

ECONOMICS

Paper 0455/11

Paper 11

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	16	C
2	B	17	B
3	C	18	D
4	C	19	C
5	C	20	C
6	B	21	A
7	A	22	B
8	C	23	C
9	B	24	B
10	A	25	A
11	C	26	D
12	D	27	A
13	A	28	A
14	B	29	A
15	D	30	B

3498 candidates sat this paper. The mean mark was 20.4 which compares favourably with the mean of 19.5 in June 2012 and 18.5 in June 2011.

The questions for which most candidates selected the correct answer were **1, 13, 14, 19, 25** and **30**. These questions were answered correctly by 85% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **4, 8** and **10**. These questions were answered correctly by fewer than 45% of the candidates.

Question 4 was answered correctly by 35% of the candidates who chose option C. 5% chose option A, 47% chose option B and 13% chose option D. The price of the product is the governing factor that determines what is supplied and what is demanded and, therefore, what is distributed.

Question 8 was answered correctly by 43% of the candidates who chose option C. 11% chose option A, 13% chose option B and 33% chose option D. An understanding of market failure is a relatively new area of the syllabus. The question asked about why governments might subsidise research. Of the two more popular choices (C and D) governments would be unlikely to subsidise research if the external costs of the research were high (option D). They would be more likely to tax or prohibit such research. They are likely to subsidise when external benefits exist.

Question 10 was answered correctly by 33% of the candidates who chose option A. 49% chose option B, 6% chose option C and 12% chose option D. When a payment is made by phone it is settled at the time of the transaction as far as the buyer is concerned. It may take a short time for the money to be transferred to the seller's account but the payment is not deferred until a later date as a debt. The immediate payment is thus a medium of exchange.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

Paper 0455/12

Paper 12

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	16	C
2	C	17	B
3	C	18	D
4	B	19	B
5	C	20	C
6	D	21	A
7	A	22	D
8	A	23	C
9	B	24	D
10	A	25	B
11	C	26	B
12	D	27	B
13	A	28	C
14	D	29	C
15	A	30	B

5939 candidates sat this paper. The mean mark was 21.9 which was almost the same as the mean for this paper of 21.4 for last summer's examination.

The questions for which most candidates selected the correct answer were **1, 8, 10, 16, 17, 27** and **30**. These questions were answered correctly by 85% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **7** and **14**. These questions were answered correctly by fewer than 45% candidates.

Question 7 was answered correctly by 31% of the candidates who chose option A. 23% chose B, 17% chose option C and 29% chose option D. The question involved an understanding of price inelasticity of demand and a recognition that, when the price of a good with an inelastic price elasticity is lowered, the proportionate increase in demand would not be greater than the proportionate decrease in price. The result would be that a manufacturer would receive less revenue.

Question 14 was answered correctly by 43% of the candidates who chose option D. 6% chose option A, 31% chose option B and 20% chose option C. The worker was an unskilled manual labourer. Option D was most likely because it shows a gradual increase in earnings during younger years which may well have been partly the result of overtime working. Earnings then declined as it may be less likely that an older person would have the energy for much overtime. The person remained an unskilled worker so earnings during the working years were not the result of promotion to more senior positions which may be represented by option A. Option B with constant earnings throughout a working life and option C with high initial earnings which then decline with experience and years are unrealistic.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

Paper 0455/13

Paper 13

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	16	A
2	C	17	C
3	B	18	B
4	D	19	A
5	C	20	C
6	C	21	D
7	A	22	A
8	B	23	B
9	C	24	A
10	D	25	B
11	B	26	D
12	C	27	A
13	C	28	A
14	C	29	B
15	B	30	A

192 candidates sat this paper. The mean mark was 20.7 which is slightly lower than the mean mark of 21.2 for this paper last summer.

The questions for which most candidates selected the correct answer were **5, 10, 15, 23, 25, 26** and **30**. These questions were answered correctly by 85% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **13, 14** and **19**. These questions were answered correctly by fewer than 40% of the candidates.

Question 13 was answered correctly by 27% of the candidates who chose option C. 3% chose option A, 54% chose option B and 16% chose option D. The price of the product is the governing factor that determines what is supplied and what is demanded and, therefore, what is distributed.

Question 14 was answered correctly by 43% of the candidates who chose option C. 23% chose option A, 25% chose option B and 9% chose option D. The seats in the concert were fixed in number so the supply would be a vertical straight line. This limits the choice for the correct answer to either option A or option C. For option A, no one would attend if the price were increased. It is likely that those who chose option B did so because they thought that the demand was inelastic but they forgot that the number of seats was fixed. The supply curve does not indicate such a situation.

Question 19 was answered correctly by 28% of the candidates who chose option A. 45% chose option B, 5% chose option C and 22% chose option D. When a payment is made by phone it is settled at the time of the transaction as far as the buyer is concerned. It may take a short time for the money to be transferred to the seller's account but the payment is not deferred until a later date as a debt. The immediate payment is thus a medium of exchange.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

Paper 0455/21
Structured Questions

Key Messages

For **Section A** there was some good evidence that candidates had read the data provided in the extract and used it in their responses to **Question 1**. For **Section B**, candidates should read through all questions on the paper before deciding which three questions they may be best at answering. In particular, candidates should look at the last sub-question before deciding which questions to answer since they usually carry the most marks. There were very few examples of candidates changing questions answered which suggests that candidates have made the right selections. There was also relatively few rubric errors limited to just a few Centres.

Reference to local examples to illustrate answers is welcomed as it shows a candidate's ability to apply economic concepts to their local environment. Good use of local knowledge was shown in answers to **Question 2(c)** and on a more restricted basis in **3(c)**, **5(c)** and **6(c)**.

General comments

There were a number of very good scripts showing that the exam paper enabled well prepared candidates to score well on each question. There were also a number of candidates scoring very low marks usually across all their answers which suggests a lack of preparation. There were encouraging signs again this year that fewer candidates were using list-like responses and using bullet points as their main method of answering questions.

The exam paper made reference to a number of economic terms and concepts. Some were well understood e.g. 'economic problem' and 'market failure' (**Question 2**), 'inflation' (**Question 5**) and 'diseconomies of scale' (**Question 4**) even if the definitions were not always correct. Other economic terms and concepts were less well understood e.g. 'productivity' (**Question 1**), 'profit maximisation' (**Question 4**), 'deflation' (**Question 5**) and 'birth-rate', 'death rate' and 'net migration' (**Question 6**). Mark schemes reward correct definitions and therefore overall marks could be improved if more candidates were able to give clear definitions or explanations. Relatively few candidates understood the features of a co-operative (**Question 1**) and the structure of the current account of the balance of payments (**Question 7**).

There were a large number of candidates, including some good candidates, who did not take into account key words in the final sections of certain questions. This meant that a constraint was applied on the marks that could be achieved even if candidates had a very good understanding of the topic. For example in **Question 2(c)** the word 'most' is highlighted in bold yet many candidates did not state or did not discuss which was the most important market failure in their country. This was also true of **Question 4(d)** where the key word was the 'extent' to which different firms could be affected by diseconomies of scale. **Question 5(c)** asked candidates to discuss whether deflation or inflation was the 'greater problem'. **Question 6(d)** asked whether a rapid rise in a country's population was 'always' a serious problem. Finally **Question 7(d)** asked candidates to discuss the 'best way' of reducing a deficit on the current account. In each case constraints on the level of marks applied if candidates did not focus on addressing these key words and this may have meant that some of the stronger candidates did less well than they could have done had they ensured that their answers took this into account.

Comments on specific questions

Section A

Question 1

- (a) Few candidates accessed all the available marks on this question. Most correct answers related to the types of co-operative – farmers and consumers were most common and the fact that they usually had limited liability. Some candidates would have scored higher marks if they had identified other specific features of a co-operative e.g. it exists for the benefit of its members who shared any profits and that each member had only one vote. In quite a few cases there was confusion with partnerships.
- (b) Most answers correctly identified two or three ways in which small stores could attract customers. Quality of service and products, extended credit, location and delivery service were all common correct answers produced by candidates. Lower prices and advertising were also common correct responses but here many candidates did not take into account of the fact that these were small stores and therefore bulk buying and advertising on TV were unrealistic responses to make.
- (c) Many candidates were unclear about what ‘productivity’ meant. Often the response given by candidates related to production e.g. the level of output produced by a company. Others had a general idea that it was to do with efficiency and was the relationship between input of resources and output. The best answers were those that explained that it was the level of output per worker or unit of capital over a given period of time e.g. per hour or day.
- (d) Most candidates were able to explain reasonably well why small stores find it difficult to compete with large supermarkets. This was often done by explaining about the economies of scale that supermarkets could achieve and that this often meant lower prices (from bulk buying) and a wider variety of goods (given the size of stores). Nearly all candidates managed to relate economies of scale to the retail market. In some cases candidates did not fully answer the question as they wrote a one-sided answer which did not take account of the fact that some small stores could successfully compete through closeness of location, longer opening hours, unique products and personal service. This restricted the total marks that could be awarded even if their response on the advantages that large supermarkets had over small stores was very good.

Section B

Question 2

- (a) The concept of the ‘economic problem’ was well understood by most candidates who were able to relate limited resources to unlimited wants resulting in scarcity. On the other hand, quite often full marks were not awarded because the candidate did not expand their answer to state that this meant that a choice had to be made on what was produced e.g. there was an opportunity cost.
- (b) Some candidates were unclear what was meant by the term ‘market system’ and confused this with a mixed economy and they then commented upon the role of the government as a provider of goods and services. In the majority of cases there was a reasonable understanding that the market system was based on supply and demand. Good candidates were able to relate to the price mechanism and how firms sought to maximise profits. Therefore changes in demand or supply would result in the reallocation of resources to those goods and services where the highest profits could be made. Some candidates went beyond the scope of the question to write about what were the disadvantages of the market system and in some cases partly answered the next question.
- (c) Those candidates who were unclear about the market system usually were unable to explain what was meant by the term ‘market failure’. Common errors included confusing market failure with business failure, government failure or simply that prices were too high. However, there were some very good answers. Common responses related to monopolies, the under provision of some goods and services e.g. health, education, street lighting and the over provision of other goods and services e.g. alcohol and cigarettes. Unemployment was also often identified as a market failure in the labour market. For some countries pollution was a major concern although some answers concentrated on the failure of the government to address this which was really about government failure rather than market failure. Most candidates did relate their answer to their particular country

and some candidates showed some good insight into the issues of market failure. The question asked for candidates to identify the most important failures and many candidates failed to do this and this restricted the marks for some able candidates. Responses on market failure are generally improving but the quality of answers still varies considerably across all entries.

Question 3

- (a) Three demand and supply diagrams were possible: a shift in the supply curve to the left as a result of contraction in supply, a shift in the demand curve to the right as a result of increased demand for labour arising from increased productivity/demand for the product or the introduction of a minimum wage. Most candidates were able to draw either the shift in supply or the shift in demand and explain why this could happen. In some Centres, a complex diagram was drawn showing both the shift in demand and supply with explanation of both reasons. Candidates need to remember that only one example was required to gain full marks. Most candidates were able to relate the analysis to the diagram. There were errors of wrong labelling including confusion of demand and supply curves and putting in the equilibrium.
- (b) This was less well done. Many candidates did not get beyond explaining that it was the reward for gaining a skill through experience, training or education. Others were able to relate to how differences in supply for skilled and unskilled workers affected wage levels. It was relatively common to see different D/S diagrams for skilled and unskilled workers with a higher wage for skilled workers. What was less common was an understanding that skilled workers would have higher productivity which meant higher output and therefore revenue for firms which was why firms would pay higher wages to attract/retain skilled workers which would have been a very good answer.
- (c) Most candidates had some understanding of what trade unions were and what they did for their members. However, the question required candidates to discuss what influenced the ability of trade unions to successfully raise average wages in the country. There were some good answers which identified two or three factors such as the size of the trade union, including proportion of all workers in the industry in that trade union, the quality of its negotiating team and the level of financial reserves it held to support members during strike action, the size of the firm and whether or not it was in a highly competitive or monopolistic market, whether or not the firm was labour- or capital-intensive, whether or not it was a profitable company and whether or not the workers were highly skilled. In addition, some candidates also made reference to the state of the economy e.g. that the ability to raise wages would be restricted in times of high unemployment but that there was a greater likelihood of success during periods of inflation.

Question 4

- (a) This was generally well done with most candidates having a clear understanding of the differences between partnerships and private limited companies. Some descriptions were very short and simply listed several features rather than describe them. The number of partners/owners of shares was a popular comparison as was having limited or unlimited liability. Quite a few candidates were unclear about the maximum number for a partnership of private limited company and in some cases it was stated that a private company had only one owner. On the other hand many candidates knew that private company shares could not be sold on the Stock Exchange. Also, where the distinction was made between private companies having limited liability and partnerships usually having unlimited liability what this meant was not explained.
- (b) The concept of profit maximisation was not well understood and it was common to see profit maximisation being confused with just making a profit. Some answers simply stated 'profit maximisation is where profits are maximised' which would have scored no marks. Most answers were not developed beyond identifying that profit was the difference between total revenue and total costs. Good answers either analysed how firms could increase their profits, e.g. by raising revenue and/or reducing costs, or why firms need to maximise their profits, e.g. to reward owners/senior management or to reinvest in the company so it could expand and make bigger profits.
- (c) This was not well answered by those candidates who did not understand profit maximisation and often their answers included objectives that would in effect increase profits e.g. reduce costs. The most common correct answers related to expansion/increase market share/maximise sales and new firms surviving in the market. Other goals that were explained included not-for-profit firms, e.g. charities, firms delivering public services, firms seeking to improve their image, e.g. brand loyalty,

ethical and environmental considerations. Overall, there was a good understanding shown by most candidates.

- (d) Many candidates were able to correctly identify diseconomies of scale and describe what they were. Popular responses centred upon complexities of management as firms became too big including multinational firms where distance and language could be an issue; poor communications and loss of morale amongst the workforce. Some also wrote about average costs rising and this was sometimes illustrated with a U-shaped long-run average cost curve. Few candidates made reference to external diseconomies of scale. The question required candidates to address the extent that different firms were affected by diseconomies of scale and this was overlooked by most candidates although a few made reference to it being less likely in small firms and that it could differ between different industries. By not addressing the extent of the problem, many candidates were unable to achieve full marks however good their understanding was of diseconomies of scale. There was a minority of candidates who simply did not know what diseconomies of scale meant including those that confused it with economies of scale.

Question 5

- (a) Most candidates had a clear understanding of what the difference was between inflation and deflation, although a few explained deflation as the opposite to inflation. However, many did not relate it to a period of time and therefore did not get full marks.
- (b) Most candidates were able to explain that inflation was measured through the Consumer Price Index (CPI) or the Retail Price Index (RPI). A few mistakenly related it to the increase in GDP. For those that made reference to CPI or RPI there was usually a good understanding about selecting a basket of common goods and services which were weighted according to spending patterns. Most candidates were able to explain the significance of the base year and measuring changes in prices against the base year to calculate the overall percentage change in price which was the rate of inflation. However, some candidates did not have a full grasp of how the calculation was done and this often resulted in some strange calculations of the rate of inflation. Some candidates continue to produce tables which had complex data within it which did not always make sense. There is no need for such tables which can be quite time consuming.
- (c) The quality of answers given depended on the extent to which candidates understood what was meant by 'deflation'. The discussion of inflation was reasonably well done by the majority of candidates who were generally aware of the impact of rising prices on lowering the standard of living, reducing the value of savings and borrowing and having a negative effect on the balance of payments. There was a common misconception that it led to higher savings, a fall in demand and rising unemployment. A few wrote about the problem of it becoming hyper-inflation. Many tackled deflation as having the opposite effects of inflation with reference again to higher standards of living and to delaying spending to benefit from lower prices. This meant that firms cut back on production causing an increase in unemployment. Candidates also referred to the positive impact on export prices but answered that it would also result in higher government expenditure on unemployment benefits and lower tax revenues. Some candidates were confused on the impact of deflation and made reference to lower prices resulting in increased demand and therefore causing inflation rather than recognising the reasons why lower demand had caused lower prices and unemployment.

The fact that inflation was better dealt with than deflation is understandable since there are fewer instances of deflation in the world until fairly recently. The question asked candidates to reach a view on which problem was worse – inflation or deflation. Some attempted to answer this by selecting deflation because of the effect of high unemployment, others felt it was not possible to distinguish between the two and in some cases stated that it depended on the size of the problem which is a reasonable conclusion to make. Quite a few candidates did not address the issue of which was the greater problem and therefore could not gain full marks even if their analysis of inflation and deflation had been very good.

Question 6

- (a) Most candidates scored some marks on the two definitions of birth rate and death rate. A large number did not achieve full marks because they ignored an important aspect e.g. the time aspect was frequently omitted but more frequently there was a lack of understanding that the rate was calculated per 1000 of the population. In some cases birth rate was incorrectly defined as per 1000 of women. It was not necessary to state live births to get full marks for the definition.
- (b) The causes of the fall in birth rate in many countries was usually well understood e.g. better awareness of family planning, better education for girls, lower infant mortality, more jobs for women etc. Some thought it was due to rising infant mortality, rising levels of disease or greater poverty. In many cases candidates, having identified the reasons for the fall, did not explain them sufficiently to gain full marks.
- (c) The concept of net migration was not well understood. Answers were often very vague with reference to movement of people from one country to another or within a country e.g. from rural to urban areas. Few explained that net migration was the difference between the number of immigrants coming into a country and the number of emigrants leaving a country.
- (d) Almost all candidates were able to explain at least some of the problems of a rapidly rising population. The problems identified depended on whether they thought it was due to a rising birth rate, people living longer or net migration, any of which could be a cause. Common problems identified related to overcrowding, lack of public services, greater dependency, greater pressure on government funding and lack of jobs. Fewer candidates were able to identify benefits e.g. increase in labour force leads to increased output or that immigrants could bring new skills and higher productivity and in the long run could lead to greater prosperity e.g. with reference to India or China. Some stated that it depended on whether or not the country was under-populated with some reference to countries such as Australia. In some cases too much emphasis was placed upon political or social affects. The main difference between average and good answers was the extent of the development of issues identified and that some candidates only addressed the problems and gave a one-sided answer.

Question 7

- (a) Relatively few candidates identified all four sections of the current account of the Balance of Payments. Trade in visibles and invisibles were commonly identified but income flows and current transfers were not. Another issue was that the question was to describe the structure and too often answers did not go beyond identification.
- (b) This was not well done. Most identified that it was where imports were greater than exports but there was no development in terms of the sections of the current account. Often candidates expanded their answers in terms of the level of debt and in some cases confused it with government debt.
- (c) This part was at least reasonably well done by most candidates who could identify one or two problems. Common responses included exports being uncompetitive and the fall in exchange rate would make imports more costly. Rising unemployment was also a common feature identified. Good answers were able to develop the explanation of the impact on the economy. Given that there were only four marks for this section, some answers went in to too much detail, beyond that required to secure all the marks.
- (d) For many candidates this was an opportunity to write what they knew about protection measures. Most were able to explain well how tariffs, quotas and embargoes operated. Quite a few wrote about subsidising exports, exchange control and devaluation. Better answers also made reference to government fiscal and monetary policies. However many answers were descriptive only and lacked evaluation. Few addressed the best way of reducing a deficit on the current account and often those who did, did not provide the analysis to back it up.

ECONOMICS

Paper 0455/22
Structured Questions

Key Messages

Candidates should read through the question parts in **Question 1** and then read through the extract which accompanies the question. They should then go back to the question parts and answer them. It is advisable that they answer them in order so that they avoid overlap in their answers, because question parts can build on each other and because the skills required in answering them tend to increase in their demands from knowledge with understanding to critical evaluation.

In selecting the three questions they are going to answer from **Section B**, they need to consider each question part. In some cases, it appears that candidates select a question on the basis that they can answer question part **(a)** and/or **(b)** well without considering how well they can answer the last question part or parts. It is important that candidates base their selection on all of the question parts.

When answering a question, candidates need to pay careful attention to the words of the questions and the marks awarded. Candidates should spend more time on a question part that carries, for instance, eight marks than one with four marks. Some of this time should be spent considering what to include in the answer. This is crucial as candidates need to focus on answering the actual questions set. It is important, for instance, to avoid writing about the characteristics of money when the question is asking about the functions of money. It is also crucial that candidates take into account the directive, also called command or instruction words in the questions. If the directive word is 'discuss' candidates need to evaluate, for example, by assessing arguments for and against or advantages and disadvantages. It is useful to include a conclusion.

Candidates should ensure that their writing is legible. They should clearly indicate which questions they have answered both by the side of the question and on the front cover of the script.

Any diagrams included in answers should be clearly drawn and referred to in the text. It is best to draw diagrams using a ruler and they should be of a size that is clearly visible.

If there is any time left at the end of the examination, candidates should read through their answers to check, for instance, that words have not been omitted.

General comments

There were some excellent scripts. These were lucidly written and included relevant economic terminology and analysis directly applied to answering the question. Some other answers were rather sketchy and seemed to be searching around for points to include.

The majority of candidates answered **Question 1** first. In **Section B**, **Question 3** was the most popular question with a very high proportion of candidates selecting the question to answer. **Question 2** and **Question 4** were also popular questions. **Question 6** and **Question 7** were the two least popular questions. It is difficult to determine whether only a small proportion of candidates attempted **Question 6** and **Question 7** because they appeared as the last questions, they covered topics towards the end of the syllabus or because candidates find the topics difficult.

There were not many cases where candidates answered more than the required four questions but this rubric error did occur in the case of a few centres. There was a small number of candidates who answered fewer than four questions. In some cases, this appeared to be because they had devoted too much time to answering two or three questions. Most candidates, however, allocated their time appropriately.

There was little use of inappropriate abbreviations or slang terms. There was also less evidence than in previous sessions of candidates writing in note form.

As in the case of other papers, there were some examples of confusion over some key economic concepts including a production possibility curve, capital, inelastic demand and fiscal policy.

Candidates did not always produce sufficient depth in their answers. On some of the first question parts, they sometimes only identified points rather than explained them. On the last question part, a relatively high proportion of candidates provided some analysis but did not provide any critical evaluation. Such approaches limited the marks available.

Comments on specific questions

Question 1

- (a) This was reasonably well answered. The two most popular features identified were limited liability and shares being sold to the general public on the stock exchange. Some candidates, however, only identified two features and did not explain them. A number of candidates revealed a confusion with a public corporation by writing about government ownership.
- (b) There was a range of responses to this question. Some were very strong answers which explored, for example, the influence of the size of the market for the product produced and the preferences of the owners of the firms.
- (c) There were some strong answers to this question. Some candidates explored the impact of subsidies in depth with a number including a diagram. There were also some strong answers exploring how setting a maximum price and increasing competition in the market might reduce mobile phone charges. Taxing excessive profits might reduce mobile phone charges but most of the answers which referred to higher taxes did not establish this point. A number wrote that imposing an indirect tax on mobile phones would reduce prices whereas the opposite would be likely to occur. Indeed, there were some good answers which explained how reducing an indirect tax on mobile phones would lower firms' costs and so reduce prices.
- (d) A number of candidates produced excellent answers. These discussed some advantages and disadvantages of monopolies, bringing out key economic concepts such as economies of scale and competition. These answers explained and discussed rather than just asserting points. There was some good discussion about the influence of a lack of competition on price and quality and whether innovation is more or less likely to occur under conditions of monopoly.

Some candidates sought to answer a rather different question, that is, whether multinational companies (MNCs) are always against the public interest. Of course, not all monopolies are MNCs and not all MNCs are monopolies. The candidates who adopted the approach of writing about MNCs did not usually relate the points they raised specifically to monopolies.

Section B

Question 2

- (a) Most candidates could identify the four factors of production. There was some confusion over the nature of capital with a relatively high proportion of candidates describing it as money. A few candidates confused examples of land and capital. They gave, for instance, farm buildings as an example of land.
- (b) The majority of candidates were able to define opportunity cost although some did not make clear the idea of sacrificing the next best choice for this one. Understanding of production possibility curves (PPCs) was rather limited. A number of candidates drew a demand curve, labelling the vertical axes 'price' and the horizontal axes 'quantity'. Most, but not all, of those who drew an accurate production possibility curve, explained how movements along the curve could show the opportunity cost involved in switching the use of resources. Some candidates who labelled a PPC accurately, nevertheless, appeared to think that the diagram shows the demand for two types of goods rather than their potential output. There were references to, for instance, 'the curve shows that if people buy more of good X they will have to buy less of good Y'.

- (c) Candidates had to interpret this question carefully. Of those who did so, most focused on the impact on the price of houses, employment and the possible opportunity cost involved. A number of candidates made some pertinent comments about possible environmental costs and the influence of demand on the allocation of resources.

A relatively high proportion of candidates, however, wrote that the four factors of production were sufficient and then went on to describe how these four factors of production are used to build houses. Such an approach seemed to suggest that the candidates thought there might be more than four factors of production.

Question 3

- (a) This was a well answered question. Most candidates were able to describe a number of influences on the demand for flat screen televisions. The three most common influences described were price, income and advertising. There were also some good answers which described changes in the prices of substitutes and complements to flat screen televisions. A small proportion of answers only identified influences without explaining how these would affect the demand for flat screen televisions.
- (b) This was generally well answered. Many candidates drew a clear and accurate diagram and provided relevant analysis of the impact of an increase in income on the equilibrium price and quantity of televisions. Some candidates, however, labelled the vertical axis 'income' rather than 'price' and a small number did not show the shift in the demand curve. There was only a small number of diagrams in which the demand curve and the supply curve were transposed.
- (c) Most candidates were able to explain price elasticity of demand (PED) either in terms of the responsiveness of demand to a change in price or in terms of the formula. A number of candidates who did seek to give the formula left out 'percentage' and some had the formula round the wrong way. The strongest answers described price elasticity of demand in some depth. A number distinguished between elastic and inelastic demand and some described the influences on PED.
- (d) Candidates found this to be a challenging question. A number did link the degree of PED to price changes and the resulting changes on revenue. These often mentioned what factors influence the PED of flat screen televisions. Some candidates, however, suggested that if, for instance, demand is elastic a reduction in price would increase profit. To discern the effect on profit, information would, of course, be needed on the impact not only on revenue but also on costs. It is interesting to note that candidates do often seem to confuse revenue and profit. Candidates also often show confusion over the nature of inelastic demand, stating that when demand is inelastic, if price changes demand will not change at all. This would only be the case if demand is perfectly inelastic. Not many of the answers produced did actually question the extent to which the concept of PED is of use to a manufacturer of flat screen televisions. Of those who did, the strongest comments related to the fact that the manufacturers' revenue and profit would be influenced by a range of factors including changes in the price of substitutes and price elasticity of supply.

Question 4

- (a) The functions of money are not always well understood. Most candidates showed a stronger understanding of a medium of exchange than of a store of value. The majority of candidates were able to give a reasonable description of the meaning of a medium of exchange. In describing a store of value, some candidates revealed a confusion with a unit of account.
- (b) This was well answered with a high proportion of candidates revealing a good awareness of a range of the functions of a central bank. The most popular functions mentioned were issuing bank notes and coins, acting as a bank to the government and implementing interest rate changes. There were some interesting answers which explained the role in relation to the central bank of the candidate's country. A relatively small number of candidates, unfortunately, confused the role of a central bank with that of a commercial bank.
- (c) Most candidates recognised that the stock exchange provides a market where shares are bought and sold. Not many, however, went into depth discussing how it is important in encouraging firms to expand. Very few recognised that not all types of business can use the stock exchange to raise finance and that even in the case of public limited companies, the issue of shares is not the only

source of finance. A small number of candidates appeared to be confused about the term 'stock exchange' and discussed either the sale and purchase of foreign currencies or the sale and purchase of commodities.

Question 5

- (a) There were some good answers to this question which described economic growth both in terms of changes in gross domestic product (GDP) and in terms of a shift to the right of the production possibility curve. Not all answers recognised that economic growth is measured over time. Some candidates included a variety of macroeconomic variables including low unemployment and low inflation but did not relate to the country's output.
- (b) The majority of candidates who answered this question had a reasonable knowledge of fiscal policy. Again, there were some strong answers which explored how expansionary fiscal policy might encourage economic growth. What tended to differentiate answers was whether they covered both an increase in government spending and a decrease in tax revenue. A number of candidates wrote only about either an increase in government spending or a decrease in taxation. For some reason, a number of candidates defined a policy approach which involved an increase in government spending and a cut in taxation as a deflationary or contractionary fiscal policy.
- (c) This question tended not to be well answered. Some candidates were confused about the nature of supply-side policy measures and monetary policy measures. It was surprising that a number of candidates thought that supply-side policy measures included increases in interest rates and measures that would reduce aggregate supply. Many of the answers described how a number of policy measures might influence economic growth but not many assessed the effectiveness of these policy measures. Those who did compare the effectiveness of the two types of policies, made some good comments about how quickly the policies might work, the relative costs of the policies and the possible side effects they may have.

Question 6

- (a) Of the relatively small number of candidates that answered the question, most recognised that a floating exchange rate is determined by the demand for and supply of the currency. Not many, however, went beyond this to examine what, in turn, influences the demand for and supply of the currency.
- (b) Most candidates mentioned buying and selling the currency and some described the role of reserves in the process. Fewer candidates referred to a government, through its central bank, changing the interest rate. A small number of candidates revealed some confusion by referring to the government enabling market forces to operate with fewer restrictions.
- (c) There was a variety of responses to this question. Some were very strong. These explored the impact on both the internal and external performance of the economy and were particularly good on the effect on the trade in goods and services balance. There was also some good explanation linked to the impact on output and employment. Other answers showed some confusion over the nature of a fall in the value of its currency with some candidates thinking it would lead to a rise in export prices and a fall in import prices. Some of the answers were sketchy, for example, just stating that a government might want the external value of its currency to fall to make exports cheaper without explaining how cheaper exports might benefit the economy.
- (d) This was generally not well answered. This was largely due to both a lack of depth and width. In many cases only a few factors were touched on somewhat superficially. The most common factors explored included a greater stability and a lack of speculation in the case of a fixed exchange rate. Candidates did seem to have a greater awareness of a fixed than a floating exchange rate. Some of the stronger answers did explore the automatic adjustment to a trade deficit that can occur in the case of floating exchange rate system and why reserves would not be needed. A few also recognised that it could free a government to pursue other objectives.

There were a number of very brief answers to this question, with some candidates appearing uncertain as to how to tackle the question. This was surprising in the case of a number of answers which had showed a reasonable understanding of the two types of exchange rate systems in their answers to the earlier question parts.

Question 7

- (a) Answers were quite good on absolute poverty with most candidates recognising that it relates to a lack of basic necessities and mentioning a number of these basic necessities. Greater uncertainty was shown about the nature of relative poverty with only a small proportion of candidates providing a coherent description.
- (b) A relatively high proportion of candidates who answered this question showed a lack of awareness of the nature of the Human Development Index (HDI). A wide range of measures that are not included in the HDI were mentioned. These included sanitation, birth rate and distribution of income. Some candidates sought to answer a rather different question. They described why the HDI is measured or described why living standards differ across the world.
- (c) This question elicited a range of responses. There were some strong answers which analysed and evaluated a number of policies, most commonly government spending on education, government spending on health care, progressive taxation and an increase in benefits to redistribute income and government subsidies to both increase output and employment and to reduce the price of basic necessities. These answers provided supported comments on the relative advantages and disadvantages of the policy measures. As with **Question 5**, a relatively high proportion of candidates analysed policy measures and then did not go on to evaluate which policies would be most likely to succeed. Some answers, whilst describing policy measures did not relate them specifically to reducing poverty. There were also a number of answers which were vague and did not specifically relate the points raised to particular policies. For instance, some answers mentioned that a reduction in unemployment and a more even distribution of income would reduce poverty without explaining what policies might achieve such outcomes.

ECONOMICS

<p>Paper 0455/23</p> <p>Structured Questions</p>
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Key Messages

Candidates should read through the question parts in **Question 1** and then read through the extract which accompanies the question. They should then go back to the question parts and answer them. It is advisable that they answer them in order so that they avoid overlap in their answers, because question parts can build on each other and because the skills required in answering them tend to increase in their demands from knowledge with understanding to critical evaluation.

In selecting the three questions they are going to answer from **Section B**, they need to consider each question part. In some cases, it appears that candidates select a question on the basis that they can answer question part **(a)** and sometimes also question part **(b)** well but without considering how well they can answer the last question part or parts. It is important that candidates base their selection on all of the question parts.

When answering a question, candidates need to pay careful attention to the words of the questions and the marks awarded. Candidates should obviously spend more time on a question part that carries, for instance, eight marks than one with four marks. Some of this time should be spent considering what to include in the answer. This is crucial as candidates need to focus on answering the actual questions set. It is important, for instance, to avoid writing about the characteristics of money when the question is asking about the functions of money. It is also crucial that candidates take into account the directive, also called command or instruction words in the questions. If the directive word is 'discuss' candidates need to evaluate by, for example, assessing arguments for and against or advantages and disadvantages. It is useful to include a conclusion.

Candidates should ensure that their writing is legible. It is advisable to use a black pen. They should clearly indicate which questions they have answered both by the side of the question and on the front cover of the script.

Any diagrams included in answers should be clearly drawn and referred to in the text. It is best to draw diagrams using a ruler and they should be of a size that is clearly visible.

If there is any time left at the end of the examination, candidates should read through their answers to check, for instance, that words have not been omitted.

A relatively high proportion of candidates in this examination session relied on general knowledge rather than economic understanding in their answers. This resulted in a number of somewhat vague and superficial answers. Disappointingly, there was also widespread use of slang terms. For example, a number of candidates wrote in their answers to **Question 2 (c)** 'it would depend on the price of machines and other stuff.' Candidates should be encouraged to be precise and to use economic terminology.

General comments

There were some good scripts. These were lucidly written and included relevant economic terminology and analysis directly applied to answering the questions. Some other answers were rather sketchy and seemed to be searching around for points to include.

The majority of candidates answered **Question 1** first. Many found this to be a relatively difficult question. In some cases, more time should have been devoted to thinking about what the question parts were asking and how to respond to them. There were some relatively long answers to all the question parts but some of these were unfocused and lacking economic content.

In **Section B**, the least popular question was **Question 3**. There was a fairly even spread between the other questions with **Question 2** and **Question 5** being probably the two most selected questions.

There were very few rubric errors. The vast majority of candidates answered four questions which included **Question 1**. In the small number of cases where candidates answered fewer than four questions, this appeared to be because they had devoted too much time to answering two or three questions. Most candidates, however, allocated their time appropriately. There was also less evidence than in previous sessions of candidates writing in note form.

As in the case of other papers, there were some examples of confusion over some key economic terms and concepts including inflation, productivity, capital and a recession.

Candidates did not always produce sufficient depth in their answers. On some of the first question parts, they sometimes only identified points rather than explained them. Relevant economic analysis and evaluation was not always present in the last question parts.

Comments on specific questions

Question 1

- (a) There tended to be a lack of precision in the definitions given. Not many candidates picked up on the time factor and a number provided a 'micro' answer by referring to a rise in the price of a product. Some other candidates referred to a rise in the value of money and there was some confusion between the internal and external value of the currency.
- (b) Most candidates recognised that a rise in interest rates would be likely to discourage borrowing and increase saving. There was some strong explanation which made clear the connections between the resulting changes in demand and the inflation rate. There was also some good use made of aggregate demand and aggregate supply analysis. This went beyond what was required but was rewarded. Not all candidates, however, went on to provide clear links between less borrowing and more saving and controlling a country's inflation rate.
- (c) Most candidates picked up from the extract that 'government spending was significantly greater than tax revenue'. The extent to which they built on this information varied. Some candidates provided an in depth examination of the impact of a reduction in government spending both on government debt and on inflation. A relatively high proportion, however, only stated possible effects without explaining why they might occur.
- (d) Some candidates produced excellent answers. These first analysed how a rise in the external value of the Brazilian currency would affect export and import prices, the demand for exports and imports and the current account position of the balance of payments, employment and inflation. They then went on to assess why a rise in export prices and a fall in import prices may not worsen the current account position and why lower import prices may benefit an economy.

A relatively high number of candidates, however, struggled with this question. A number were confused about the direction of the change in export and import prices. This resulted in some inappropriate analysis and critical evaluation. Some candidates suggested that a rise in the exchange rate would cause a rise in the interest rate without providing any explanation. Others confused a current account deficit and a budget deficit and a number of candidates just quoted words from the extract, without any interpretation.

Section B

Question 2

- (a) This question was reasonably well answered. Candidates tended to define land more accurately and gave more accurate examples than in the case of capital. As in previous sessions, a number of candidates sought to define capital in terms of money. Candidates must recognise the difference between capital and financial capital. The word capital on its own, and as one of the four factors of production, relates to capital goods.

- (b) Many candidates seemed uncertain about the meaning of productivity and few picked up on the important time element. A number of candidates also appeared to think that if production increased, productivity must also have increased and vice versa. Of course, if there are fewer resources employed productivity may rise whilst production may fall. Similarly if more resources are used, production may increase but productivity may decrease if resources of a lower quality are employed. Some of the stronger answers provided numerical examples to distinguish between production and productivity.
- (c) There were some good answers to this question. These first distinguished between labour-intensive production and capital-intensive production. They then explored a range of reasons why a move from labour-intensive production to capital-intensive production might be advantageous and why it might not be. A high proportion of candidates discussed the impact of advances in technology and the need to provide workers with breaks. There were also some particularly perceptive comments on the contrasting impact on employment in the short run and in the long run and on the influence of the type of product being produced on the most suitable type of production.

A number of candidates, however, provided one-sided answers, usually arguing in favour of capital-intensive production. Some of these wrote that one advantage of machines over workers is that machines do not have to be paid. They appeared to ignore the cost of producing, maintaining and operating capital equipment.

Question 3

- (a) Most candidates recognised that a mixed economy has both a private sector and a public sector. A high proportion also wrote about the role of the government but many did not explain the role of the market forces of demand and supply and the price mechanism. A small proportion confused a mixed and a market economy but often restricted their description to 'an economic system without government intervention'.
- (b) There were a number of answers which included a clear, accurate and well labelled diagram and relevant analysis. These showed the original and new equilibrium position lines drawn down and across to the axes. As in some previous sessions, however, a number of candidates revealed a misunderstanding about the impact of an indirect tax. This was shown by them shifting the demand curve rather than the supply curve to the left. A small number of candidates transposed the demand and supply curves.
- (c) Most candidates were able to describe some causes of market failure and at least two or three ways a government might seek to reduce market failure. The most common areas of market failure identified were the abuse of monopoly power, lack of public goods and the under-consumption of merit goods. The policy measures most often mentioned were subsidies and taxes. Not many candidates, however, went on to assess what factors would influence whether these measures would be successful. Some candidates also revealed a degree of confusion about the nature of market failure by referring to price rising due to higher demand. They should have recognised that this is the outcome of an efficient response of the price mechanism which should result in more resources being devoted to producing more popular products.

Question 4

- (a) A number of candidates sought to define specialisation by stating that it is when people specialise. Such an approach was not very enlightening. There were a few strong answers which recognised that concentration on a narrow range of products or tasks occurs at different levels.
- (b) This was the best answered part to **Question 4**. The majority of candidates were able to analyse how workers specialising could result in more output being produced in a shorter time period and why and how repetitive tasks may lead to boredom and mistakes. Some candidates produced interesting answers by contrasting the use of division of labour in different types of industries.
- (c) Explanations here were somewhat limited. A relatively high proportion of answers just described countries specialising without bringing out the possible benefits. Those who did seek to explain the benefits tended to focus just on higher output. A few stated that it would raise the exchange rate without establishing why or why such a change in the value of the currency might be beneficial. For some reason, a few candidates wrote that if countries specialise they would not have to import products. Such a statement revealed a lack of understanding of international specialisation.

- (d) This was not generally well answered. Candidates could describe the methods of trade protection but this was not the question. In terms of the arguments for and against protection many candidates provided rather vague answers. These were sometimes restricted to arguing that trade protection might keep out products that are harmful. It was surprising that very few discussed, for instance, the infant industry argument and not many discussed arguments against trade protection. Indeed, a number of candidates seemed to be searching round for points to include and there was some repetition in the comments made.

Question 5

- (a) The majority of candidates identified two motives but not all explained them. For example, a number of candidates mentioned that people save in order to buy a house. Not many, however, explained why saving might be necessary or how saving may enable people to buy a house.
- (b) There was a mixed response to this question. There were some strong answers which described why the rich tend to save more than the poor and why different income groups may save different amounts. Some candidates made rather surprising statements, such as the poor save more than the rich without establishing the point.
- (c) Again, the key problem here was that a number of candidates identified two or more ways that commercial banks can encourage people to save but did not explain them. Some candidates only mentioned a higher interest rate and there appeared to be some confusion between saving, borrowing and investment.
- (d) There were some strong answers to this question. These contrasted the possible effects on output and unemployment and the possible effect on inflation. The answers provided good links between higher spending, demand, output, employment and the price level. A few also explored the possible impact on the current account of the balance of payments. Some answers, however, were rather sketchy and lacked analysis and evaluation.

A number answered that if people save more, then people will borrow more and banks will earn higher profits. What was often lacking was the links between banks having more funds and their ability to lend on more favourable terms and between the amount of interest banks pay to savers and the amount they charge borrowers. Such an approach was also not considering whether, despite a possible lower interest rate, people and firms would want to borrow more.

Question 6

- (a) There was some uncertainty shown about the meaning of the term 'recession' and the definitions given were often rather vague. Not many candidates related it to the output of a country. Instead, a number mentioned economic problems that may occur during a recession such as high unemployment but which are not the defining characteristic.
- (b) This was the part of **Question 6 (b)** that was the best answered. Most candidates mentioned seasonal and frictional unemployment. There were some good descriptions with examples, particularly of seasonal unemployment, which made clear that candidates understood the nature of the types of unemployment mentioned. A few candidates showed some confusion between cyclical and structural unemployment, referring to cyclical unemployment but describing structural unemployment.
- (c) The depth of explanation in candidates' answers varied significantly. A number produced strong answers which explored two or three disadvantages such as lost output and less tax revenue, explaining how unemployment gives rise to such outcomes. Some candidates, however, asserted rather than explained points. Others examined why unemployment may not be a problem but the question only required them to explain and not to discuss. It is important that candidates always consider command words carefully to ensure that they provide the depth of answer needed.
- (d) A high proportion of candidates struggled with this question. They seemed uncertain that the other government aims may be price stability, economic growth, a redistribution of income and balance of stability. A number focused first on how measures to reduce unemployment may conflict with reducing government spending but did not go on to discuss whether it would conflict with the main government aims. There were a few strong answers. Some of these discussed how whilst policy

measures designed to increase consumer spending might conflict with the aims of price stability and balance of payments stability, supply-side policy measures might enable a government to achieve all of its aims in the long run, depending on the cause of unemployment. There were also some good comments which linked lower unemployment to a more even distribution of income and to economic growth.

Question 7

- (a) This was generally well answered. Indeed, it was probably the best answered question on the paper. A few candidates, however, gave an example of a secondary industry when explaining the tertiary sector. Surprisingly, a few candidates confused the primary and tertiary sectors of production. A relatively small number of candidates also did not cover all three sectors of production.
- (b) Not many candidates produced strong answers to this question. A number of candidates described the process of development rather than the characteristics of developing economies. Some candidates stated but did not describe three characteristics. The strongest answers described low income per head, a high proportion of workers in the primary sector and a low level of education. As, in some previous sessions, some candidates assumed that a characteristic of developing economies is that they have a high population size. Of course, what they tend to have is a high rate of population growth.
- (c) Most candidates, in effect, answered a rather different question. They described the possible standard of living in a developed country and compared this with that which might be expected in a developing country. Not many explored why the standard of living might, on average, be higher in a developed country whilst some people might enjoy a higher standard of living in a developing country than some of those in a developed country. In general, the answers to this question tended to lack economics. They were based more on general knowledge than on relevant economic analysis. A relatively high number of candidates, for instance, wrote very descriptive answers about the quality of sanitation and housing in different countries but did not refer to variations in the quality of sanitation and housing experienced by people within a country and why some people in a rich country may be poor whilst some people in a poor country might be rich.

ECONOMICS

Paper 0455/31

Paper 31

Key messages

- This paper requires candidates to interpret, analyse and evaluate the issues covered in the extracts using appropriate economic terminology and concepts. They need to spend time carefully examining the information in the extracts, reading the questions and considering which aspects of their economic knowledge they should apply in answering the questions.

General comments

There was a range of responses to this paper although there were few very weak answers. It was pleasing to see that the vast majority of candidates answered all of the questions. The questions which were most frequently not attempted were **Question 1 (b)**, **Question 2 (a)** and **Question 2 (b)**. The first two involved calculations. It is important that candidates gain experience in undertaking relevant calculations including division (e.g. GDP per head), additions (e.g. total costs), and subtraction (e.g. trade in goods balance) and percentages (e.g. price elasticity of demand). They should also remember to take a calculator into the examination.

Most candidates wrote at an appropriate length, taking into account the number of marks awarded to the questions. There were fewer scripts than in recent sessions that lacked legibility. There was some strong economics understanding demonstrated but also some confusion shown over key economic concepts particularly productivity and production possibility curves.

The strongest answers to the 'explain' and 'discuss' questions provided relevant links and avoided jumping stages. In the case of all the questions, candidates performed best when answering the actual question set, having thought through answers before writing them.

Comments on specific questions

Question 1

- (a) (i) Many candidates found this to be a challenging question. There was some confusion shown between a sole proprietor and a partnership and a number of candidates appeared to think that a sole proprietor employed only one worker. A relatively high proportion of candidates showed some awareness of the characteristics of a sole proprietor but did not make a comparison with a multinational company. The most common comparisons that were made were in terms of location (a sole proprietor producing in one country whilst a multinational company produces in more than one country) and in terms of ownership (a sole proprietor owning the business whilst shareholders owning the multinational company).
- (a) (ii) A high proportion of candidates struggled with this question. This was particularly the case in terms of why a sole proprietor has low total costs. Some candidates stated that a sole proprietor would have low rent or low raw material costs without identifying why. A number carried through the confusion shown in **Question 1 (a) (i)** by stating that the sole proprietor does not have any wage costs. The answers were stronger in terms of why a sole proprietor has high average costs. A number mentioned that their costs would be spread over a low output or specifically stated that a sole proprietor may not be able to take advantage of economies of scale.
- (b) A number of candidates produced an accurate answer to this question. Some, however, divided the change in the average pay of workers in fast food outlets by the new average pay (the minimum wage rate) rather than by the original pay.

- (c) Some candidates quoted that the minimum wage 'raised the wages of 314,000 workers (10% of Hong Kong's labour force)' as a reason why the introduction of the national minimum wage may not take everyone out of poverty. They did not recognise that only a relatively small proportion of workers had their wages raised because most were initially earning more than the minimum wage. Most candidates were able to identify two relevant reasons mentioned in the extract but not all went on to explain why these reasons would not take everyone out of poverty. The three most common reasons identified were that some of the poor are not in work, that not all employees are covered by the legislation and that some of the beneficiaries come from rich households. There were some good answers which, for example, explained that the unemployed or retired do not receive a wage and so are unable to benefit from a rise in the minimum wage.
- (d) Most candidates were able to identify from the extract that the introduction of a national minimum wage may raise motivation and may encourage firms to spend more on training. To gain the explanation marks, candidates had to reveal a clear understanding of productivity. There is a widespread confusion between productivity and production with not many candidates recognising the meaning of productivity in terms of output per input per hour. A number of candidates wrote, for instance, that as workers would feel more motivated or appreciated they would be willing to work more hours. Such a change might affect total output but may not raise output per hour worked. There was also some confusion shown better the quantity and quality of output. There were, nevertheless, some strong answers which explained that a more motivated labour force would be likely to work harder and so produce a higher output per worker hour and that training would increase the skills of workers and so enable them to produce more in a given time period.
- (e) This was generally well answered. There were two main valid approaches to the question. One was to start using information provided in the extract on street cleaners and the labour market in Hong Kong and then to apply relevant understanding of the theory of people's choice of occupation. The other was to start with the theory and then to relate it to the case of street cleaners in Hong Kong. There were some good comments relating to the relative pay of street cleaners, the working conditions of street cleaners and the qualifications required relative to those needed for other jobs of a similar skill level.

Question 2

- (a) Candidates had to pay careful attention to the words of the question. Some calculated Iran's output as a percentage of the output of the five countries shown rather than of the global output. A pleasing number of candidates did, however, successfully complete the appropriate calculation.
- (b) Almost as many candidates stated that Iran was producing on its production possibility curve (PPC) as stated that it was producing inside its curve. A relatively high proportion of those who did correctly identify that Iran was producing inside its PPC did not recognise that this was because it had a relatively high unemployment rate. A small proportion of candidates suggested that Iran was actually producing outside its PPC, a situation they should have realised is impossible.
- (c) (i) A relatively high proportion of candidates correctly identified Saudi Arabia. Most of those who did not state Saudi Arabia, gave the United Arab Emirates (UAE) as the answer. This was presumably because the UAE had the smallest quantity of reserves.
- (c) (ii) Rather more candidates identified Iraq in this question than identified Saudi Arabia in the previous question. A number did give Saudi Arabia as the answer on the basis that it had the most reserves.
- (d) This question was quite well answered with most candidates providing relevant explanations especially in terms of raising revenue and reducing demand for harmful products.
- (e) Most candidates produced clear and accurate diagrams and an appropriate explanation of the impact on the market. A small proportion of the candidates transposed the demand and supply curves. Some labelled the vertical axis 'income' instead of 'price' and a few drew the supply curve shifting to the right.
- (f) This was quite a challenging question. The strongest answers explored both the case for Iran increasing its production and the case why it should not. They examined the possible impact on, for instance, the country's GDP, its employment/unemployment rate, current account position,

inflation rate and pollution levels. Some candidates, however, jumped stages in their discussions. For instance, a relatively high number stated that it would increase government tax revenue without explaining why. Not all candidates recognised that current levels of production will cause reserves to run out eventually. This resulted in them stating that an increase in production would result in reserves running out rather than running out more quickly.

ECONOMICS

Paper 0455/32

Paper 32

Key messages

- This paper requires candidates to interpret, analyse and evaluate the issues covered in the extracts using appropriate economic terminology and concepts. They need to spend time carefully examining the information in the extracts, reading the questions and considering which aspects of their economic knowledge they should apply in answering the questions.

General comments

There was a range of responses to this paper. There were some excellent scripts which revealed a strong and perceptive understanding of relevant economic theory and an ability to apply that understanding. There were also some scripts where the answers were based more on general knowledge than on economic analysis.

It was pleasing to see that the vast majority of candidates answered all of the questions set. The questions which were most frequently not attempted were **Question 1 (d)** and **Question 2 (c)**. **Question 1 (d)** required candidates to undertake a calculation and **Question 2 (c)** involved candidates interpreting statistical data. There were a number of questions where a relatively high proportion of candidates did not fully develop their answers. These included **Question 1 (a) (ii)**, **Question 1 (c)** and **Question 2 (b) (i)**.

Most candidates wrote at an appropriate length, taking into account the number of marks awarded to the questions. There were fewer scripts than in recent sessions that lacked legibility. There was some strong economics understanding demonstrated but also some confusion shown over key economic concepts particularly economic growth and saving.

The strongest answers to the 'explain' and 'discuss' questions provided relevant links and avoided jumping stages. In the case of all the questions, candidates performed best when answering the actual question set, having thought through answers before writing them.

Comments on specific questions

Question 1

- (a) (i) This was quite well answered. More candidates than in previous sessions avoided the confusion with social costs. A relatively high proportion of candidates recognised that external costs are the harmful effects on third parties. Some candidates wrote that they are social costs minus private costs which is, of course, also acceptable. A number of candidates, however, were only able to give an example of an external cost and a small number revealed a misunderstanding by stating that external costs are social costs plus private costs. A small number of candidates wrote about fixed and variable costs.
- (ii) The vast majority of candidates were able to identify two external costs from the extract. The two most commonly selected were bags being dumped at sea causing environmental damage and floods and diseases resulting from litter blocking drains and sewers. The strongest answers went on to explain why the costs selected are external costs.
- (b) There were some good answers to this question which included both an accurate diagram and a relevant explanation of the impact on the market. As in some previous sessions, however, some candidates thought that the imposition of an indirect tax would shift the demand curve rather than the supply curve to the left. A small proportion of candidates transposed the demand and supply

curves and not all candidates drew in the equilibrium lines. A few candidates drew a diagram which showed no change in either demand or supply.

- (c) Most candidates were able to identify unemployment as a disadvantage with a small number selecting a loss of tax revenue. In the former case, not all candidates explained the links between the ban, supply and the unemployment of workers in the plastic bag industry.
- (d) A number of candidates did not appear to know how to undertake the calculation and a small proportion did not seem to have access to a calculator. Other candidates started the calculation correctly but then did not complete successfully. For example, a number divided 100 by 800 and gave an answer of 0.125%. There were, nevertheless, a relatively high number of accurate answers.
- (e) There were some strong answers which explored a number of advantages and disadvantages of an increase in tourism using relevant economic analysis. Among the advantages explored were higher employment, a rise in tax revenue, higher living standards and an improvement in the current account position of the balance of payments. The two common advantages examined were a possible rise in pollution and a higher inflation rate.

A number of candidates asserted rather than established points. For instance, some wrote that an increase in tourism would increase tax revenue without explaining why. A relatively high number stated that increased tourism would cause an appreciation of the exchange rate. Many, however, did not go on to explain why this might be an advantage (enabling the country to purchase imports more cheaply) or a disadvantage (making the country's products less internationally competitive).

Question 2

- (a) Some candidates provided an accurate description of economic growth with some going beyond what was expected by distinguishing between short run and long run economic growth. A number, however, struggled. Some described an increase in population size and some wrote in rather vague terms about improvements in macroeconomic performance.
- (b)(i) Most candidates were able to identify that the population is young but not many explained why this would be likely to increase India's labour force.
- (ii) Candidates' performance was stronger on this question than on **Question 2 (b) (i)**. The majority of candidates linked the increase in government spending on education with a rise in the skills of workers.
- (c) Candidates found this to be a challenging question. The strongest answers started by explaining why it would be expected that positive investment growth would result in lower unemployment. They then went on to assess the extent to which the data in Table 1 reflected the expected inverse relationship

A number of candidates adopted a pedestrian approach. For example, they stated that investment growth was 16.3% in 2006 and the unemployment rate was 7.8%. Then in 2007 investment growth was 15.3% and the unemployment rate was 7.2%. Such an approach is just reproducing the data rather than interpreting it.

Some other candidates either did not refer to the data or described the changes in the data but did not comment on them.

- (d)(i) Most candidates were able to identify the two functions of commercial banks mentioned in the extract although a few just quoted banks increasing their services.
- (ii) Among the other functions described were looking after valuables, providing financial advice, changing foreign currencies and enabling people to make and receive payments by, for instance, using credit cards..
- (e) There were some strong answers to this question. Many of these focused on the influence of changes in income, interest rates and confidence. These strong answers explored how these changes would affect the amount saved in some depth. Some other answers identified influences but did not explain them. Others provided rather confused explanations particularly in terms of how

changes in income might affect saving and spending. A relatively high number of candidates wasted time by discussing, for instance, how a rise in the rate of interest would affect the amount saved and then discussing how a fall in the rate of interest would affect savings. There were also some candidates who confused saving with investment and, as a result, wrote about the influences on investment and, for instance, suggested that a rise in the interest rate would reduce saving.

ECONOMICS

Paper 0455/33

Paper 3 Analysis and Critical Evaluation

Key messages

- This paper requires candidates to interpret, analyse and evaluate the issues covered in the extracts using appropriate economic terminology and concepts. They need to spend time carefully examining the information in the extracts, reading the questions and considering which aspects of their economic knowledge they should apply in answering the questions.

General comments

There was a range of responses to this paper from the perceptive to those which were sketchy and lacking in appropriate economic analysis. It was pleasing to see that the vast majority of candidates answered all of the questions.

The questions which candidates found most straightforward were **Question 2 (b)** and **Question 2 (c)**. There were a number of questions where a relatively high proportion of candidates did not fully develop their answers. These included **Question 1 (c)** and **Question 1 (f)**.

Most candidates wrote at an appropriate length, taking into account the number of marks awarded to the questions. There were fewer scripts than in recent sessions that lacked legibility. There was some strong economics understanding demonstrated but also some confusion shown over key economic concepts particularly a trade embargo and a market economy.

The strongest answers to the 'explain' and 'discuss' questions provided relevant links and avoided jumping stages. In the case of all the questions, candidates performed best when answering the actual question set, having thought through answers before writing them.

Comments on specific questions

Question 1

- (a) Most candidates identified the lack of capital. The second disadvantage was more difficult to discern as it required candidates to link small scale production and the resulting lack of ability to take advantage of economies of scale which the larger Chinese owned plantations are able to enjoy. Some candidates mentioned that owners of small rubber plantations had to take out loans and had to use their savings. These were, however, the consequences of the bad weather rather than the scale of production.
- (b) This was a generally well answered question with a high proportion of candidates identifying the relevant reasons and explaining them using demand and supply analysis. A number of candidates, however, assumed that employing more resources would reduce supply and therefore force up prices because of higher costs. Such an approach confused total and average costs and the impact of higher output on supply and price.
- (c) Most candidates recognised that money enables people to borrow and save. Not many, however, linked these to a standard of deferred payments and a store of value.
- (d) What differentiated candidates' responses here was largely whether candidates explained the reasons identified. Most recognised from the extract that competition was increasing from the larger Chinese plantations and that these plantations can take advantage of economies of scale. The stronger answers went on to explain that lower average costs would enable the owners of the Chinese plantations to charge lower prices and so might attract consumers to switch from buying rubber from Thailand to buying rubber from China. Most candidates also identified that synthetic alternatives to natural rubber may improve in quality. The strongest answers explained how this might make synthetic rubber a more effective substitute to natural rubber.

- (e) This was quite well answered. Most candidates could identify one or two possible influences on whether people will want to work for a larger rubber firm. The strongest answers explored at least three influences and discussed the influences in the context of rubber producing firms, often contrasting working in a large and a small firm. Some good points were made about relative wages, job security, location and industrial relations.

Question 2

- (a) It was surprising that a relatively high proportion of candidates were unaware of the meaning of a trade embargo. Some wrote that it is an agreement to promote international trade and others appeared to think it is a tariff. Those candidates who did recognise it is a ban did not always relate the ban to imports and/or exports.
- (b) Candidates found this to be a straightforward question. Some good answers were produced. There were interesting comments about the ageing population and about the potential impact on government spending and taxation.
- (c) Again, many candidates did well on this question. Most recognised that the tax system is progressive. The strongest answers explained this in terms of the proportion rather than the amount of income taken in tax.
- (d) This was quite a challenging question as candidates had to recognise that removing a subsidy would, in effect, raise sugar farmers' costs of production and so shift the supply curve to the left. The majority of candidates, who did appreciate this, drew clear diagrams and provided a relevant explanation of the effect on the market. A relatively high number, however, shifted the demand curve to the left and a small number shifted the supply curve to the right. A small number did not shift any curve and a few transposed the demand and supply curves. A small number had price on the horizontal axis and quantity on the vertical axis. Most of the diagrams drawn were of an appropriate size and most included the equilibrium lines drawn down and across and clearly labelled.
- (e) (i) This was a relatively tricky calculation and one which required candidates to show an awareness of the nature of the labour force. Some candidates struggled with the calculation. There were a number who undertook the relevant calculation but then got the denomination of the figure wrong giving e.g. 50 million or 50 thousand. A relatively high number of candidates correctly calculated 5m but then deducted 0.1m and gave 4.9m as the answer. This last approach showed that some candidates do not realise that the unemployed are part of the labour force.
- (e) (ii) This question was reasonably well answered. Not all candidates, however, provided support for their comments with evidence from Table 1.
- (f) This question clearly required candidates to show an awareness of the advantages and disadvantages of a market economy. Some candidates produced answers which not only revealed a good awareness of the features of a market economy and made good use of the information in the extract such as the possible short run and long run effects of removing government subsidies and the possible impact of a reduction in the number of public sector workers. Other answers, unfortunately, revealed confusion between a market and a mixed economy. A number of answers asserted points rather than explained them. For instance, a number wrote that a reduction in government intervention would result in lower prices without establishing why this might be the case. It is important that candidates explain the points they make. They should think to themselves have I made it clear why I think this might happen.