

# CONTENTS

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|                                          |   |
|------------------------------------------|---|
| FOREWORD .....                           | 1 |
| ECONOMICS .....                          | 2 |
| GCE Ordinary Level .....                 | 2 |
| Paper 2281/01 Multiple Choice .....      | 2 |
| Paper 2281/02 Structured Questions ..... | 3 |

## FOREWORD

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This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# ECONOMICS

## GCE Ordinary Level

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| <p><b>Paper 2281/01</b></p> <p><b>Multiple Choice</b></p> |
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| <i>Question Number</i> | <i>Key</i> | <i>Question Number</i> | <i>Key</i> |
|------------------------|------------|------------------------|------------|
| 1                      | <b>B</b>   | 21                     | <b>C</b>   |
| 2                      | <b>B</b>   | 22                     | <b>C</b>   |
| 3                      | <b>D</b>   | 23                     | <b>D</b>   |
| 4                      | <b>B</b>   | 24                     | <b>B</b>   |
| 5                      | <b>C</b>   | 25                     | <b>D</b>   |
| 6                      | <b>C</b>   | 26                     | <b>A</b>   |
| 7                      | <b>D</b>   | 27                     | <b>A</b>   |
| 8                      | <b>C</b>   | 28                     | <b>A</b>   |
| 9                      | <b>D</b>   | 29                     | <b>D</b>   |
| 10                     | <b>C</b>   | 30                     | <b>D</b>   |
| 11                     | <b>D</b>   | 31                     | <b>C</b>   |
| 12                     | <b>B</b>   | 32                     | <b>B</b>   |
| 13                     | <b>A</b>   | 33                     | <b>D</b>   |
| 14                     | <b>D</b>   | 34                     | <b>B</b>   |
| 15                     | <b>A</b>   | 35                     | <b>C</b>   |
| 16                     | <b>C</b>   | 36                     | <b>C</b>   |
| 17                     | <b>A</b>   | 37                     | <b>A</b>   |
| 18                     | <b>C</b>   | 38                     | <b>A</b>   |
| 19                     | <b>A</b>   | 39                     | <b>C</b>   |
| 20                     | <b>D</b>   | 40                     | <b>C</b>   |

### General comments

10 207 candidates took this paper in November 2004 and the mean score was 21.6, higher than the mean of 21.2 in November 2003 which itself was the highest mean mark since 1999. This is a commendable achievement by the candidates.

Three questions, **5**, **28** and **31** were particularly easy for the candidates with over 80% choosing the correct answer.

The most difficult questions were **3**, **12**, **19** and **23** with only 22%, 26%, 26% and 20% of the candidates respectively answering the question correctly.

The results for **Question 3** showed that only 22% chose the correct key **D** while 35% chose **C** and 28% chose **A**. This was an unexpected result as both **A** and **C** would widen the range of products or services provided by a supplier and not cause a reduced or specialised range.

**Questions 12 and 19** were both answered correctly by only 19% of candidates. In **Question 12**, 63% chose option **D** rather than the key of **B**. It can only be presumed that a desire to buy more of a product was thought to also increase the elasticity, rather than reduce it. It might be worth ensuring future candidates try this question so that they can relate elasticity to a situation when a good is perceived as being of greater necessity.

The results for **Question 19** show that 43% choose option **C**, 20% **D** and 13% **B**. The choice of **C** confuses total and average earnings. The chart shows average earnings but it does not show the total number of hours worked nor the total number of employees. It is not possible to compute the total earnings from the information given.

The other difficult question was **23**. The results for this show 34% choosing option **A**, 21% **B**, 24% **C** and 20% **D** – the correct answer. The choice of **A** is the total variable cost excluding wages. However, wages are counted as a variable cost. It is true that salaries are sometimes referred to in the texts as fixed costs but this is not the case for wages. Candidates were also told that there were 50 employees and so they needed to compute the total cost of wages (50 x 40) and add that to the other variable costs of power and raw materials. Option **B** is the sum of the first three items in the list, which include the fixed cost of the machinery, and option **C** is the sum of the whole list, which includes the fixed cost of the machinery and ignores the fact that there were 50 employees.

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| <p><b>Paper 2281/02</b></p> <p><b>Structured Questions</b></p> |
|----------------------------------------------------------------|

### General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates who revealed a sound understanding of economics and a mature ability to analyse and evaluate key economic concepts and issues, but there were also many weak answers where the candidates failed to demonstrate very much knowledge or understanding. There were relatively few rubric errors; this was an improvement on previous years when candidates sometimes answered more than the required four 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 2 (c)**, or to identify something, as in **Question 3 (b)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to discuss something, as in **Question 4 (d)**, or to explain something, as in **Question 5 (d)**, he or she needs to go into much more detail, often giving two sides of an argument and then coming to a conclusion. Candidates 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 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 very difficult for the Examiners, and candidates really need to allow time at the end of the examination to put their work in the correct order.

### Comments on specific questions

#### **Question 1**

- (a) Most candidates had a general idea that low prices might discourage farmers from growing cotton but some of the explanations were rather vague. It was expected that candidates would link the low supply with lower revenue and lower profits, but this link was not always made clear.
- (b) The question specifically asked candidates to use a demand and supply diagram but, in spite of this instruction, a number failed to do so. The majority of candidates did, however, draw a very clear diagram showing a shift of the supply curve to the left and labelled both the demand and supply curves and the axes. Some, however, failed to include a shift of the supply curve or to label the two axes. The explanations were often better, making it clear that a leftward shift of the supply curve would lead to a rise in the equilibrium price. Relatively few candidates, however, made an explicit reference to the different time period.

- (c)(i) Most candidates were able to identify the measures that India might take to increase its production of cotton, such as the use of better seeds, better forms of pest control, improved systems of irrigation and the provision of subsidies from the Indian government to provide financial support for such measures.
- (ii) This proved to be quite a difficult question for a number of candidates who did not seem to understand the difference between fixed and variable costs.

There were, however, many very good answers to this question, with candidates relating two of the measures chosen in the first part to fixed and variable costs and ultimately to possible changes in revenue. For example, expenditure on seeds could be considered an example of variable costs whereas expenditure on irrigation systems would be more likely to be considered an example of fixed costs. The discussion of revenue was sometimes confused with the concept of profit.

- (d) There were some very good answers to this part of the question, with many candidates explicitly referring to export earnings from the trade in visible goods appearing in the current account.

### Question 2

- (a) The majority of candidates clearly understood that the public sector referred to a situation of state ownership and/or control involving central and/or local government. However, some were not sure of the concept and confused it with a public limited company, which is actually in the private sector. Most candidates were able to give an example of a public sector occupation, although some of the answers were not unambiguously correct. For example, it was not enough to refer to a teacher in a school because if that school was a private school, the teacher would be working in the private rather than the public sector.
- (b) Most candidates were able to describe the various functions of trade unions, such as the use of collective bargaining to improve wages and salaries, working conditions, health and safety and other terms of employment and legal representation. Some, however, provided just a list without describing the various functions, and this obviously restricted the mark which could be awarded. Most candidates were able to choose one function that might be considered the most important and then to offer a reasoned account why that one was chosen.
- (c) This was a relatively straightforward question and most candidates were able to state three factors that might determine an individual's choice of occupation, such as the wage or salary, the working conditions, the fringe benefits, the possibility of promotion, the holiday entitlement or the convenience in terms of travel.
- (d) This proved to be quite a difficult question for many candidates and a number of the answers were rather vague and general. The better answers, however, placed wage differentials within the context of the theories of demand for and supply of labour and linked this discussion to elasticities. There was also some good discussion of the importance of training and productivity and of the potential impact of the trade unions. There was no explicit requirement to include diagrams in the answer but some of the better answers did include appropriate diagrams, which aided the explanation.

### Question 3

- (a) There were some very good answers to this part of the question. The majority of candidates were able to distinguish clearly between a direct tax on the income of a person or the profit of a company at source, which could not be easily avoided, and an indirect tax on expenditure on a good or service that need not be paid if the good or service is not purchased. Examples of direct taxes included income tax, corporation tax, capital gains tax or inheritance tax, while examples of indirect taxes included VAT or excise duties.
- (b) Most candidates were able to identify three types of unemployment and these included seasonal, cyclical or demand deficient, technological, frictional, residual and regional unemployment. The explanations of their causes, however, varied greatly. Some candidates demonstrated a very good knowledge and understanding of the causes of the three types chosen but some were very confused and did not seem to understand how the different types of unemployment were actually caused.

- (c) This was another question where some candidates failed to do themselves justice because they only listed four main aims of government macro-economic policy without describing them. A number of candidates, however, did extremely well and obtained maximum marks by describing such aims as the control of inflation, the reduction of unemployment, the promotion of economic growth, equilibrium in the balance of payments and the redistribution of income and wealth.
- (d) This proved to be a difficult question for candidates who were unable to link the aims described in the previous section with a rise in taxes.

Many answers, however, were very good, with candidates recognising the possibility of a conflict between the various aims. For example, a rise in taxes might help to reduce inflation but it would be unlikely to contribute to a fall in unemployment.

#### Question 4

- (a) The first part of the question produced a wide variety of answers. Some were very good, identifying and explaining such issues as family planning, HIV and Aids, hygiene, sanitation, healthy eating, or drug, alcohol and cigarette abuse. Others, however, were very poor with candidates failing to understand that the question was concerned with a health education programme.
- (b) Most candidates were able to describe how the age structure of the population in a developing country differed from that in a developed country, such as the fact that the former would be likely to have a higher proportion of young people while the latter would be more likely to have a higher proportion of elderly people. A number of candidates used diagrams to good effect. One problem with some of the answers, however, was that they did not focus purely on the age structure but went on to include a number of irrelevant areas such as the occupational structure.
- (c)(i) There were some very good answers to this first part of the section, with candidates explaining very precisely what was meant by opportunity cost in terms of the next best alternative forgone when a choice is made.
- (ii) The second part of this section, however, was not answered so well and many of the answers were very vague and general. Some, however, were very good and recognised that a social benefit was the sum of the private and the external benefit.
- (d) This proved to be a difficult question. Good answers applied the concept of opportunity cost in terms of the other things that could have received the money that had gone to health care, and the concept of social benefit in terms of the external, and not just the private, benefits of being healthy.

#### Question 5

- (a) Most candidates had some idea of what was meant by economic growth, but some of the answers were rather vague and general. The better answers, however, discussed it in terms of the increase in real Gross Domestic Product over a period of time leading to an increase in a country's productive potential and an improvement in standards of living, welfare and the quality of life. A number of candidates also explained it in terms of an outward shift of the production possibility curve or frontier and included an appropriate diagram to illustrate this.
- (b) The better candidates recognised that there could be both advantages of economic growth, such as improvements to standards of living, and disadvantages, such as the more rapid depletion of scarce resources. They attempted to consider both points of view before coming to a conclusion. The weaker candidates, however, failed to consider both sides of the argument and offered a one-sided perspective.
- (c) There were some very good answers to this part of the question. Candidates recognised that a reduction in trade barriers might increase a company's profits in two ways. First, the imported raw materials and component parts would now be cheaper. Secondly, there would be an encouragement to export more, and so companies would be able to benefit from larger markets.
- (d) A number of candidates clearly had very little idea of the precise meaning of the term investment and discussed it in terms of acquiring shares rather than the purchasing of capital equipment and machinery. A number of answers, therefore, were very poor. Better answers linked expenditure on both physical and human capital to improvements in production and increased international competitiveness.

**Question 6**

- (a) This proved to be quite a difficult question for many candidates. Better candidates explained that the currency was now more stable and then went on to explain why this might be the case, such as a greater degree of confidence in the economy and therefore in the currency.
- (b) Most candidates recognised that this was because of the forces of supply and demand. There were a number of good answers that then discussed what might influence supply and demand, such as trade patterns, relative levels of interest rates and the possibility of speculation.
- (c) A number of candidates believed that it would be advantageous if a currency gained strength and failed to point out that although imports would now be cheaper, exports would now be more expensive and this situation could lead to a worsening of the balance of payments.
- (d) One problem with some answers was that although the question explicitly stated that candidates were to consider two policies **other than** exchange rate changes, some candidates still decided to refer to exchange rates. The majority of candidates, however, did look at other possible policies that might be used to try and achieve a surplus rather than a deficit. These included ways of discouraging imports, such as through the use of tariffs or quotas, and ways of encouraging exports, such as through the use of subsidies to keep down the costs of production.

**Question 7**

- (a) The majority of candidates were able to discuss a number of possible methods, including television, radio, newspapers, magazines, cinema, the internet and street hoardings. Some, however, only offered a list. In order to obtain maximum marks, candidates needed to explain what methods might be best, i.e. those which would most appeal to children and their parents.
- (b) There were some good answers to this part of the question, with candidates recognising that there could be both gainers and losers. The beneficiaries would include the cinemas, the advertising companies and those companies producing ancillary complementary products such as toys, games, books and computer games. The losers would be those companies producing alternatives that would be less desired, such as other films and other toys and games that would be in direct competition.
- (c) The majority of candidates recognised that large organisations might have a number of advantages over smaller companies, especially in terms of economies of scale, which would help to keep down the costs of production and so make the large firm more cost-efficient. This could especially be the case with film companies, given the high capital costs involved in producing a film and the cost of distribution. A number of candidates did point out, however, that it still might be possible for small firms to exist in the film industry and gave as examples a number of films produced by relatively small independent film companies.