responses to (b)(i) ranged from expenditure on education to changes in tax rates. The answer to (b)(ii) was given in the question, if the student decides to go to the cinema rather than revising then revision is the opportunity cost. It was therefore surprising that some candidates gave alternatives which were not in the question so were incorrect e.g. part-time jobs or working in a restaurant.

Question 2

Population is a popular question when it appears in Section B of the paper. Candidates are often familiar with population pyramids, especially when they show an ageing population as is the case with the population shown for India in 2000 and the projected population in 2050. Part (a)(i) specifically referred to age distribution not sex distribution or total population as many candidates incorrectly assumed. *"The two major changes are an older population, indicated by the shape of the graphs. The pyramid for 2000 has a wide base (lots of younger people) and then tapers to the top (few old people) but the 2050 graph only tapers after the age group 45-59. The number in the working population (15-60) is predicted to be much greater in 2050 e.g. there are only about 57 million in the 40 -44 age group in 2000 compared to 118 million expected in 2050."*

In (a)(ii) the improvements in health care was the most popular reason given for the change in age distribution.

The definition of dependency ratio (a)(iii) was often vague and confused. Candidates often stated that the dependency ratio is the number of dependents who rely on the total population i.e. dependent population/total population instead of the ratio of the dependent population to the working population i.e. dependent population/working population. Those candidates who correctly identified an increase in the working population in (a)(i) were able to explain that the dependency ratio would decrease.

"The government's expenditure might rise as there will be more people above retirement age. However, this increase is relatively low compared to the increase in the working population. So the government would get more taxes from the workers. Therefore the balance of government spending and taxation would favour more revenue from taxation than the increase in expenditure."

Question 3

Candidates should know that workers save and firms invest. Therefore savings (a)(i) is *"that part of income not spent"* and investment (a)(ii) is *"the creation of capital by firms".* Where candidates simply repeat the words in the question marks cannot be allocated e.g. savings are that part of income that people save.
Part (b) referred to injections and withdrawals but it was clear that some candidates had not studied the circular flow of income.

Question 4

Producer co-operatives exist in both developed and developing countries. They exist to help small farmers. One of the few comprehensive responses to the question (a) is given below.
"A farmer can benefit from bulk purchase discount – The raw materials of farmers are fertiliser, seeds etc. Producer cooperatives can purchase huge amount of raw materials and are likely to enjoy bulk purchase discount. This reduces production costs of farmers.
Producer co-operatives can influence the government for subsidies –the farmers in the co-operative can work together to achieve common objectives. At times of foreign competition they can influence the government to provide a subsidy so that their costs can be lowered and they can compete with imported goods."
Parts (bi) and (bii) were straightforward and candidates easily identified the forms of finance required. Similarly in (c) candidates correctly identified many reasons why firms remain small e.g. lack of finance and demand.

Question 5

The World Trade Organisation (WTO) does not provide loans to countries It does do the following.
"WTO encourages free trade. It encourages its members to remove all kinds of trade barrier e.g. tariffs between member countries.
It also attempts to solve trade disputes. It organises rounds of negotiations to solve trade disputes among member countries. For instance it is now trying to solve disputes between developed and developing countries."

Section B

Question 6

This was the least popular question on the paper. Part (a) required knowledge and understanding of 'real prices' a term that is often used in relation to inflation. Supermarkets have grown not just in size but in the total number of customers who use them (market share). As firms grow they benefit from economies of scale and can reduce prices without reducing profits (aii). Other possible causes of the fall in real prices could be attributed to
"The real price of groceries may fall if there is increased competition between the large supermarkets. There may be a price war as they try to increase their individual market shares. If there is overproduction of food in the country then the prices of many grocery items may fall."
The growth of supermarkets can lead to advantages and disadvantages for consumers and farmers.
(bi) *"Supermarkets provide consumers with one store shopping as they have such a wide variety of items under one roof. This saves the consumer time and is very convenient. Prices may be cheaper than a small grocery store due to economies of scale but the store may be a long way from their home so going there involves transport costs. There is no longer the personal touch which the consumer may miss as the supermarket is self service."*
(bii) *"Farmers will only have to deal with a few supermarkets rather than lots of little shops. This will reduce their administrative costs and perhaps their transport costs, especially if the supermarkets arrange transport. However, if the supermarkets insist on buying the goods in bulk the farmers may have to accept a reduced price for their produce. If the farmer loses the contract with the supermarket then he may not be able to find anyone else to sell his produce to as smaller shops may have closed down."*

Question 7

Previous reports have highlighted a common mistake which occurs when candidates attempt questions on multinationals. Candidates misread the question. Part (a)(i) required candidates to identify and explain two advantages to the multinational, Tata, but many candidates identified advantages to the country. Similarly in (a)(ii) the disadvantages to the country were required but some candidates gave the disadvantages to the multinational.
Good responses to both parts (a) are given below.
(a)(i) "*Tata will benefit from the UK's membership of the European Union. Not only will Tata take advantage of the fact it is now has access to the UK's domestic market but it can also trade with the many members of the European Union. Its market will be larger and it won't have to face trade barriers like tariffs and quotas. The UK has a skilled workforce, experienced in car production, so Tata won't have to train the workers. They will be able to start work immediately therefore saving the costs of training."*
(a)(ii) *"If a multinational company sets up a plant in Bangladesh, there is a possibility that the company may drive out domestic producers. This is because Bangladesh is a poor developing country which lacks modern capital based equipments to produce good quality goods. As a result, consumers will demand more of the goods from the multinational company, therefore the domestic*

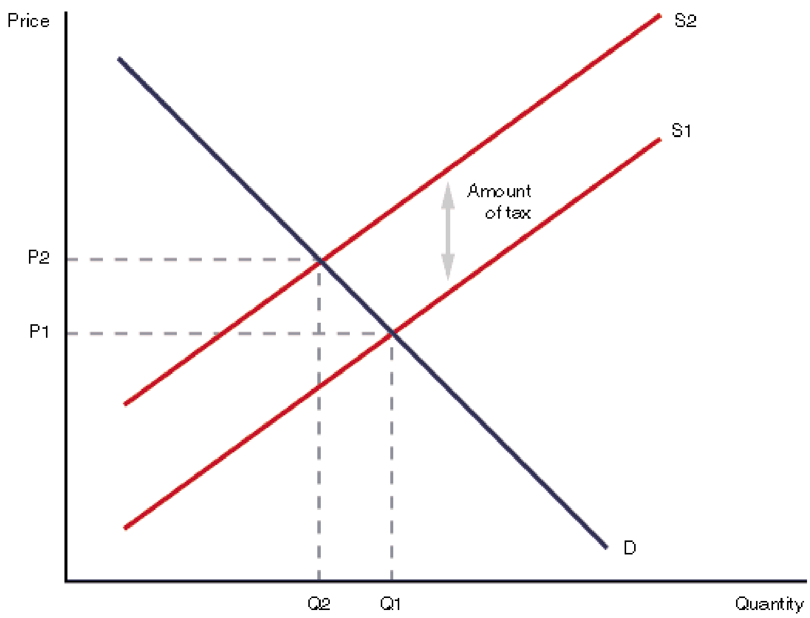
producers incur a huge loss and go out of business creating unemployment in the country."
"A multinational company takes the profit back to its home country rather than re-investing the profit into the host country. In 2002, Djuice – a famous international brand, invested in one of the packages of Grameen Phone Company. They made a huge profit from the high demand of the consumers but then the company took away the profit without further investment in Bangladesh. This profit then appears as an invisible import on the balance of payments."

Knowledge of definitions are simple ways of achieving full marks for a question but not when candidates mistakenly write the wrong definition e.g. price elasticity of demand rather than income elasticity of demand in (b)(i).
Part (b)(ii) many candidates ignored the request in the question to refer to income elasticity of demand. Usually candidates referred to the Nano as an inferior good and the Jaguar XF as a normal good although some argued that both could be considered normal goods. Both arguments were acceptable. The term Giffen good appeared in scripts from a few centres and seemed to confuse them. A Giffen good is a type of inferior good which occurs when an increase in income results in a fall in demand for the good. Some candidates seemed to think it was a type of luxury good. The following does not use the term Giffen good but provides an excellent response to the question.

(b)(ii) *"When people's incomes rise, they tend to buy more luxurious goods. The Nano car being cheap is classified as an inferior good, people's demand for Tata cars will fall as their incomes rise, its income elasticity of demand is negative. However, if people's incomes are very low then it may be the case that the demand will rise as now people can afford a cheap car whereas before they could not. In this case the Nano would be a normal good with a positive income elasticity of demand. Demand for the Jaguar XF will rise because as peoples' incomes rise they want a higher standard of living. They will want to buy the Jaguar as it is a luxury good. Its income elasticity of demand is positive, it is a normal good."*

Question 8

Once again some candidates lost marks because of their inability to identify and define simple economic terms in part (a).
The diagram in (b)(i)(ii) enabled many to score maximum marks.



Part (b)(iii) asked for two **other** methods of protection so tariffs were not an acceptable response.
Part (c) asked for effects of protecting a major industry on a country not **types** of protection! A good, relevant response is shown below.
"Cheap imports can have an adverse effect on the economy. Certain industries which are essential for the economy of Bangladesh, such as steel, are protected. In this way the country remains independent, they don't have to rely on imports from other countries. Protection therefore helps the balance of payments as imports from other countries will fall. If the domestic industry cannot compete effectively it might have been forced to close so protection may safeguard jobs and protect against unemployment.
However the protected industry may become less efficient. If the government protects a major industry from foreign competition the efficiency of the local producers in Bangladesh might fall because they do not face any competition. They may increase prices rather than the quality of the products so consumers will face less variety at higher prices."

Question 9

Parts (b)(i) and (ii) required straightforward descriptions of how monetary and fiscal policy solve the problem of recession.

(b)(i) Monetary policy:
"When interest rates fall the level of consumer demand will increase in the economy because people will spend rather than save as the return on saving will be low. A decrease in interest rates will also result in an increase in investment for firms as the cost of borrowing will be low. An increase in the level of investment will increase demand. As demand in the economy is stimulated more will be produced and more workers employed."

b(ii) Fiscal policy:
"If the government reduces the level of income tax, disposable income of the general public increases which in turn tends to increase demand for goods and services. Increased demand will also result in decreasing the level of unemployment in an economy. Moreover the government can budget for a deficit which means that they will increase spending and reduce taxes. As the level of government spending increases, it will lead to an increased demand for most goods and services and it will result in firms employing more labour which will decrease the level of unemployment in the economy."

Some candidates put forward an illogical explanation in (c) about how recession in the USA can affect other countries. They explained incorrectly that the closure of USA industries led to a fall in USA exports to other countries and therefore other countries suffered because they couldn't buy US exports. This ignores the fact that if the US industries had demand for their exports they wouldn't have closed down! A logical, correct response is shown below.

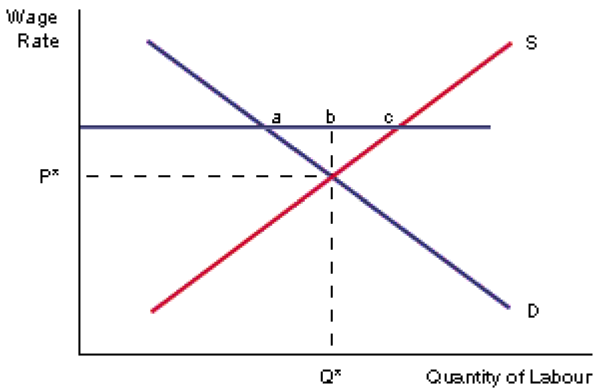
(c) *"The USA is the largest economy in the world. This is also the major market for many countries of the world. Recession leads to poverty for people who will no longer be able to consume as much as before the recession. So this large market reduces its demand for imports and other countries may face an adverse effect on their balance of payments for this reason.*
Again recession leads to lower income for the US government. The government may no longer be able to give foreign aid to poor countries. This may be considered to

be the major source of government income in those poor countries. Those countries will face even more poverty."

Question 10

Many weaker candidates were probably attracted to this question because of the simple first part (a). Unfortunately this only accounted for three marks and the following parts required a far greater depth of understanding of the subject.
In (b)(i) most candidates focussed on the supply of labour and ignored the demand which plays a part in determining the wage rates of primary and tertiary sector workers.
(b)(i) *"In a free market economy there is no government interference in the labour market so wage rates depend on the supply and demand of labour. Primary sector workers require no particular skills or training so there are usually lots of people who are able to work in the primary sector (supply is high). The tertiary sector workers usually have to have a higher level of education and in some cases have to train for several years at their job e.g. teachers and doctors (supply is low). The demand for labour is a derived demand –it depends on the demand for the product. Although primary goods are in demand the services of the tertiary sector usually command a higher price because their supply is limited especially in a developing economy. Therefore the wages in the primary sector are lower than in the tertiary sector."*

Most candidates find the minimum wage rate diagram easy to reproduce. The explanation for (b)(ii) should have included reference to the minimum wage rate set above the equilibrium, costs of the firm increase, demand for labour falls whilst supply increases. Further marks were given to those candidates who made reference to the workers who remain in employment gaining an improvement in their standard of living whilst those made unemployed experiencing a fall.



a-b = number made unemployed
a-c = excess supply

Governments can improve the standard of living for low paid workers e.g. those in the primary sector, in a number of ways. Candidates who reasoned that education and training could provide primary workers with the skills to improve their productivity were awarded marks. However, those who wrote that it would enable them to seek better jobs in other sectors did not achieve marks as in this case education and training does not improve the wages in the primary sector.

Question 11

(a)(i) required candidates to state the following *"economic growth is measured by changes in real gross domestic product".* In (a)(ii) where one reason why economic growth is a major government objective was asked for the responses could have identified *"to increase the standard of living", "reduce unemployment", "attract foreign investment"* but not vague responses like *"good effects"*!
Part (b) produced many good responses including the following:
(b)(i) Tourism:
"A development in tourism will mean foreign people coming into the country. This will represent an invisible export causing a healthier balance of payments on the current account. Moreover increased numbers of tourists will result in a higher demand for local currency. This may increase its exchange rate value compared to other countries of the world. A development of tourism will also increase employment, for example tourist guides, hotel workers and improve the standard of living of people associated with the tourism. However, a greater number of tourists coming into the country may hamper its local culture, as the people of the country might want to adopt international and modern cultures coming from abroad. It might also cause ecological disturbance in the economy where tourism is being developed. For example too many tourists visiting the Sundarbans forest in Bangladesh may hamper its wild life as well as its natural beauty. Moreover, an appreciation of the currency, due to greater demand, will make exports more expensive and imports cheaper, causing a negative effect on the balance of payments."

(b)(ii) Privatisation:
"If the government starts to privatise firms in the economy it will have various effects on the economic situation. Privatised firms are profit driven, as losses could be punished by bankruptcy. This profit motive encourages them to produce efficiently and produce better quality products. They have a strong motive of surviving in the competition which forces them to produce efficiently. Greater competition in the economy leads to a wider variety of choice for the consumers along with reduced prices. Privatisation of firms also helps to promote the supply-side of the economy, hence increases its ability to earn from exports. On the other hand, privatised firms are generally capital intensive. The greater use of machinery and efforts to keep costs down also result in unemployment of many labourers in the economy. If a public monopoly turns into a private monopoly the consumers will suffer as they will face higher prices."

(b)(iii) Investing in technology:
"Investments in technology will lower the cost of production of firms. The firms might pass some of their profits to the consumers by reducing prices of their products. Investment in new technology could also result in better quality products, increasing international competitiveness in the world market. This may enhance the exports of the country, resulting in a healthier balance of payments on the current account. However increased use of new technology will lead to replacement of workers by machines. These technologies might take up the jobs of labourers and force firms to unemploy the labourers whose requirement has been finished. This may lead to a poorer standard of living for a great number of people in the economy."

Question 12

This question on inflation proved to be the most popular in Section B. Candidates performed well on parts (a) and (b). There were also some outstanding responses in part (c).
(c)(i) *"There would be a balance of payments deficit on current account. This is because as the rate of inflation rises the exports become more expensive and the imports become cheaper. This will lead to fewer exports demanded and more imports. Less exports will cause the country to earn less and more imports would lead to greater spending. So, more money flows out the country which leads to a balance of payments deficit."*

(c)(ii) *"In times of inflation borrowers will gain at the expense of lenders. As a borrower repays the money to the lender its value has fallen so the lender will not be able to buy as much with the money. Only if the rate of interest is greater than the rate of inflation can the lender be better off during inflation."*

(c)(iii) *"People on fixed incomes will experience a fall in their standard of living during inflation. Prices will rise but their incomes will remain unchanged e.g. pensioners. This means they can't buy as much with their income."*

7120 Statistics

Grade	A	B	C	D	E
Grade Boundaries	68	58	48	43	39

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