

# ECONOMICS

Paper 0455/01

Paper 1 (Core)

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

## General comments

1085 candidates took this paper in November 2006 and the mean score was 20.7, almost identical to the mean of November 2005 and 2004, which were the highest mean marks since 1998. This is a commendable achievement for the candidates.

The most difficult **Questions** were **8, 25, 28, 29, 30** and **38** with fewer than 25% of the candidates answering correctly. In **Question 8**, the correct key was D chosen by 14% of the candidates. The other options were chosen by 39%, 13% and 34% respectively. Candidates who chose A or C confused a cause of a shift in the supply curve with a cause of a shift in the demand curve. The correct key D requires the candidates to recognise that an increase in advertising could well result in an increase in demand for the product. As this is for a rival product there will be a decrease in demand for the product in question and the demand curve will shift to the left.

**Question 25** was answered correctly by 20% of the candidates who chose D. 44% chose option C. 25% chose A and 11%, B. This was really a factual question testing knowledge. Taxes on goods and services are indirect taxes and are generally considered to be regressive.

**Question 28** was answered correctly by 19% who chose option A. 57% chose D. It is confusing sometimes when tourism is considered. Candidates should try to think where the income from tourism will go and try to consider that it might be regarded as an export, even though the tourists are coming in to the country.

**Question 29** referred to composite parts of the balance of payments. A surplus of \$20m on one part of the balance had turned to a \$10m deficit when all the items were included. Somewhere there must be a total of \$30m deficit to cause this. The only option allowing this to happen was option C. Those who chose A omitted to notice the plus sign. Upon reflection, this question was thought to be too hard and focused on too narrow an aspect of the syllabus. Consequently the scores for the question were ignored and the paper was, in fact, marked out of a total of 39. It is unfortunate when this happens and it was not thought, at the time when the paper was set, that this would be such a difficulty. By deleting the question from the paper and adjusting the grade boundaries accordingly, it is not thought that candidates were disadvantaged.

For **Question 30**, 16% chose the correct option D, 32% A, 23% B and 28% C. Such a distribution might mean that candidates were guessing at the answer. This, together question with **Question 38**, requires a knowledge of international trade. Maybe the candidates for this particular examination decided that they would concentrate on other areas of the syllabus. It was thought that the question was appropriate for the syllabus and for the core candidates.

For **Question 38**, 33% chose A, 21% B, 24% C and 21% the correct option D. Such a distribution might again mean that candidates were guessing at the answer. Changes in quotas often cause difficulties. The removal of a quota will allow more imports. Candidates sometimes argue the reverse.

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Paper 0455/02

Structured Questions (Core)

## Question 1

- (a) Candidates were usually able to give four ways in which a multi-national could help developing countries. These included the increase in employment, the boost to exports, the encouragement and development of new skills, changes in working conditions.
- (b) Many candidates did not answer this question well. They did not understand what was meant by international trade agreements and wrote in terms of an agreement – an order for products - between an individual company and another company. There was little discussion of the benefits of free trade.
- (c) By contrast to **Section (b)**, candidates were able to present a succinct summary of the argument of the Foreign Minister and gained the two marks.
- (d) Similarly, for this section, candidates were able to discuss the differences between an industry which was labour intensive and one which was not; between an industry which required a specialist skill and one which did not and of the differences in labour required for the two types of industry.

## Question 2

- (a) Candidates were able explain the idea of equilibrium price either by using a diagram or in words. The weakness was that many simply said that disequilibrium price was one that was not in equilibrium, without explaining exactly what that might mean in terms of the pressure on demand and supply to reach an equilibrium.
- (b) Many candidates were able to discuss why demand might have increased; fewer mentioned that the cost of travel declined resulting in a shift in the supply curve. Many lost marks through incorrectly or badly labelled diagrams. The candidates could have easily improved their result by a little careful attention to detail, including the labelling of the axis and the curves.

## Question 3

- (a) Surprisingly, many candidates did not answer this section at all. It was meant to be a relatively simple list, which might include working conditions, distance required to travel to work, lack of appropriate qualifications, career prospects, fringe benefits and holiday entitlement.
- (b) Candidates were able to answer the first part of this question in a clear manner. They explained the differences between the sectors, often by giving examples. Fewer then discussed how the relevance of each of the sectors changes as a country develops. This was a pity as marks were, therefore, limited.

## Question 4

- (a) Explanations of the measurement of inflation were weak. There was little mention of a selection of goods, of a base year, of weights or how the calculation might be made. There was usually a half-hearted attempt to define inflation.
- (b) Candidates were able to mention at least one government policy. A considerable number did not comment on macro-economic aims, but wrote about micro aims and others did not mention a second aim.

**Question 5**

- (a) Most were able to give an indication of the idea of conservation and the use and preservation of resources.
- (b) Candidates were also able to suggest who might benefit from an urban project, mentioning either the developers, the local people, the government, those who gained employment, those who provided the facilities and resources for the development.

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**Paper 0455/03**  
**Paper 3 (Extended)**

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

## General comments

2774 candidates took this paper in November 2006 and the mean score was 22.1. Last winter the mean was 24.0.

Three **Questions, 1, 3 and 35** were particularly easy for the candidates with over 85% choosing the correct answer. (This is fewer than last year when 7 questions were answered correctly by 85% of the candidates or more). These questions cover different parts of the syllabus and different skills. It is not, therefore, possible to conclude that candidates found one part of the curriculum particularly easy.

If questions are found to be relatively easy the discrimination index is sometimes below the norm expected for questions of average difficulty. This occurred with all three questions. This combination of easy questions and a low discrimination index is not unusual. However, the discrimination index was also below that expected for **Question 24**. This could mean that the question might have been answered correctly by candidates who scored less well on the test overall and incorrectly by candidates who scored well on the test overall. Such a result could mean that there was something inherently incorrect with the question. It is not thought that this is the case with **Questions 24**. For **Question 24**, 82% gave the correct answer, the recorded marginally low discrimination index of 21 could well be because the questions were still relatively easy.

The most difficult **Questions** were **8, 17, 29** and **38**. **Question 8** was answered correctly by 22% who chose option D. 33% chose C and 35% A. Candidates who chose A or C confused a cause of a shift in the supply curve with a cause of a shift in the demand curve. The correct key D requires the candidates to recognise that an increase in advertising could well result in an increase in demand for the product. As this is for a rival product there will be a decrease in demand for the product in question and the demand curve will shift to the left.

**Question 17** was answered correctly by 13% of the candidates. 69% chose option A. Option A refers to an absolute amount. There is no information about absolute wage payments in the question, only about proportionate changes. Candidates who chose A confused the use of absolute and percentage changes – a common mistake in past papers for this examination.

**Question 29** referred to composite parts of the balance of payments. A surplus of \$20m on one part of the balance had turned to a \$10m deficit when all the items were included. Somewhere there must be a total of \$30m deficit to cause this. The only option allowing this to happen was option C. Those who chose A omitted to notice the plus sign. Upon reflection, this question was thought to be too hard and focused on too narrow an aspect of the syllabus. Consequently the scores for the question were ignored and the paper was, in fact, marked out of a total of 39. It is unfortunate when this happens and it was not thought, at the time when the paper was set, that this would be such a difficulty. By deleting the question from the paper and adjusting the grade boundaries accordingly, it is not thought that candidates were disadvantaged.

For **Question 38**, 29% chose A, 18% B, 29% C and 23% the correct option D. Such a distribution might mean that candidates were guessing at the answer. Changes in quotas often cause difficulties. The removal of a quota will allow more imports. Candidates sometimes argue the reverse.

# ECONOMICS

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Paper 0455/04

Structured Questions (Extended)

## General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates, who demonstrated a sound knowledge and understanding of economics and a mature ability to analyse, discuss and evaluate key economic concepts and issues. There were also, unfortunately, a number of weak answers where the candidates failed to demonstrate very much knowledge or understanding. There were relatively few rubric errors, although some candidates did answer all seven questions instead of the requirement of **Question 1** and three other questions.

Candidates need to pay attention to the precise instruction in the question. For example, if the question asks the candidate to state something, as in **Question 1(a)** or **Question 3(a)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to explain something, as in **Question 2(a)** or **Question 6(b)**, or to discuss something, as in **Question 4(d)** or **Question 7(b)**, he or she needs to go into much more detail. In the case of a discussion, the candidate will often be expected to give two sides of an argument, or to consider the advantages and disadvantages of something and then come to a reasoned and logical conclusion. Candidates also need to look very closely at the number of marks given to each part of a question, as this gives a clear indication of how much time to allocate to each part and how much detail is required.

One problem for the examiners is that a number of candidates fail to put the answers in the correct order, often mixing up answers to different questions. This makes it much more difficult to mark; candidates really need to try and allow some time at the end of the examination to make sure that the work being submitted is in the correct order.

## Comments on specific questions

### Question 1

- (a) Most candidates were able to correctly state four ways in which multi-national companies can help developing countries, such as Bangladesh and these included an increase in employment, the development of new skills, an improvement in the infrastructure and a boost to exports.
- (b) A number of candidates struggled with this part of the question. However, many of them recognised that what was required was a contrast of the two statements, i.e. a recognition that there might be some good reasons for a country to have trade agreements, but that, despite these, there could also be good arguments to be said in favour of free trade, giving countries the opportunity to benefit from specialisation at the international level.
- (c) The majority of candidates were able to provide a summary of the main argument of the Foreign Minister of Bangladesh, but some of them simply copied straight from the text and so were unable to gain more than half marks for this part of the question.
- (d) There were a number of good answers to this final part of the question, with candidates recognising that it might be difficult for employment in the clothing industry to be replaced by employment in the manufacture of medicines. Candidates recognised that these were very different types of work which would limit the degree of occupational mobility; there were also large differences in the number of workers required in the two industries: 50 000 in medicine and 1.8 million in clothing.

**Question 2**

- (a) The majority of candidates were able to clearly explain the difference between an equilibrium price, i.e. one where there was no tendency for it to change, and a disequilibrium price, i.e. one where it was likely to change because of a situation of excess demand or supply. The question did not explicitly ask for a diagram, but many did decide to draw one and generally used it to good effect to aid the explanation.
- (b) The second part of the question did specifically require a diagram to be drawn and the better answers included a shift of both the demand and the supply curve to the right, explaining why both would be likely to occur. Incomes had generally been rising, leading to an increase in demand and firms had been responding to this by increasing the supply. Some candidates, however, focused on only one of the two aspects and so limited the mark they could be awarded. A few candidates failed to draw a diagram despite being asked to do so.
- (c) Answers to this part of the question varied a great deal. Many candidates were able to clearly define the concept of price elasticity of demand and went on to suggest why different goods had different price elasticities, such as whether they were essential or luxury goods and the proportion of income spent on them. Other candidates, however, did not seem to have a good understanding of the concept and/or were unable to suggest why price elasticities varied so much. A few candidates wrote extensively on the concept, explaining in theory how PED could vary from perfectly inelastic to perfectly elastic and including a large number of diagrams, but said nothing on particular goods and so were unable to gain more than two of the available five marks.
- (d) As in the previous part of the question, answers to this final part varied a lot. A number of candidates offered very good answers, explaining that holiday tours would be likely to be relatively price elastic in most cases and so firms would find it preferable to reduce prices in order to increase revenue (a few candidates went even further and gave some examples of tours where the demand would be more likely to be price inelastic, such as with the more expensive and exclusive segment of the market). Others, however, found it very difficult to apply the concept to holiday tours in any meaningful way.

**Question 3**

- (a) The majority of candidates were able to correctly state four non-wage influences on an individual's choice of occupation and these included working conditions, holiday entitlement, the likelihood of promotion and the distance/time to travel. A few included wages despite the question explicitly asking for non-wage influences; it is clear that some candidates need to read the questions much more carefully.
- (b) The first part of the question was answered well in the majority of cases, with candidates explaining clearly what was meant by the primary, secondary and tertiary sectors of production, usually with the inclusion of appropriate examples to aid the explanation. The second part of the question, however, was found to be more difficult in many cases. It was expected that candidates would describe how the primary and secondary sectors would decline in importance and the tertiary sector would gain in importance over a long period of time as a country developed (the secondary sector would initially grow in importance and only decline at a much later stage), but relatively few offered a good description of this likely process of development.
- (c) The majority of candidates were able to clearly explain what was meant by a trade union, in terms of an organised group of workers with the aim of increasing the wages and improving the working conditions of the members. Some candidates were able to explain the different types of trade unions in existence. A few, however, got completely confused and thought that a trade union was a trading group of countries, such as the European Union. Another area of confusion was that some candidates thought that it was a group of employers rather than employees.



- (d) Many candidates found this a rather difficult question to attempt. A number of candidates simply wrote about the different methods that could be used by trade unions to try and achieve their aims. The key element of the question was the reference to 'relative strengths' and candidates should have focused on why some trade unions might be more powerful and more likely to be successful than others. For example, they could have considered the size of the union, the proportion of people in an industry in the union or its financial resources. There should also have been a consideration of how the factors might have influenced the demand for and supply of labour and possible reference to the level of earnings in particular occupations.

#### Question 4

- (a) The majority of candidates were able to explain how inflation could be measured through a retail or consumer price index. There were some very clear and detailed answers which fully explained such things as a basket of goods, the base year of 100, the weights given to particular goods and services and the actual construction of the index. A few candidates, unfortunately, misunderstood what was required and wrote about the differing degrees or types of inflation, such as creeping or galloping inflation, or about the different causes of inflation, such as demand-pull or cost-push.
- (b) This part of the question was also answered well by the majority of candidates. The two aims that were chosen included economic growth, the balance of payments, the redistribution of income and full employment. A few candidates, however, decided to write about low inflation as one of the aims, despite the reference in the question to two **other** aims apart from low inflation; yet again, this was an example of some candidates not reading the question carefully enough.
- (c) Most candidates recognised that high oil prices could contribute to inflation, either in terms of a direct impact on the RPI or CPI or indirectly through its effect on other prices, especially in relation to production and/or transport costs, contributing to cost-push inflation.
- (d) The last part of the question was answered reasonably well by the majority of candidates who were able to discuss a range of actions which governments might take to control inflation, including both monetary measures, such as a rise in interest rates, and fiscal measures, such as reduction in government expenditure and/or an increase in taxes. Weaker candidates, however, paid no attention to the command word '**discuss**' and simply listed a number of possible actions, limiting the number of marks that could be awarded to the answer.

#### Question 5

- (a) The majority of candidates had a basic understanding of what was meant by the term 'conservation', but they did not always clearly relate this to resources.
- (b) Most candidates were able to consider who might benefit from an urban development project and answers included the developers, the users of the development project, such as consumers if it was a shopping mall or residents if it was a housing development, the people who might gain employment, the people taking advantage of the improved infrastructure and the government if there was an increase in receipts from taxation.
- (c) Most candidates explained how a government might control private companies that wanted to develop an area through the use of taxes, but some went further and included a consideration of various types of licences and different types of regulation, such as planning permission.
- (d) The majority of candidates were able to discuss why the development and exploitation of an urban area might be disadvantageous and they considered a range of externalities, such as visual intrusion, noise and air pollution, the destruction of homes in order to build a new development, a possible reduction in profits of existing firms in the area and the possible consequences of overpopulation and overcrowding as people were attracted to the area.

**Question 6**

- (a) In part (i), most candidates were able to distinguish between direct and indirect taxation in terms of the former being a tax on income and the latter a tax on expenditure. Appropriate examples of the two types of taxation were given, such as income tax as an example of a direct tax and value added tax (or any other kind of sales tax) as an example of an indirect tax. A few candidates, unfortunately, got the two types of tax completely mixed up. In part (ii), many candidates understood the meaning of a progressive tax, explaining how the income tax rates would be higher for greater levels of income, but there was a great deal of confusion over a regressive tax, such as a sales tax. It is not that the rate of tax changes, but that it takes up a higher proportion of the income of poor people compared to the better-off.
- (b) The majority of the answers to this part of the question were of a good standard. Candidates were able to explain a number of reasons why governments imposed taxes, such as to raise revenue to finance public expenditure, the provision of public and merit goods and the discouragement of demerit goods, such as alcohol and tobacco. A few candidates ignored the command word 'explain' and simply provided a list of the possible reasons, limiting the number of marks that could be given to the answer.
- (c) There were a number of reasonably good answers to this part of the question. Candidates considered the likely positive effects, such as the increased revenue that could then be spent on the people, such as an improvement in the education and health provision, the effect on controlling the rate of inflation and the fairer distribution of income that would be a likely consequence. Many of them then went on to discuss the likely negative effects, such as the disincentive to work resulting from the higher rates of income tax that would be paid, reducing the net income.

**Question 7**

- (a) The majority of the answers to the first part of the question were generally of a good standard. Most candidates recognised that fixed costs would remain constant even if there was a change in output, such as the cost of rent or interest, whereas variable costs would alter if there was a change in output, such as the cost of raw materials. Average total cost was less well understood; candidates needed to explain that it consisted of both the fixed and variable costs and that this total cost needed to be divided by the output to give an average figure.
- (b) Most candidates were able to discuss what might happen to these costs if a firm replaced labour with machines. The fixed costs would be likely to increase as machines would be generally regarded as a fixed factor and the variable costs would be likely to decrease as labour would be generally regarded as a variable factor (some of the better candidates discussed the extent to which labour should be regarded as a variable factor, arguing that some forms of labour could be regarded as a fixed factor, such as the senior management). Discussion of the effect on average total cost was more difficult, but it might be expected to decrease if there was a greater degree of efficiency as a result of the increased use of machinery.
- (c) The answers to this part of the question were generally of a good standard. The majority of candidates were able to explain the different forms of integration, including horizontal, backward vertical, forward vertical and conglomerate or diversifying, and many of them included appropriate examples to support the explanation. They then went on to suggest a number of possible reasons why integration happens, such as to reduce costs (there were some very good explanations of the different forms of economies of scale), increase profit and to gain a greater market share.

# ECONOMICS

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**Paper 0455/06**

**Alternative to Coursework**

## Question 1

- (a)(i) This was an introductory question which required a simple definition of opportunity cost. The answers ranged from being completely wrong, through to some hint of a sacrifice, to the correct answer which included a mention of the next best alternative which was sacrificed. The full marks were only given to those who mentioned not just a sacrifice, but the next best, or second best, alternative.
- (ii) Most candidates were able to give an example of opportunity cost from the extract in the paper. They could have used the fact that admissions in hospitals prevented other treatment, policing city centres prevented attention to other areas where burglary takes place, treatment centres prevented money being spent on other facilities.
- (b) Better candidates did just what the question asked. They considered how helpful the extract was and then mentioned what other information they might seek. Weaker candidates did not comment on how helpful the extract was, but just listed some points from the narrative. Candidates could have mentioned that the extract might be considered helpful because it show the range of harmful effects, e.g. on the health service, the extent of accidents, death, illness; with some values of effects and difficulties of calculation. It also identifies some benefits of alcohol consumption. It is unhelpful because is makes assumptions which may not be justified, for example, that people who become drunk necessarily become burglars and it does not give values for all of the costs, nor does it give an overall total cost.

Additional information that might be required includes the value of benefits, the costs of enforcement, other countries' experience, the loss of government revenue and the impact on employment. Many candidates completely ignored the request in the question for additional information. Therefore, they automatically forfeited some marks.

Candidates should be encouraged to read questions carefully and direct their answers to each part of the question.

- (c) Whilst few gained full marks for this section – mainly because the comments were undeveloped – many did explain some aspects of each policy and attempted to make a judgement regarding the alternative approaches.

## Question 2

- (a) This was a question well answered by many candidates. The most common error was to discuss the idea of specialisation in terms of the company. Candidates who answered in terms of the company mentioned increased production, increased profits, less wasted time. These points could have been used if they had further suggested, for example, that the worker might have benefited from increased profits if they were then able to argue or receive and increase in wages. The points were wasted if they only concentrated on the company and not on the worker.
- (b) This section was also well-answered. Full marks were reserved for those who did not just mention the standard factors which influence the demand for any product, but who tried to use those factors with reference to luxury cars. A mention of the style of the car, the facilities of the car, the image or status, as well as the general points about income, price, price of substitutes etc. ensured all four marks were given.

- (c) This was often dealt with very thoroughly. Good answers discussed the need to investigate costs in some detail, as well as potential demand. Some responses extended the discussion to include the availability of government grants, the extent of taxation, the possible interference with free trade, foreign currency issues and existing competition. Many gained high marks for this question.