

ECONOMICS

Paper 0455/11
Multiple Choice

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

General comments

5216 candidates sat this paper. The mean mark was 21.0 which is higher than the mean of 20.05 in 2016 and also higher than the mean in 2015 and 2014.

The questions for which most candidates selected the correct answer were **1, 3, 5, 11, 14, 16, 20, 22, 24, 25, 26** and **28**. These questions were answered correctly by 80% 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 **9, 10** and **30**. These questions were answered correctly by fewer than 45% of the candidates.

Comments on specific questions.

Question 9

Question 9 was answered correctly by 32% of the candidates who chose option **A**. 27% chose option **B**, 33% chose option **C** and 8% chose option **D**. The correct option presumes that the training and skill required is less than that required for the other three occupations. The length of training for the other occupations would mean that higher incomes would not be possible at a relatively young age.

Question 10

Question 10 was answered correctly by 16% of the candidates who chose option **D**. 31% chose option **A**, 29% chose option **B** and 23% chose option **C**. The question stated that individuals produced their own goods. By specialising and exchanging goods they were able to obtain a greater variety of products and increase their standard of living, but without the use of money they would require a system of barter which may take more time to organise.

Question 30

Question 30 was answered correctly by 30% of the candidates who chose option **B**. 18% chose option **A**, 26% chose option **C** and 26% chose option **D**. The change mentioned in the question would cause China's imports to become relatively more expensive (option **A** is incorrect). China's exports became relatively cheaper (option **C** is incorrect) and their trading partners would be likely to find that there was an increased demand for imports from China and a reduced demand for their own exports. (Option **D** is, therefore, incorrect). China's demand for relatively more expensive imports would be likely to be reduced (option **B**).

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

ECONOMICS

Paper 0455/12
Multiple Choice

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

General comments

8918 candidates sat this paper. The mean mark was 21.2 which is slightly higher than the mean mark of 20.7 in 2016 and the mean of 20.5 in 2015.

The questions for which most candidates selected the correct answer were **1, 3, 5, 15, 16** and **20**. 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 **8, 13,** and **23**. These questions were answered correctly by fewer than 45% of the candidates.

Comments on specific questions

Question 8

Question 8 was answered correctly by 23% of the candidates who chose option **C**. 5% chose option **A**, 45% chose option **B** and 27% chose option **D**. Those who chose option **B** did not consider that paper notes are not as durable in the long term.

Question 13

Question 13 was answered correctly by 42% of the candidates who chose option **A**. 40% chose option **B**, 6% chose option **C** and 13% chose option **D**. Average variable cost, option **B**, which was the most popular choice after the correct option, may rise as output increases.

Question 23

Question 23 was answered correctly by 43% of the candidates who chose option **C**. 4% chose option **A**, 9% chose option **B** and 44% chose option **D**. Those who chose option **C** adjusted the change in GDP to reflect the increase in population but forgot to take account of the price change to obtain the real change in GDP.

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

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Paper 0455/13
Multiple Choice

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

General comments

96 candidates sat this paper. The mean mark was 20.0 which is almost identical to the mean of 20.5 in June 2016.

The questions for which most candidates selected the correct answer were **2, 11, 13, 16, 20, 22** and **24**. 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 **1, 9, 17** and **23**. These questions were answered correctly by fewer than 40% of the candidates.

Comments on specific questions

Question 1

Question 1 was answered correctly by 31% of the candidates who chose option **A**. 24% chose option **B**, 41% chose option **C** and 4% chose option **D**. The term capital in economics is used to describe a non-financial asset or factor of production that may be used to produce other goods. It is not the money used to finance a project (option **C**).

Question 9

Question 9 was answered correctly by 35% of the candidates who chose option **B**. 33% chose option **A**, 17% chose option **C** and 15% chose option **D**. If there was an increase in the number of workers unemployed then the potential supply of labour is likely to have increased and this would weaken the bargaining strength of a union representing existing workers. (Option **B**)

Question 17

Question 17 was answered correctly by 32% of the candidates who chose option **B**. 23% chose option **A**, 19% chose option **C** and 26% chose option **D**. Option **B** is the only option that both describes a fiscal policy and a change in supply.

Question 23

Question 23 was answered correctly by 38% of the candidates who chose option **D**. 26% chose option **A**, 18% chose option **B** and 19% chose option **C**. When an indicator rises at a slower rate than in previous years, it is still an increase in the variable being measured. It has increased, but not as fast as it increased in previous years. Thus, in 2013 prices still rose – by 3%. They did not rise as fast as in 2012 when they rose by 5%.

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

ECONOMICS

<p>Paper 0455/21 Paper 21 Structured Questions</p>
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Key messages

There were very few rubric errors made in this exam. In some cases, candidates answered part of a question and returned to answer the rest of the question at the end of the exam whilst other candidates added extra comments to a question at the end of the paper and did not indicate that there was extra work at the end. To ensure that an accurate mark is always given for every question, candidates should take care to clearly indicate when they have written work out of sequence and make sure that the question such work relates to is clearly indicated.

General comments

The majority of candidates took account of the marks available in determining the length of their answer to a question. This is particularly important in part (a) to every question in **Section B** where there are only two marks available. This is usually for a definition, which requires only two or three lines of writing. A fuller description would waste time that would be better spent answering other questions.

It is important that candidates recognise the difference in approach to answering parts (b), (c) and (d) in **Section B**. Often, for part (b), candidates are asked to give two causes or two reasons. The four marks are allocated on the basis of identification and development. Thus, giving more than two reasons or causes without any development cannot get more than two marks but without the development, full marks cannot be given.

In part (c) candidates are asked to analyse why something may happen, e.g. **Question 5(c)** asks for an analysis of why appreciation of an exchange rate may *reduce* the country's inflation rate. It is important that candidates only deal with that effect as any counter argument that it might increase inflation falls outside the scope of the question and will not earn the candidate any marks.

In part (d), where candidates are asked to discuss, the candidate has an opportunity to give both sides of the argument. Marks schemes for part (d) questions always reward those candidates who are able to give a balanced discussion which includes evaluation. Answers to part (d) should therefore be in greater depth than those given for parts (b) and (c).

Comments on specific questions

Section A

Question 1

- (a) Private cost was correctly explained by most candidates and most were also able to select an example of private cost from the extract, with the second Suez Canal and capital equipment or wages being the most popular example selected.
- (b) Most candidates were able to explain that opportunity cost was the next best alternative foregone and selected healthcare, hospitals or education as examples of what had been foregone in order to spend on the canal. A few forgot to mention that the money had been spent on the second canal.
- (c) (i) Most calculations were incorrect as candidates chose to calculate 12.5% of the total population of 90 million giving an answer of 11.25 million rather than 12.5% of the working population of 28 million which gave an answer of 3.5 million.

- (ii) The correct calculation of 4% of \$280 billion was made by most candidates. However, quite a few did not put the \$ sign or left off the billion in their answer of \$11.2 billion. A common error was an attempt to write out 280 billion in full and missing off some noughts at the end so that after the calculation was done the number of noughts given amounted to 11.2 million rather than billion. Calculators are allowed so this sort of error and loss of marks could have been avoided.
- (d) Generally, this was well done with many candidates coming to the conclusion that demand for sea transport would fall. Good responses explained that demand would fall for both goods transported and leisure travel by passengers. A few were confused about the meaning of recession and thought this was a period of time when prices rose significantly rather than income falling. This meant that they believed that demand for sea transport would rise since it was cheaper than air transport.
- (e) Weaker answers simply stated that the population would increase if the death rate fell. However, that was already in the question. Candidates needed to explain that whether or not the population increased, stayed the same or fell would depend upon what happened with the birth rate and net migration. Few were able to explain this well and some were quite confused in suggesting that changes in infant mortality rates did not affect death rates.
- (f) This should have been a straight forward answer in interpreting what was in the demand and supply diagram. However, some answers tried to explain instead why the demand for air transport and sea transport changed. Surprisingly, some commented on the reduction in price and quantity in sea transport but did not mention the fall in demand. It was good to see that many candidates recognised that air transport was a substitute for sea transport.
- (g) A common error in responding to this question was to explain how the government could protect an infant industry e.g. through a tariff or quota rather than why it should protect the industry. Some candidates in their answer were clearly confused in distinguishing between an infant industry and a small firm since reference was made to combatting the powers of monopolies. A small number of candidates misinterpreted this as a question about industries supporting infants. Common responses identified the positive impact on employment and the potential for economic growth and extra tax revenue for the government. Negative reasons mainly centred around the opportunity cost of using government revenue that could have been used to support education or health for example. Potential retaliation from other countries was also identified as a reason for not protecting infant industry.

Question 2

- (a) The term 'market failure' was understood by many candidates who wrote about the harmful effects on third parties of pollution, or that it resulted from the inefficient use of resources.
- (b) A reduction in the costs of production, or the provision of a subsidy from the government were common reasons put forward for why a supply curve would shift to the right. However, quite a few answers mistakenly suggested that a change in demand caused it.
- (c) There were a wide range of correct answers for why the price for a product might be higher in the USA than China. Some candidates referred to factors such as higher wages or costs of raw materials in the USA. Others wrote about higher incomes leading to higher demand or that the US government may have imposed a tax on the product. Other candidates approached it from the point of view of what may have caused the price to be lower in China, e.g. the government may have put a subsidy on the product or that greater competition in China resulted in lower market prices. Either approach was acceptable. Often candidates did not get full marks simply because, despite identifying a reason, they did not explain how it led to a higher price in the USA or a lower price in China.
- (d) This was a question about whether consumers benefited from larger or smaller firms. In some cases, candidates wrote instead about the benefits for firms of being large or small which was not answering the question. Essentially this was a question that related to economies of scale enabling larger firms to offer greater variety of goods and services at lower prices. However smaller firms also offered consumers advantages through personal service, responding quickly to changes in consumer demand and meeting demand in niche markets.

Question 3

- (a) Few candidates recognised 'standard for deferred payments' as being a function of money. Those that did made the point about buying now and paying later.
- (b) The reasons why agricultural workers might be paid less than manufacturing workers related to differences in demand and supply which affects all wages. Many candidates did not mention demand and supply in their answers, although skill levels were often mentioned along with the value of the products being produced. Common misconceptions included agricultural workers working shorter hours or only working for part of the year and manufacturing workers being paid more because of the high risk of injury in their jobs.
- (c) The answers to this question were generally of a poor quality. Comments often showed a misunderstanding of the role of public sector banks and confusion with the role of central banks. The key difference being that private banks would seek to maximise profits by being efficient in reducing costs and attracting customers with a wide range of products, whereas public sector banks would aim at providing a good service to all customers and therefore might employ more staff and make less profit.
- (d) Bank lending was understood by most candidates who were able to discuss how an increase would be beneficial to an economy. Common responses included higher borrowing led to greater spending by consumers and businesses leading to greater output and employment resulting in economic growth. Reasons why it might not be beneficial concentrated on the impact on inflation, higher imports and the ability to repay loans resulting in an increase in debt. In some cases, it was clear that candidates understood the effects of an increase in bank lending but did not develop their answers sufficiently to get full marks.

Question 4

- (a) Most candidates understood that the secondary sector was manufacturing and gave a correct answer such as car production. However, almost a quarter of candidates did not give a correct example.
- (b) The fact that discovery of oil could lead to exports and greater employment was recognised by most candidates. However, in many cases there was no further explanation that this would lead to an improvement in the balance of payments and economic growth for the country.
- (c) Answers generally did not distinguish between social costs and external costs. Relatively few candidates explained that social costs were external costs plus private costs. This meant that very few answers were able to analyse why social costs were higher than private costs. Few explained what a private cost was and gave an example. However, most answers did give examples of external costs such as noise and air pollution or destruction of the countryside.
- (d) There were not many good answers to this question. This was often because candidates were unclear what was meant by capital goods. Where they did understand, answers generally made the point that this could lead to greater production and employment and possibly lead to greater exports. Explanations about why devoting more resources to capital goods might not benefit a country were also weak and the main focus was on opportunity cost, using up scarce resources and the potential for lower employment. Good answers suggested more capital goods would reduce costs of production and make the country's products more internationally competitive.

Question 5

- (a) Inflation was correctly defined as a rise in the price level by the majority candidates. Some answers however only referred to a change in the price of a good which is not correct.
- (b) Many answers were unclear as to why a country's exports might increase to one country but fall to another. Answers were often confusing, especially in trying to explain the effect of changes in exchange rates where in many cases the wrong analysis was given. The common correct answer related to whether or not the country receiving the exports had increased or reduced trade restrictions. Another common response related to the importing country experiencing economic growth and thereby increasing imports or going through a recession and therefore importing less.

- (c) Quite a few candidates did not understand what was meant by the appreciation of a currency and therefore wrote about exports being worth more and leading to less currency being available in the exporting country – leading to lower inflation. A common correct response was that appreciation of a currency would lead to imports becoming cheaper and this would lower import inflation and the cost of raw materials and in some cases it was also stated that this resulted in lower cost push inflation. Fewer candidates wrote about there being less demand for exports which meant lower total demand in the economy and therefore lower demand inflation.
- (d) A low inflation rate was very often confused with no inflation or deflation. Many answers started from the position of lower prices resulting in consumers having more money to spend or save which is incorrect. Others just wrote about the general effects of inflation such as the impact on borrowing and saving. Relatively few responses discussed how low inflation might build confidence in the economy resulting in investment by businesses and making exports more competitive if the inflation rate was lower than in other countries. Few candidates discussed how low inflation might not be beneficial. Where they did comments included consumers holding back from spending since they thought prices might fall or that it was the result of government deflationary policy measures that might have caused higher unemployment.

Question 6

- (a) Nearly all candidates were able to identify at least one cause of a fall in a country's birth rate. The most common responses were better family planning/use of contraceptives and a greater proportion of young women working.
- (b) Here, again, most candidates were able to explain at least one reason for why educated people lived longer. The common response was that they earned higher incomes and could afford healthcare or that they lived in the more developed countries where there was better healthcare. Less common responses related to having less dangerous jobs than less educated people and that because they were educated they were more likely to know when to seek medical help and enjoy a healthier lifestyle and were also less likely to be employed in a dangerous job.
- (c) Generally, most candidates were able to draw an accurate production possibility diagram showing a shift in the production possibility curve to the right although sometimes with incorrect labelling of the axes, e.g. putting net migration on the y axis. However, a few did not understand what was meant by net migration and drew a new production possibility curve to the left and wrote about a fall in the total population. A common misconception was that net migration would result in increased production in a country whereas all the production possibility curve diagram would show was the potential to produce more if resources rose. There were also quite a few candidates - some 5% - who did not answer this question at all.
- (d) Many answers were judgemental about whether it was right or wrong to change pensions for those who had worked all their lives. For those that did discuss the economic consequences, the opportunity cost was often identified as a factor, as monies released from pensions could mean investment in education and health that could raise the productive capacity of the country or reduce the burden on the working population. Common argument against reducing the pension was that this could be the only source of income for some retired people and this could put them into poverty, affecting their health therefore increasing the pressures on the health service or other members of their wider family.

Question 7

- (a) The fact that an indirect tax is a tax on spending or on goods and services was understood by nearly all candidates. However, whilst the expected example was the name of an actual tax, e.g. VAT or sales tax, quite a few responses just gave an example of buying a car or purchasing food which gained no mark.
- (b) This was generally well answered with a good range of causes of an increase in bus transport. These included a rise in price of a substitute (e.g. buying a car), government subsidising buses, an improvement in the quality of the bus service or that it was quicker to go by bus because of bus lanes that bypassed traffic congestion. Less common, but equally correct in some countries, was a rise in income meant that people would now be able to afford bus fares rather than walking or simply that the population was rising.

- (c) Few candidates gained full marks because they did not explain what type of unemployment was caused. The question already stated that reduced government spending could cause unemployment, so there was a need to identify that structural or cyclical unemployment could arise. Common response included the need for fewer teachers and that without education, young people would have less skills and qualifications and therefore were less likely to be offered jobs by employers. Good answers also explained that if a country had fewer skilled workers this might make the country less attractive to multinational companies.
- (d) There were some very good answers to this question. Many candidates recognised that food was a necessity and that demand was inelastic. Therefore, an increase in tax could lead to additional tax revenue for the government which could then be used for spending on education or health services. The regressive nature of the tax was also commented upon and the fact that this could lead to poverty and malnutrition. Fewer candidates wrote about targeting of the tax as a means of reducing consumption of unhealthy foods and reducing obesity. Good responses also identified the potential negative effect on food producers, resulting in higher unemployment and workers asking for pay rises to offset the cost of rising food prices, resulting in cost-push inflation.

ECONOMICS

<p>Paper 0455/22 Structured Questions</p>

Key messages

There are a number of key messages from this examination. Candidates need to:

- Explain the points they make in their answers to the **(b)**, **(c)** and **(d)** parts of the optional questions in **Section B**. A relatively high number of candidates stated points without explaining them. For example, some wrote in their answer to **Question 3(d)** that capital goods would increase output and higher output would increase exports. Higher output may result in more exports but just because more products are produced, it does not necessarily mean people and firms in other countries will want to buy them. A reason should have been given as to why more exports may be sold. For example, if when output rises income also increases in other countries, the ability of people in other countries to buy that country's exports will increase.
- Think carefully about what the questions are asking for before they start to answer them.
- Avoid common mistakes such as between price elasticity of demand and price elasticity of supply.
- Label their answers carefully. This is particularly important when candidates answer question parts out of order.
- Stay focused on the actual question asked. Some candidates attempt to answer a different question to the one which has been asked; possibly by not reading the question carefully and others lose focus on the main point of the question.

General comments

The number of candidates sitting the examination increased again this session. As in previous sessions, there was a full range of responses given. There were some excellent economics shown in some answers, while some other answers were based more on general knowledge.

The average performance on the first question was good. Many candidates interpreted the extract well and responded appropriately to the command words, including considering both sides of the argument in **Questions 1(e)** and **1(g)**.

Question 5 was the most popular of the optional questions, followed by **Question 2, 7, 4, 6** and **3**. A small number of candidates attempted all the optional questions. It is important that candidates are reminded to follow the instructions of the examination as answering six, as opposed to three, optional questions will reduce their chances of doing well. The marks for only three optional questions are counted and it is not possible to explore questions in sufficient depth if twice the required number of questions is attempted.

There was some evidence that a number of candidates did not think carefully enough before answering the **(a)**, **(b)** and **(c)** parts of the optional questions in **Section B**. It is important that candidates do not rush their answers. There were some excellent and interesting answers to the **(d)** parts but there were also some answers which generalised so lacked sufficient economic context.

Comments on specific questions

Section A

Question 1

The strongest answers were on **(b)** and **(e)** where good use was made of the data provided.

- (a)** Most candidates were able to identify two reasons from the extract with the most common reason being the largest producer of diamonds. Some candidates wrote at some length about the reasons identified. This is not required when the command word is Identify and the question is worth only 2 marks; these candidates could have used the time more productively on other questions. A small proportion of candidates mentioned reasons not included in the extract which was not acceptable.
- (b)** This was a well answered question. There was some good explanation of, for example, the impact that a foreign multinational company may have on the country's output and employment. A number of candidates, however, lost focus on the benefits that a country gains from the presence of an MNC, and wrote about why an MMC may set up in a particular country; that is a different question.
- (c) (i)** Some candidates did not attempt this question. A number of those who did calculated the figure 6, but did not state that it was 6 billion dollars. It is important that candidates make clear the size of a figure and, in this case, what currency it is in. For instance, 6 Indian rupees is very different from \$6bn.
- (c) (ii)** Again, a few candidates did not attempt this question. A greater percentage of those that did answer the question got it right, in comparison to **1(c)(i)**. A very small number of candidates made a slight mistake in their calculations. This is why candidates should show their workings as credit may be given for the correct method/part of the working.
- (d)** There were some good answers which explored, for example, how an abundant supply of a natural resource and a skilled labour force could cause a country to have lower production costs for a particular good than another country. Some candidates, however, just stated a number of reasons without analysing them.
- (e)** Most candidates did explore both why Botswana should mine all of its diamonds and sell them as quickly as possible and why it should not. There were some good comments on how the outcome may differ in the short run and the long run and how it might be influenced by future changes in the price of diamonds.
- (f)** Some candidates wasted time by copying out the diagram shown in the extract. Other candidates were able to explain in a clear way, as instructed by the question, what the diagram was showing about the market for diamond rings in 2015.
- (g)** A number of candidates included a wide range of relevant economics in their responses including external benefit, labour productivity and opportunity cost. Some candidates mistakenly wrote that increased government spending reduces tax revenue, rather than uses tax revenue. Other candidates wrote in generalised terms about healthcare, not making good use of economic terms and concepts.

Section B

Question 2

The answers to **(d)** tended to be strong while, in some cases, more attention needed to be paid to the wording of the question in **(a)**, **(b)** and **(c)**.

- (a)** Most candidates were able to identify labour as a human factor of production, but a number incorrectly gave land or capital as the second human factor.
- (b)** The strongest answers explained how a production possibility curve showed the economic concepts identified. The two most popular concepts explained were opportunity cost and economic growth. Some candidates made good use of diagrams in support of their explanations.
- (c)** The strongest answers tended to explain why substitutes may become more available over time, how the product may become more of a luxury over time, and how it might take up a larger proportion of income.
A number of candidates showed confusion over the meaning of price elasticity of demand by writing about the factors that may cause a change in demand, rather than about price elasticity of demand. Some other candidates wrote about the factors that influence price elasticity of demand, rather than specifically the factors that may cause demand to become more elastic over time.
- (d)** There were some strong discussions which referred to economies of scale, diseconomies of scale, government support and provision of personal services. There was some particularly impressive discussion on how large firms may make use of their market power to reduce competition from small firms.
Some candidates, however, made statements that were not supported by explanation. For example, a number of candidates wrote that small firms may produce high quality products without explaining why this might be the case.

Question 3

There was a wide spread of marks on this question. Some candidates struggled with **(c)** and **(d)**, while others showed strong analysis and evaluation on these questions.

- (a)** Most candidates were able to identify two ways a commercial bank differs from a central bank. A small proportion of candidates confused a commercial bank and a central bank.
- (b)** Some candidates wrote about opportunity cost in terms of a choice, but did not explain the concept of a sacrifice. A number of candidates, with a clear meaning of opportunity cost, did not relate the concept to the purchase of shares. Other candidates did succeed in explaining the connection between opportunity cost and the purchase of shares, mentioning what might have been given up (sacrificed) in order to purchase the shares.
- (c)** There were some excellent answers to this question. These showed a strong awareness of the possible links between the rate of interest and the exchange rate. They explored how a change in the rate of interest could affect the purchase of imports and the outflow of funds from the country's banks and so the demand for, and supply of, the country's currency.
Some candidates, however, showed confusion about how changes in the rate of interest may affect investment. Others appeared to answer a different question; about how a change in the exchange rate may affect exports and imports.
- (d)** There was some good discussion on how an increase in spending on capital goods may affect productivity, economic growth, employment and the current account of the balance of payments. The key issue here was that not all candidates supported the statements they made. For example, a number wrote that the increase in spending would increase the country's international competitiveness, but without explaining why.

Question 4

Not all candidates who selected this question directly answered the **(b)** and **(c)** parts.

- (a)** Most candidates recognised that redistribution of income involves taking income from one group and giving it to another group. A number of candidates mentioned that income is often redistributed from the rich to the poor by using progressive taxation and state benefits.
- (b)** A relatively high proportion of candidates tried to answer a differently worded question - How does the spending pattern of the rich differ from that of the poor? Among those candidates who did focus on the actual question, some produced strong answers, explaining the influence of differences in income and confidence.
- (c)** The key here was to focus on the economic problem. Some candidates wrote in very general terms and did not relate to how an ending of absolute poverty may affect the relationship between unlimited wants and limited resources.
- (d)** The answers to this question tended to be stronger on the weaknesses of GDP per head as a measure of comparative living standards than on its strengths. Not all candidates recognised that GDP per head takes into account the country's population size. There was some good analysis about how GDP per head does not take into account, for example, the distribution of income, leisure time and working conditions. There were also some good comparisons made with the usefulness of the Human Development Index.

Question 5

Candidates did well with the **(a)** and **(c)** parts of the question. They found the **(b)** part more challenging, with mixed performance on the **(d)** part.

- (a)** Most of the candidates who attempted the question were able to define a trade union accurately.
- (b)** There were some good answers which explained, for example, a decrease in productivity and a reduction in a firm's profits. Not all candidates focused on a worker's earnings; some wrote about a person's income falling as a result of their job.
- (c)** There were some very strong answers with a high proportion of candidates showing a good understanding of frictional, structural and cyclical unemployment and an ability to analyse their causes.
A relatively small proportion of candidates showed some confusion, with a number even suggesting that full employment causes unemployment. Some other candidates just repeated one general point, such as demand for labour falling.
- (d)** A number of candidates applied relevant economics to explore this question. There were some particularly good comments on the possible impact on the dependency ratio and the cost of pensions. There were, however, some candidates who just started points without going on to explain them in full. There were also some candidates who tried to answer a different question; one about the advantages and disadvantages of an increase in the size of the country's population.

Question 6

Candidates seemed to find **(b)** the most challenging part of this question.

- (a)** Most candidates showed some awareness of what is sold on a stock exchange and very few confused a stock exchange with another market.
- (b)** Some candidates tried to answer a different question; one about the benefits of specialisation. A number of candidates did not even mention money. Some candidates produced good answers by recognising that specialisation and trade involves the exchange of products and this is made easier by using money. The strongest answers explained one or two of the functions of money.
- (c)** Good answers analysed how changes in technology may affect demand and supply in product markets and the labour market. Some candidates, however, did not establish relevant links. For example, some jumped from advances in technology to increased sales without explaining why firms might be able to sell more goods and services.
- (d)** A number of candidates discussed this question in depth using relevant economic analysis including the possible impact of a rise in the school leaving age on productivity, economic growth, output and the current account, and the significance of opportunity cost. Some of these candidates went on to distinguish between the short run and long run effects of raising the school leaving age. A number of candidates concentrated on the effect on the quantity of labour without examining the effect on the quality of labour. Others wrote in vague terms about, for example, whether the lessons will be interesting or not.

Question 7

Candidates generally found **(c)** the most challenging part, while a number produced good answers to the other parts.

- (a)** The two most common problems identified were a lack of vacancies and a lack of skills.
- (b)** There were some good answers to this question especially in terms of how skills and knowledge of technological advances may be lost while workers are unemployed. There were also some good explanations about a reduction in living standards.
- (c)** Some candidates produced accurate and relevant analysis, but a relatively high proportion of candidates wrote about factors that influence price elasticity of demand, not supply. A number also wrote about factors that could explain why the supply of some products may be greater than others. Price elasticity of supply tends to be a concept that candidates seem to struggle with. It is important that they understand the difference between price elasticity of demand and price elasticity of supply.
- (d)** Most candidates produced stronger arguments for why increasing government spending may reduce poverty than why it might not. There was some good discussion about how, for example, increasing government spending may increase employment and how this could reduce absolute poverty. The discussion on why government spending may not reduce poverty tended to be more limited. For example, a number of candidates wrote that increasing government spending on the military would not reduce poverty without continuing to consider the possible effects on employment and demand for goods and services used by the military.

ECONOMICS

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

Key messages

The key message from this examination is that those candidates who use specific economics terms in their answers perform significantly better than those who answer questions with generalities. A good example of this could be found in **Question 4(c)**, where use of the terms exports and imports made answering a straightforward task, but candidates who were reluctant to use these terms often floundered. Linked to this issue is the tendency of some candidates to stray from the actual question on the paper to give unsubstantiated opinions, which contain no economic analysis, as the basis for an answer.

General comments

It was most encouraging to see very few rubric errors, with no candidate answering all seven questions. There were however, a small number of candidates who answered three questions in total rather than three optional questions in addition to the compulsory question.

When a diagram is provided, as in **Question 1(f)**, there is no requirement for candidates to copy out the diagram in their answer. Copying the diagram scores no marks and simply uses up the candidate's time.

Comments on specific questions

Section A

Question 1

- (a) Most candidates found this question straightforward and were able to identify two external costs from the extract.
- (b) The key to a good answer was for candidates to consider the longer term and to understand that making a loss might only be for the short term. Those candidates who therefore considered the preservation of jobs or the expectation of future profits tended to score well. Those who answered that the product must be a necessity however, found it hard to develop a worthwhile answer.
- (c) (i) This was a very straightforward question with most candidates able to produce a correct answer.
- (c) (ii) By contrast, very few candidates scored marks here. This illustrated the importance of a close reading of the extract before attempting an answer. The most common mistake was to subtract \$37 from \$150 to give an answer of \$113, but Poland sold coal at a *loss* of \$37 for a market price of \$150, and so the answer required the addition of that \$37 in order to obtain the production cost.
- (d) There was generally a good understanding of the nature of mixed economies as a mixture of public and private sector. Weaker answers however were too vague, using the word 'firms' instead of the private sector.
- (e) Regulation as a concept was often poorly understood, with some candidates confusing it with deregulation and allowing the coal industry to operate free of government intervention. Other candidates assumed incorrectly that taxation was a form of regulation. The best answers used the concepts of external costs and harmful effects on third parties as a basis.

- (f) As indicated above, drawing the diagram was unnecessary in this question. Having the diagram on the question paper is sufficient and candidates were only expected to refer to the changes represented in this diagram. It was possible to obtain full marks by explaining four succinct points – supply increased, price fell, demand extended, and costs of production fell.
- (g) As was the case in **Q3(b)**, a considerable number of candidates misunderstood the nature of a current account deficit, confusing it with a budget deficit. This led to inappropriate answers concerning the ability of governments to spend on education and healthcare for example. Good answers focussed on the benefits of reduced import expenditure and problems such as retaliation and the poor efficiency of domestic firms. A reluctance to use economic terms, notably exports and imports, reduced the effectiveness of many answers.

Question 2

- (a) This question was poorly understood by the majority of candidates and it was rare to see a precise definition. A large number of answers were too vague, defining inelasticity in terms of demand ‘not changing much’ or ‘only changing a little bit’ when the percentage or proportion is required. In addition many answers confused ‘inelastic demand’ with ‘perfectly inelastic demand’, and it is important to note that, unless the question specifies otherwise, inelastic demand means *relatively* inelastic.
- (b) Good candidates could usually identify two causes of a shift in demand, such as substitute prices, complement prices, income or advertising. Weaker candidates however did not develop the answer further by explaining why, for example, a lower income will reduce the ability to purchase. A considerable number of candidates also confused a *shift of* the demand curve with a *movement along* the demand curve caused by a change in price, i.e. change in price was an incorrect answer.
- (c) There were many comprehensive answers to this question, with candidates identifying methods of promoting bicycle purchase, such as subsidies, taxation, cycle lanes and health campaigns. As in the previous section, the main weakness in answers was an inability to develop an explanation of these points and to include sufficient analysis to gain the full six marks available.
- (d) Answers which used economic concepts tended to score well, whereas answers based upon general knowledge or geography for example, were not usually successful. There was also a tendency to write almost exclusively about bicycles as an alternative to cars here, but there was no requirement for this in the question. Indeed concentrating on bicycles severely limited the candidate’s ability to answer the question set. The key to a good answer was to examine the external costs of car use, such as pollution and congestion, contrasting this with the economic benefits of car use, such as car output, employment and economic growth

Question 3

- (a) Almost every candidate could provide two factors affecting choice of occupation, such as wages and working hours.
- (b) As noted in **Q1(g)**, many candidates do not have a good understanding of the nature of the current account and confuse it with the budget account. In simple terms the current account consists of exports and imports, whereas the budget account consists of government spending and taxation. Therefore those who understood the effects of a current account surplus on output and jobs for example, tended to score full marks, but those who indicated that the surplus could be spent on public services, such as health and education, could not score any marks.
- (c) This was another question where candidates who used straightforward economic theory performed well but where those who provided a general answer, or who gave a series of opinions about who ‘deserved’ their pay or how ‘easy’ it was to clean hotels, did badly. The pay of a worker is a price, and is therefore primarily determined by supply and demand factors. This should have been the basis for answers, and good candidates understood this idea, examining reasons why dentists have a lower supply and higher demand. It is important to note however, that simply reversing the argument, and explaining that cleaners have a higher supply and a lower demand, will not score any extra marks.

- (d) Answers to this question were, on the whole, of a good standard. It was generally understood that workers from other countries would increase output, bring in new skills, and be prepared to work for lower wages. On the other side of the argument the most popular approach was to examine the potential pressures on domestic infrastructure and the problem of unemployment among domestic workers.

Question 4

- (a) This question was reasonably well-answered, with almost all of the candidates who attempted it able to identify the merger aspect of conglomerate integration. The 'second' part of the definition was not so widely understood, so often did not mention different products. There were however, too many long answers providing everything the candidate had learned about the various types of integration.
- (b) It was clear that many candidates understood the basic idea of price takers in a perfectly competitive market, but they often gave vague answers. Demand in perfect competition is *perfectly elastic* because the products are *homogeneous* and therefore *perfect substitutes*. Using these concepts as the basis for an answer then made it relatively straightforward to explain that price will not be lowered, nor will it be raised, in a perfectly competitive market. Attempts to explain price-takers without using these concepts proved to be very difficult and too complicated.
- (c) Yet again, the best answers used basic economic concepts, in this case supply and demand for a currency and the exports and imports which affect them. Weaker answers on the other hand, ignored these concepts and attempted to answer the question in generalities. Using economic concepts however, it was a fairly straightforward task to score maximum marks: cheaper exports, greater demand for exports, increased demand for currency; dearer imports, lower demand for imports, decreased supply of currency.
- (d) Candidates who understood that this question primarily concerned economies of scale usually had few difficulties here, whereas those who missed this point were not able to score many marks. The concept of economies of scale could be developed by examining the various types of economies such as bulk buying, and the 'other side' of the argument was straightforward for those who discussed diseconomies of scale. It is important to note however that economies of scale lower *average* costs and diseconomies of scale raise *average* costs. Explanation of costs without this distinction is insufficient.

Question 5

- (a) Most candidates could provide two relevant aspects of a central bank as a definition.
- (b) This question was not answered well, primarily because a large number of candidates gave tautological answers to both parts. Answers such as 'a fixed rate does not vary' or a 'floating rate is not fixed' are stating the obvious and cannot score any marks. As has often been the case in this examination, those candidates who used economic theory and who therefore understood that a floating exchange rate is determined by the market forces of supply and demand, tended to do well on this question.
- (c) A minority of candidates confused fiscal policy with monetary policy and discussed interest rates instead of taxation and government spending. It was encouraging however to see many candidates who had a good understanding of contractionary fiscal policy and its effect on demand-pull inflation. Very few candidates examined cost-push inflation however, and the way in which extra spending on education could raise productivity and lower costs.
- (d) There was a good understanding of the difference between inflation and deflation but it was rare to see an answer which was fully developed here. The better answers looked at international competitiveness or the cost of living, but too many answers were confused about the links between unemployment and inflation/deflation. Unemployment is a likely consequence of deflation, rather than inflation, because consumers delay purchases, causing firms to reduce output.

Question 6

- (a) It was generally understood that HDI is a measure of living standards but understanding of the three main components was weak. Candidates often included items which are *not* part of HDI, such as pollution and access to safe water.
- (b) Understanding of opportunity cost was generally excellent and most candidates who attempted this question could provide a satisfactory definition. Those who provided an incomplete definition tended to omit the idea of 'giving up' or 'forgoing' an alternative. Unfortunately many candidates were then unable to proceed any further with this question by developing their definition in terms of resource allocation or by giving an example.
- (c) It was difficult for many candidates to see the link between interest rates and poverty. The key to a good answer was to explain the link in terms of borrowing and greater spending, which in turn leads to higher output and incomes. Only a minority of candidates were able to identify the income aspect which enabled them to develop a good answer.
- (d) Most candidates who attempted this question could score well on one side of the discussion – higher income allowing the purchase of more goods and services – but many found the 'other side' of the question difficult. The key to a good answer could be found by referring to **Q6(a)**: there are other influences upon living standards and HDI gives examples of this, such as education and life expectancy. But even HDI has limits and does not take distribution of income into account, nor does it consider externalities such as pollution.

Question 7

- (a) Most candidates who attempted this question could provide a satisfactory definition by explaining that free trade has no barriers and then giving an example such as tariffs.
- (b) Identifying two reasons why governments aim for growth, such as higher incomes and more tax revenue, did not prove problematic, but many candidates did not develop the answer further by explaining these points. Higher income, for example, allows people to enjoy more goods and services whilst tax revenue could be spent on healthcare and education.
- (c) There were considerable difficulties with definitions on this question. In particular, there was little understanding of the difference between social benefits and external benefits, with many candidates ignoring external benefits completely. Both private benefits and external benefits are part of social benefits and so higher output derived from education for example, provides external benefits rather than social benefits. Good answers gave the correct definition: social benefits equal private benefits plus external benefits, and then followed this up with accurate examples of both types of benefits.
- (d) There were some good answers produced to this question but sometimes candidates failed to develop their answers fully. This was sometimes because they had spent too long on previous short questions and sometimes because they identified one issue but could not produce any more topics for discussion. The most popular approach was to discuss the skilled labour force which the country could provide and the problems this may cause due to high wages and therefore high labour costs. It was much less common however to see discussion of incomes and the high demand for the products of MNCs in countries with a high GDP per head.