

# ECONOMICS

**Paper 0455/12**  
**Multiple Choice**

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

## General comments

1704 candidates took this 30 question multiple choice examination and the mean score was 22.5 which was slightly higher than the mean score last year of 21.4.

The questions for which most candidates selected the correct answers were **1, 2, 3, 6, 8, 9, 10, 11, 13, 14, 16, 17, 18** and **26**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions that were answered correctly by fewer than 50 per cent of the candidates were **Questions 21** and **29**.

## Comments on specific questions

**Question 21** was answered correctly by 44 per cent of the candidates who chose option **A**. 15 per cent chose option **B**, 17 per cent chose option **C** and 24 per cent chose option **D**. In deflation prices would be falling so the purchasing power of consumers from a given income would rise, not fall (option **B**). Tax revenues based on the price of the good would also fall, not rise (option **C**) and personal savings would now be able to buy more products than previously so their value would rise, not fall (option **D**).

**Question 29** was answered correctly by 35 per cent of the candidates who chose option **D**. 19 per cent chose option **A**. 38 per cent chose option **B** and 7 per cent chose option **C**. The change in the value of the pound that was mentioned in the question would mean that a product that previously would require 100 Indian rupees to buy would now cost only 80 rupees. The product would appear to be cheaper in India than before and thus UK manufacturers would find it easier to export to India (option **D**). In the short term the increase in foreign products in India would not encourage economic growth in India (option **A**). India exporters would find it more difficult to export to the UK because their products would appear more expensive in the UK and profits would likely to be lower, not higher (option **B**). Any products that were imported into the UK would be relatively more expensive than before and inflationary pressures would not, therefore, be likely to reduce (option **C**).

The rest of the questions showed results that were within the expected range of responses for a multiple choice examination at this level.

# ECONOMICS

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<p>Paper 0455/22 Structured Questions</p>
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## Key messages

Candidates do better when they:

- Use economics to answer questions, rather than just general knowledge.
- Read the questions carefully. It is often useful to underline key words.
- Make use of the stems to the optional questions, to help clarify the meaning/context of the questions. For instance, reading the stem to **Question 6** should have helped candidates to avoid writing about net immigration in part **(d)**.
- Focus on the question being asked. They should avoid trying to turn it into another question or wandering off the point.
- Avoid circular arguments. For example, claiming that a fall in prices leads to a rise in prices by the end of their discussion.

## General comments

There was again an increase in the number of candidates sitting the examination this session. Some of these produced excellent answers. Most candidates coped well with the compulsory **Question 1**. There were few unanswered question parts and only a small minority of candidates answered more than the required optional questions.

On the optional questions, most candidates did well on the **(a)** parts. In some cases, however, the answers given were rather vague. The **(b)** questions were generally well answered although some candidates did not establish the points they were seeking to make with relevant economics. As in previous sessions, a number of candidates found the **(c)** part quite challenging. Relevant links were not always provided and some candidates revealed confused thinking. There was a full range of answers to the **(d)** parts. These included excellent answers which explored the questions with some clear and relevant use of economics. There were also other answers which were vague and some which lacked relevant economic context.

Most, but not all, candidates answered **Question 1** first, and most answered the question parts in order. The two most popular optional questions were **Question 3** and **4** while the least popular was **Question 6**.

## Comments on specific questions

### Section A

#### Question 1

The overall performance on this question was good with the majority of candidates answering all the question parts. The two parts which candidates seemed to find the most challenging were **(d)** and **(g)**.

- (a)** Most candidates were able to identify two industries from the extract that are in the secondary sector. A number of candidates, however, incorrectly identified restaurants and healthcare.
- (b)** This was a well-answered question. A relatively high proportion of candidates were able to identify relevant reasons from the extract. They also showed an ability to apply demand and supply analysis. A number of candidates did reveal some confusion about the difference between a rise in the price of one product and a rise in the general price level. These candidates wrote about demand-pull inflation occurring.
- (c)** There were some good answers, particularly in terms of using subsidies, education and cuts in corporation tax. A number of candidates did show some confusion between government measures to encourage people to become workers and the measures to encourage enterprise. Some candidates also did not explain that the measures they identified would encourage enterprise.
- (d)** Some candidates did not check the key to the diagram carefully enough. As a result, they thought that negative economic growth had occurred and wrote about a recession occurring in 2012. Other candidates produced good and clear comments. These explained the expected relationship and recognised that the data supplied supported the relationship with one exception. A small proportion of candidates just described what happened each year without providing any interpretation of the data. This approach took some time and gained little or no reward.
- (e)** A number of candidates discussed whether individual workers should specialise in performing particular tasks rather than whether a city should specialise in one industry. There were some strong answers which explored the advantages and disadvantages of a city specialising. There were particularly good comments on the risk of competition from other cities increasing, costs rising and demand falling. Candidates could relate the question to Bengaluru specialising in the high-tech industry but economics needed to be applied. It was not sufficient to just copy out the third paragraph of the extract. A small proportion of candidates revealed confusion about the meaning of specialisation by writing about the city specialising in a number of industries.
- (f)** The majority of candidates identified the two relevant reasons. A small proportion of candidates did not follow the instruction 'using information from the extract' and wrote about influences on spending not mentioned in the extract.
- (g)** Some candidates wrote about the effects on the host country of MNCs opening branches in their country rather than on the MNC's home country. Some of those who did write about the home country did not always relate their comments to the effects on the economy. The majority who did focus on the question, tended to be stronger on the disadvantages. There was some good discussion about the possible impact on employment and the supply of skilled workers in the economy.

## Section B

### Question 2

Some candidates did well on all the question parts but a number revealed some confusion on **(a)** and a proportion did not read **(b)** carefully enough.

- (a)** Most candidates showed an accurate awareness of the meaning of resources. A proportion of candidates however, incorrectly described consumer goods.
- (b)** There were some excellent answers to this question, most of which explained how education could improve the quality of labour and how advances in technology could improve the quality of capital. Some candidates, however, misread the question. They explained two reasons why the quantity of resources may increase.
- (c)** There were some interesting answers to this question especially in terms of the influences of an increase in the proportion of women in the labour force, education, and a rise in the cost of raising children. A number of candidates showed some confusion between the birth rate and the total number of births. For instance, some candidates wrote that if people emigrate, the birth rate would fall. This would reduce the total number of births but not necessarily the birth rate.
- (d)** A wide range of economic analysis was applied in the assessment of this question. There were some good answers that showed understanding of the effect of an increase in the proportion of its population aged over 65 on government revenue, expenditure, and the burden on the labour force. As in some previous sessions, a number of candidates wrote that government spending reduces, instead of uses, government revenue.

### Question 3

The part of this question that candidates found most challenging was **(c)**.

- (a)** Most candidates were able to define a fixed cost although some thought incorrectly it was a cost that does not alter with sales, rather than output.
- (b)** The majority of candidates recognised that traffic congestion causes pollution and most answers made clear the nature of external cost. Few candidates confused social and external cost.
- (c)** Some candidates restricted their comments to the effect that a change in price would have on whether demand would rise or fall, rather than the extent of the change in quantity demanded. Other candidates confused elastic and inelastic demand and the effect of a change in price on total revenue, with the effect of profit. Some candidates did produce good, analytical answers. These answers made clear how taxi firms could use the information on price elasticity of demand to recognise how changes in their fares could influence total revenue and provide information about the nature of their services.
- (d)** The strongest answers here explored how a reduction in unemployment could affect income, output, government revenue and expenditure, and inflation and how these, in turn, could influence living standards. Some candidates, however, incorrectly wrote that a reduction in unemployment would raise firms' total costs which would result in unemployment. These answers then focused on the effects of unemployment. Candidates need to distinguish between average costs and total costs. They should also avoid illogical circular arguments.

#### Question 4

This question attracted a relatively high proportion of candidates. Some produced excellent answers – others did not make clear why inflation may cause some effects, did not provide clear analysis in (c) and did not focus on the top rate of income tax in (d).

- (a) Candidates displayed a good understanding of a subsidy. Only a small number confused it with, for instance, a substitute.
- (b) There were some strong answers to this question with good knowledge and understanding of a range of disadvantages including loss of international competition, a possible fall in purchasing power and menu costs. Some candidates mentioned lower employment and lower total demand. As total demand, and possibly employment, would rise in the case of demand-pull inflation, lower employment and lower total demand had to be linked to inflation caused by higher costs of production.
- (c) There was some clear analysis provided with relevant links. Some candidates wrote strong answers which analysed the impact of higher total demand resulting from government spending on, for instance, healthcare and pensions. As well as examining how higher government spending could cause demand-pull inflation. A number of candidates also established how higher government spending could also result in cost-push inflation. Some candidates, however, started with confused thinking. They argued that government spending on subsidies would lower prices which would increase demand and so result in inflation. They should have recognised that explanation of inflation being caused by a fall in inflation was flawed. Candidates need to recognise the difference between the effect of a fall in the price level and the cause of a rise in the price level.
- (d) There were some excellent answers to this question which explored, for instance, the redistributive and incentive effects of increasing the top rate of income tax. There were some good comments about the effects on government revenue, but a number of candidates restricted their comments to the effect of a rise in tax rates in general rather than specifically at the highest rate.

#### Question 5

Candidates revealed a good range of knowledge and understanding on this question, particularly in part (b).

- (a) Most candidates were able to define state-owned enterprises. A small proportion of candidates, however, tried to define it by just rearranging the words of the question to 'enterprises owned by the state'. Such an approach did not bring out the meaning of the term.
- (b) This was extremely well done with the vast majority of candidates able to make clear the difference between vertical and horizontal integration using relevant examples.
- (c) There were some good answers to this question with clear analysis of, for instance, the possible effects of monopoly profits on innovation and quality and on economies of scale and average cost and price. A number of candidates, however, just stated price would be lower without explaining why. Some other candidates wandered off the point of the question by analysing the benefits to the monopolist.
- (d) Some candidates produced rather vague answers to this question which relied on general knowledge rather than economics. There were other answers which made good use of economic theory and concepts including opportunity cost, external cost and costs of production.

### Question 6

This question appeared to be answered by some candidates who had a good knowledge and understanding of the economics required to answer all the question parts. It also appeared to be answered by candidates who had selected it on the basis that they had some idea on **(a)** and could make some comments in connection with the **(d)** part.

- (a)** Most candidates were able to define a depreciation of the exchange rate with many making clear that it involves a fall in the value of a floating exchange rate.
- (b)** Some candidates were able to produce strong answers here by relating to exports the general reasons why demand for a product may be price-inelastic. The two main reasons explained were a lack of substitutes to the country's exports and the exports being addictive products. Other candidates struggled with the question and a number of these revealed confusion about the nature of price elasticity of demand.
- (c)** Again, there were some good answers to this question which covered a number of effects including the extra pressure which might be placed on domestic firms to be competitive. Some answers, however, missed out key links between the removal of import tariffs and an increase in a country's output.
- (d)** One of the key issues here was that candidates did not always think through and explain their points in sufficient depth. For example, answers which examined the effects on both government expenditure *and* tax revenue were stronger than those which only examined the effect on government expenditure *or* tax revenue. Unfortunately, a number of candidates appear to think that there is a fixed number of jobs in existence. The stronger answers considered the effects on both the demand for and supply of labour.

### Question 7

The answers to the **(a)** and **(b)** parts were generally good. Some candidates struggled to examine the **(c)** part in depth and a number of candidates did not focus sufficiently on the wording of **(d)**.

- (a)** The majority of candidates revealed a good knowledge of a mixed economy. Only a small proportion confused it with a market economy. A small number incorrectly defined it in terms of an economy that has both a primary and secondary sector or a secondary and tertiary sector or a primary and tertiary sector.
- (b)** The majority of candidates were able to identify two relevant advantages. What distinguished the quality of the answers was whether they explained them in a relevant way. The strongest answers were those which related the advantages to specific jobs in the tertiary sector relative to those in the primary sector.
- (c)** Most candidates were able to recognise that workers would not want to work longer hours. The stronger candidates explored in more depth why the trade unions that represent them would seek to prevent this occurring.
- (d)** The strongest answers here focused on high wages being paid to workers in the public sector as the question asked. These answers considered, for example, the effects on government expenditure and the government's ability to attract workers from the private sector as well as the effect on public sector worker's productivity. Other candidates just assessed the effect of high wages in the economy. There were some good comments on the effects on total demand and government tax revenue.