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# ECONOMICS

Paper 0455/01

Paper 1 (Core)

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	21	<b>D</b>
2	<b>D</b>	22	<b>D</b>
3	<b>A</b>	23	<b>D</b>
4	<b>D</b>	24	<b>C</b>
5	<b>C</b>	25	<b>D</b>
6	<b>A</b>	26	<b>A</b>
7	<b>D</b>	27	<b>C</b>
8	<b>C</b>	28	<b>D</b>
9	<b>C</b>	29	<b>B</b>
10	<b>D</b>	30	<b>D</b>
11	<b>B</b>	31	<b>B</b>
12	<b>B</b>	32	<b>C</b>
13	<b>C</b>	33	<b>B</b>
14	<b>D</b>	34	<b>C</b>
15	<b>D</b>	35	<b>C</b>
16	<b>C</b>	36	<b>D</b>
17	<b>C</b>	37	<b>A</b>
18	<b>A</b>	38	<b>B</b>
19	<b>D</b>	39	<b>D</b>
20	<b>A</b>	40	<b>C</b>

## General comments

416 candidates took this paper this session and the mean mark was 20.1, which was slightly lower than last year. The most difficult questions were **Questions 4, 5, 29** and **32**.

For **Question 4**, 35% chose option **B**, 25% option **C** and 23% the correct option **D**. A distribution of answers such as this might indicate that the topic was not well known and that the candidates were guessing. There is, quite often, a question on the functions of money in the multiple-choice paper if not on the essay paper and it would be worthwhile for candidates to know the basic functions of money.

For **Question 5**, 78% chose **D** and only 8% the correct option of **C**, indicating confusion between the terms 'public sector' and 'public company'. Public companies are still within the private sector but issue shares for purchase by the public. The question states that the new factories are very large so it is likely that the company would have issued such shares and be classified as a public company as a result.

For **Question 29** only 15% chose the correct option **B** and for **Question 32**, only 11% chose the correct option **C**. Both these questions deal with annual percentage changes. The error made by the candidates is a familiar one. In the past candidates have had difficulty in understanding that a percentage change can be shown as positive – there can be an increase – but that the increase can be at a lower rate than in previous years. Candidates should be clear when considering statistics on inflation, that unless the percentage change is negative then there will still be price rises, although those price rises may be at a slower rate than previously.

<b>Papers 0455/02 (Core) and 0455/04 (Extended)</b>
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<b>Structured Questions</b>
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**General comments**

Although there was considerable variation in the standard of answers between different candidates the general overall quality of answers showed an improvement on previous years.

**Comments on specific questions****Question 1**

- (a) Most candidates were able to state that health was affected by the long working hours and the physically demanding work.
- (b) Many candidates did not understand this term. They expressed the answer in terms of the extent, or intensity, of the work and not in terms of the relative proportions of labour to other factors, especially to capital.
- (c) Better candidates were able to say that the evidence was not extensive. Child mortality, which was ten times the national average, was the only real evidence. However, the text also does state that one third were suffering from disease and implies that the situation was worse in the areas of poor housing but there was no comparative figure. The text also stated that there are now small health centres but it does not state what the improvement in health has been. Many candidates were not able to use the text in this way and made general statements about the lack of health care without trying to make comparisons between areas.
- (d) This part produced varied responses. Some were able to discuss matters connected with monopolies or externalities or public and merit goods. It was not expected that candidates would use all of these terms but that they might express the ideas behind them either by giving examples or by a general discussion.
- (e)(i) Most candidates were able to answer this question in terms of increased efficiency or better quality or faster production.
- (ii) Candidates were expected to present a reasoned case. Some were able to say that a healthier work force might increase producer profits and that it would be a benefit not only to the workers but to the entrepreneur if health were improved. Some argued that the producers were responsible for health and safety issues at work but that the government should be responsible for wider health care in the general community, mentioning the vast cost of such care as a reason. What mattered was that the candidate presented their case in a reasoned manner.

**Question 2**

In this question candidates were required to demonstrate their knowledge of factors of production and then apply that knowledge.

- (a) Almost all identified the factors of production accurately.
- (b)(c) Some described the 'local community' as Zimbabwe as a whole and others took a more limited approach. The former saw the production and sale of tea as a major industry having a considerable impact on exports and so in part (c) thought that this would result in major conflict with large scale producers from elsewhere. Fewer candidates suggested that the output in global terms would be quite small so that Zimbabwe would not be a serious rival in world markets. Both approaches were accepted.
- (d) Answers to this part on whether resources should be exploited or conserved were generally disappointing. Few separated renewable and non-renewable resources and even fewer gave a balanced judgment. Some used tea as their main example. Many others commented on oil usage. Both approaches were accepted.

**Question 3**

- (a) Candidates were expected to suggest that entrepreneurs and shareholders would benefit first from a rise in profits. A number did this but were not always able to explain what the benefits were. Very few were able to consider a rise in dividends or what a firm might do with undistributed profits. Some did comment that a rise in profits might be re-invested in cost-saving techniques, which might in the longer term benefit consumers because prices might fall.
- (b) Many focused on marketing and advertising as ways of increasing profits but a pleasing number considered costs and the need to improve efficiency as well. The effect of adjusting prices on goods with different price elasticity of demand was considered by a number of excellent candidates who were entered for Paper 4.
- (c) Price elasticity of demand was defined accurately by many candidates although a surprising number were confused by 'high'.
- (d) Some excellent answers were submitted to the final section in discussing whether soap has a high or low price elasticity of demand, distinguishing clearly between demand for different brands and for the total market and discussing the possible range of different branded soaps and substitutes.

**Question 4**

- (a) Answers to this question typically mentioned inflation but did not make any reference to changes in prices over time or to a representative sample of goods. This question proved particularly difficult for candidates who had entered Paper 2.
- (b) This question was usually answered very well, although some candidates ignored the issue of weighting altogether. Others gave an example calculation with little or no supporting narrative. However, most candidates produced answers with some detail about the sampling of goods, the sampling of the population and the use of a base year.
- (c) Most candidates were able to identify demand-pull and cost-push as causes of inflation. Candidates varied in their ability to explain the forces at work behind these terms. Some developed the cost-push theme with specific paragraphs on wage-push, import-push and profit-push. Many candidates included quite sophisticated diagrams in their analysis. When this is done candidates should remember that they should then refer to and explain the diagram in their narrative. Some did not do this. Many candidates offered the monetarist explanation of inflation as a third cause. Few candidates drew conclusions.

**Question 5**

- (a) This question was well answered with many candidates mentioning that the term referred to goods, that imports were greater than exports and that the item would be found in the current account of the balance of payments.
- (b) Better candidates mentioned that a deficit might well mean a decreased earnings potential for the economy. A minority did comment on the significance of invisible surpluses as a compensatory force. A typical approach was more dogmatic; visible deficits were seen as a very serious problem, causing economic disaster in many cases. Candidates could have improved their answers by adopting a more tentative approach, (e.g. using words such as 'possibly' and 'might'), and by considering the fact that many Western economies have thrived during periods of heavy and persistent visible deficits.
- (c) This was generally well answered: the standard protectionist methods were usually well rehearsed, but candidates often missed a mark by focusing exclusively on import restraint - tariffs, quotas, embargoes. They did not deal with measures such as subsidies that might increase exports.
- (d) This question cause problems for many weaker candidates as they tended to simply elaborate on material correctly offered in (c). The candidates were not asked to repeat again what effect the policies might have on the trade deficit. Rather they were asked what other consequences might follow - for example, a retaliation by other countries or a reduction in the benefits of free trade or the effect on such variables as growth and employment. Better candidates were able to discuss these effects but very few made concluding comments.

**Question 6**

- (a) This was usually well done by most candidates. They were able to illustrate, using a numerical example, why the richest households spent more in absolute terms on food.
- (b) Most candidates deduced that Faisal earned more than Ali. However, fewer were able to give a clear breakdown of the likely differences in their expenditure pattern. A common error made was to state that as Ali was only newly employed he would save more of his income than Faisal since he had to save up for his own accommodation.
- (c) Surprisingly, given the number of times that savings appears in questions, this was not well done. The main reason for this was that candidates wrote about factors that influenced the level of savings rather than what motivated them to save. Therefore, often there was detailed reference to the overall level of income in an economy, including reference to government economic policies, and not what might induce an individual person to save rather than spend. Another common error was to state that people would save more in times of inflation in order to preserve the level of their savings.
- (d) Generally this was well answered and most candidates explained the inter-relationship between higher spending, greater production and increased wages. Some wrote about the possible effect of increased spending on the additional taxation revenue for the government and discussed what the government might do with the extra revenue. Some candidates also explained how increased spending and demand might cause inflation or increase imports. The latter could create a balance of payments difficulty.

**Question 7**

- (a) Many candidates were able to explain the likely occupational distribution in developed and developing countries by mentioning the expected differences in the proportion working in the primary, secondary and tertiary sectors. However, a significant number of candidates did not understand the question and wrote about the age distribution of the population in developed and developing countries.
- (b) Most candidates showed a good awareness of the factors which identified developing countries. Weaker candidates tended to identify only population characteristics. A small number merely provided lists showing the characteristics of developed and developing countries which mirrored each other. Some credit is given for the presentation of relevant lists but usually full marks are not available to a candidate who does this.
- (c) This was well done by the majority of candidates who attempted the question. Nearly all were able to explain what a multi-national company is and most were able to explain the benefits for a country.

<p><b>Paper 0455/03</b> <b>Paper 3 (Extended)</b></p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	21	<b>D</b>
2	<b>D</b>	22	<b>C</b>
3	<b>C</b>	23	<b>A</b>
4	<b>D</b>	24	<b>B</b>
5	<b>C</b>	25	<b>D</b>
6	<b>A</b>	26	<b>A</b>
7	<b>D</b>	27	<b>C</b>
8	<b>C</b>	28	<b>D</b>
9	<b>C</b>	29	<b>B</b>
10	<b>C</b>	30	<b>D</b>
11	<b>B</b>	31	<b>B</b>
12	<b>B</b>	32	<b>C</b>
13	<b>C</b>	33	<b>B</b>
14	<b>D</b>	34	<b>D</b>
15	<b>C</b>	35	<b>C</b>
16	<b>C</b>	36	<b>D</b>
17	<b>C</b>	37	<b>A</b>
18	<b>A</b>	38	<b>B</b>
19	<b>D</b>	39	<b>C</b>
20	<b>B</b>	40	<b>C</b>

**General comments**

2347 candidates took this paper this session and the mean mark was 27.8, almost identical to the mean mark of 27.7 in 2003 and 27.4 in 2002.

The easiest questions proved to be **Questions 1, 9, 17** and **33**. These tested different skills. **Question 1** tested knowledge, **Question 9** application and **Questions 17** and **33** analysis. There is no one skill, therefore, that the candidates find easier than others.

No questions proved to be more difficult than the limits expected by the examination. The most difficult was **Question 5**, where 29% chose the correct option **C** but 65% chose option **D**, indicating confusion between the terms 'public sector' and 'public company'. Public companies are still within the private sector but issue shares to the public. The question states that the new factories are very large so it is likely that the company would have issued such shares and be classified as a public company as a result.

<p><b>Paper 0455/06</b></p> <p><b>Alternative to Coursework</b></p>
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**Comments on specific questions****Question 1**

- (a) Most candidates were able to calculate the amount correctly as 16 800 tonnes.
- (b) The answer to this question was 10%. It proved difficult for some who did not demonstrate that they knew how to calculate a percentage.
- (c) Many candidates could identify two advantages, which could have been chosen from the reduction in unemployment, the increase in self-sufficiency, the regeneration of the area, or the increase in profitability. However, not every candidate who could identify the advantages were able to explain why this was the case or how it took place. The question did ask for an explanation so a 'list' was insufficient to gain the full marks.
- (d) This question was answered well. Candidates presented clearly labelled diagrams showing a shift in the supply curve to the right. A common error was to assume that the shift in supply, which then caused a fall in price, would result in an increase in demand represented by a shift in the demand curve to the right. The difference between shifts of demand and supply curves and movements along demand and supply curves usually form the basis of some question in each of the examination sessions and it would thus be worthwhile to encourage candidates to make sure that they are aware of the different causes of these movements and the inter-relationship between demand and supply curves.
- (e) Excellent clear definitions of opportunity cost were given. Some candidates lost a mark by failing to refer to 'the next best' alternative given up. Instead, they simply explained the concept in terms of choice and an alternative given up. Most candidates were able to give an appropriate example from the text.
- (f) Good answers to this question should have included comments about the different aspects mentioned in the article. The salmon fisheries may not have increased profits because the cod farms would produce an alternative. Those fishing in the sea may not have an increased profit both because of the cod farms providing an alternative and because the number of fish might be reduced if the food supplies are depleted. Those on the cod farms should have an increase in profits because currently there is an excess demand over supply so the extra fish from the farm should be sold. Good answers discussed costs, revenues and likely profits and presented a reasoned conclusion. Some candidates discussed the effects on employment in the industry but did not relate this to profitability. They did not, therefore, use their material to answer the question properly. Some discussed macro-economic issues such as the effect on the balance of payments and imports, again without mentioning profitability.

**Question 2**

- (a) Good answers mentioned increasing employment or income in the economy, or an increase in GDP, or an increase in the provision of services and goods, or an improvement in the standard of living. They related this to a time period.
- (b) The use of the word 'real' often causes a problem to candidates. Many thought that it referred to the actual physical goods and made no mention that an allowance had been made for inflation. Alternatively, candidates thought 'real' meant disposable income. The use of this word is quite often tested either in the essay paper or in the multiple-choice paper and it would be worthwhile for candidates to be familiar with its meaning.
- (c) Good answers commented that although the growth rate is shown as negative, this was only for 1999-2000. Between 1995 and 2000 the economy may have grown in other years and this could account for the rise in the absolute figures in Table 1. There need not, therefore, be a conflict in the figures.

- (d)(i)** Nearly all candidates chose Equatorial Guinea, as expected. South Africa was also accepted as a correct answer, as it had the greatest rise in real GDP measured in \$.
- (ii)** Many candidates produced very good answers to this question. They recognised that the figures were not per head and that they might need to know the population size. They also mentioned that they could need to know other factors which determine quality of life which are not reflected in the GDP figures. Such factors could include, for example, the number of doctors, the social conditions, the type of housing, the range of consumer durables, education provision, the level of infrastructure, employment prospects, the range of industry, taxation levels and the extent of government provision of services. Some candidates wasted time by restating information which was given in the question, whereas they were required to provide suggestions of what other information might be useful to them which was not provided.