

ECONOMICS

Paper 2281/12
Multiple Choice

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

Key Messages

As market failure is relatively new to the syllabus a greater focus on teaching examples of market failure could be useful.

Also with one question candidates seemed to miss the fact that the question asked what would **not** be a reason to impose tariffs, despite the emboldening. Candidates should be reminded to read each question carefully.

General Comments

10 174 candidates sat this paper. The mean mark was 20.0 which was a little lower than the mean for the paper last year which was 21.4.

The questions for which most candidates selected the correct answer were 1, 9, 13, 14, 15, 18, and 33. These questions were answered correctly by 70% 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 4, 7, 10, 16, 21, 26, 30, 35 and 39. These questions were answered correctly by 35% or fewer candidates. The rest of the questions gave results which were well within the levels expected.

Comments on Individual Questions

Question 4 was answered correctly by 33% of the candidates who chose option B. 33% also chose option A, 7% chose option C, and 28% chose option D. There was no evidence of demand elasticity in the question. The stem simply stated that demand would exceed supply. Where demands exceeds supply it is not an example of market failure.

Question 7 and 10 were also about elasticity. **Question 7** was answered correctly by only 16% of the candidates who chose option C. 55% chose option A, 22% option B and 7% option D. An increase in the number of substitutes, option A, may well change the demand elasticity but it would not change the supply elasticity for the given product.

Question 10 was answered correctly by 27% of the candidates who chose option A. 15% chose B, 37% chose C and 21% chose D. The price elasticity of demand for the good is elastic (greater than one). When the tax decreases it is to be presumed that the price will decrease and that there will be a greater proportionate increase in demand than the proportionate fall in price which will cause the total expenditure on the good to increase. The largest response was for option C but those candidates confused the change in the price of the good with the total expenditure on the good.

Question 16 was answered correctly by 17% of the candidates who chose option D. 35% chose option A, 18% chose option B and 29% chose option C. Candidates probably learnt the functions of money but did not really understand what each meant. Such a distribution of responses could well be evidence of guessing.

Question 21 was about costs. 35% chose the correct option B. 12% chose A, 28% chose C and 24% chose D. The question asked candidates to calculate average variable costs. Those who chose the incorrect options were adding together items which were not variable costs.

Question 26 was answered correctly by only 17% of the candidates who chose option D. A budget deficit would imply that the government could increase its expenditure which, it would be hoped, would result in extra employment opportunities. Lowering interest rates might encourage investment; raising interest rates would make borrowing more expensive and may well deter investment in new projects. It would seem that many candidates confused the meaning of a budget deficit and a budget surplus.

Question 30 required the candidates to understand a table. 24% obtained the correct answer which was A. 55% chose B, 13% chose C and 7% chose D. The table does require candidates to realise that the rural labour force is greater than the urban labour force and it is, therefore, likely that farming is a major employer.

Question 35, on developing countries, was answered correctly by 35% of the candidates who chose option B. 33% chose option A, 14% option C and 17% option D. Subsistence farming does not necessarily mean that the farmers will have enough to live on. It may be that candidates did not read option B as 'unlikely to be capital intensive' but read it as 'likely to be capital intensive' and searched for, or guessed at, an alternative answer.

Question 39 concerning tariffs was answered correctly by 32% of the candidates who chose option B. 37% chose A, 13% chose C, and 17% chose D. The question asked which option would **not** be a reason for imposing tariffs. Maybe those who chose incorrect options misread the question and thought it asked for a positive reason for imposing tariffs.

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Paper 2281/13
Multiple Choice

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

Key Messages

As market failure is relatively new to the syllabus a greater focus on teaching examples of market failure could be useful.

Also with one question candidates seemed to miss the fact that the question asked what would **not** increase government expenditure, despite the emboldening. Candidates should be reminded to read each question carefully.

General Comments

255 candidates sat this paper. The mean mark was 21.2 which was higher than the mean for the paper last year which was 20.5.

The questions for which most candidates selected the correct answer were 4, 14, 18, and 29. These questions were answered correctly by 75% 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 3, 7, 10, 20, 26, 28, and 38. These questions were answered correctly by fewer than 35% of the candidates. The rest of the questions gave results which were well within the levels expected.

Comments on Individual Questions

Question 3 asked about factors of production. 28% gave the correct answer B. 45% chose option A, 13% chose option C and 14% option D. Those who chose A forgot that the manufacturer took a risk as an entrepreneur.

Question 7 was answered correctly by 23% of the candidates. It concerned elasticity. The number of seats in the stadium is fixed and, therefore, is perfectly inelastic. The tickets always sell and there are many fans who buy them which would indicate a highly inelastic demand. 23% chose option A while 32% chose option B. Both these choices reflected confusion between inelastic and elastic demand. 22% chose option C which reflected confusion around elasticity of supply.

The topic of market failure sometimes causes confusion. For **Question 10** only 22% chose the correct option B which gave an example of an externality. 47% chose A, 22% chose option C and 9% option D. Option A is an example of the working of the market; the fact that firms closed does not mean the market 'failed'.

Question 20 asked about external economies of scale. 29% chose the correct answer D. 31% chose A, 28% chose B and 12% chose C. Those who chose the incorrect answer were confused with internal economies of scale.

Question 26 gave four government policies and asked which one was a fiscal policy. 34% identified the sales tax, option A. 23% chose B, 19% chose C and 24% chose option D.

A further question on government policies was given in **Question 28**. 34% saw that the cut in the minimum wage would not increase government expenditure. 29% chose option B, 15% chose option C and 22% chose option D. Maybe those candidates who chose the incorrect option did not notice that the question asked which policy would **not** increase government expenditure.

Question 38 asked about the effect of a tariff compared with the effect of a quota. 25% chose option C correctly. 19% chose option A, 20% chose option B and 35% chose option D. Those who chose A did not understand what a tariff is; those who chose B confused a tariff with a quota. Those who chose D did not realise that when a quota is imposed on imports, the number of imports will be reduced and the likely effect is that the price of those imports will rise as there is a decreased supply but no change in the demand.

ECONOMICS

Paper 2281/22 Structured Questions
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Key Messages

Questions which ask candidates to define a term or identify, for instance, two factors of production may be answered relatively briefly. Other questions, however, which ask candidates to explain, analyse or discuss, require candidates to establish their points. It is not sufficient just to state or assert points. Candidates need to keep in mind the word 'why' when writing their answers. For instance, a candidate may write that a cut in income tax will increase consumer spending or that higher demand may cause inflation. In both cases, the candidate should bring out why these effects may occur. Indeed, it is important for candidates to bring out the links between events, examining cause and effect and the influencing factors.

Candidates also need to make use of relevant economic terms and theory in answering the questions. Their answers should not be based just on general knowledge. In preparation for the examination, candidates need practice in applying the economics covered in the syllabus to real world issues and events.

Candidates also need to develop data handling skills, including interpreting written information, statistical data and graphical data. Data handling skills are tested in the first question which is the compulsory question.

Which questions are selected in **Part B** can be very significant. Candidates should read through all of the six optional questions and consider whether they can tackle well each of the parts of a question. It is advisable to answer the question parts within one question in order. There is a logical structure to the question parts and answering them out of order may result in unnecessary overlap.

Some questions require candidates to include diagrams but diagrams may also be useful to include in other questions to strength analysis. Diagrams should be drawn clearly, accurately labelled and referred to in the written comments.

Precision and accuracy is needed in defining and using economic terms. For example, it is important that candidates know the difference between production and productivity and between investment and saving. It is also important that they recognise that inelastic demand is not the same as perfectly inelastic demand- a confusion which regularly appears in answers.

General Comments

Some candidates reduced their chances of gaining high marks by answering all seven questions. This meant that their answers to each question tended to be superficial. There were also a small number of candidates who attempted only three questions. It is very important that candidates follow the rubric instructions and answer question one, and then three of the questions from **Section B**.

The majority of candidates allocated their time well both in terms of the division of time between questions and between question parts. The vast majority of candidates answered **Question 1**, recognising that it is a compulsory question.

The two least popular questions were **Questions 4** and **7**. It was somewhat surprising that **Question 4** was unpopular as candidates have shown a good awareness of monopoly and reasonable awareness of perfect competition in the past. It was less surprising that **Question 7** was relatively unpopular. Candidates are often reluctant to attempt questions on international trade which is disappointing. International trade seems to be a somewhat neglected area of the syllabus. It was interesting to note that candidates who answered **Questions 4** and **7** tended either to do very well on the questions or to struggle in writing relevant and clear answers. This might have been because some of those who selected the questions opted for them on the

basis of their strong understanding of the topics whilst others opted for them because their understanding was even weaker on other questions.

Question 5 attracted a relatively high proportion of candidates. A number of these appeared to have selected the question on the basis of **5(b)** whilst they were uncertain about how to tackle **5(a)** and particularly **5(c)**. **Questions 2** and **3** were also popular and probably even more candidates answered **Question 6**. In the case of **Question 3**, again, a number of candidates appeared to have selected it whilst being uncertain how to answer one part, in this case **Question 3(d)**.

In terms of the questions attempted, there was a full range of responses. There were some strong scripts. These provided direct, lucidly written answers which made good use of relevant economics. They were well thought out, logically structured and showed the ability to apply economic concepts to the questions.

The answers contained in less strong scripts often wandered off the central points of the questions. Some of these answers were rather sketchy whilst others were longer but not all of what was written was relevant. Indeed, a key discriminating factor was the extent to which candidates' answer the specific questions set, ensuring that everything that is written is relevant and based on appropriate economics.

Comments on Specific Questions

Question 1

(a) Some candidates revealed some confusion between real income and disposable income. Other candidates made the mistake, which occurs frequently in answers, in defining disposable income as the income available after paying bills. A number of candidates did define it as income after the payment of taxes and the strongest answers referred to direct taxes with a small proportion also mentioning after the payment of state benefits.

(b) There was a wide spread of responses to this question. Some candidates showed an accurate awareness of the stages involved in constructing a consumer prices index. There were some particularly good comments relating to how the base year is selected and to the meaning of weights used in the index. Other candidates, however, appeared to have no idea how to answer the question and a number wrote about the meaning and causes of inflation.

(c) The strongest answers explained how workers could join trade unions and so benefit from the collective strength of such bodies in wage negotiations. There were also some good answers in terms of workers trying to raise their productivity by undertaking training and gaining more qualifications and in terms of taking on extra jobs, working overtime and taking industrial action.

Some candidates wandered off the central point by explaining how wages could be saved or how workers could cut down on their spending. A number, for some reason, wrote about how firms could increase their revenue by increasing production and prices and did not make any reference to workers and their wages.

(d) Candidates found this to be a relatively challenging question. There were some good answers which explored how higher interest rates might affect workers. These discussed how workers might benefit from lower inflation and a higher return on savings. These also considered how workers' employment opportunities might be threatened by lower demand and the increased cost of borrowing and increased burden of debt.

Some confusion was revealed about the difference between saving and borrowing and a number of candidates did not relate the possible effects of a rise in interest rates to workers. A high proportion of candidates also appeared to think that a fall in the inflation rate means a fall in prices.

Section B

Question 2

(a) Some candidates wasted time and effort by defining all four factors of production. They produced long answers but most of these answers were not focused on the specific question. Some other candidates went to the other extreme, by writing very briefly. There were, nevertheless, some

good answers which described in sufficient depth the role of enterprise, making pertinent comments on risk bearing and combining the other factors of production.

- (b) Despite the terms being defined in the syllabus, a high proportion of candidates still confused social and external costs and benefits.

Candidates were required to distinguish between social costs and social benefits in the context of cutting down timber in a rainforest. Most candidates were able to give relevant examples in such a context as a way of distinguishing between the two. A proportion of candidates, however, did not relate their comments to the example given and a number produced very vague and over-descriptive answers.

- (c) There was a mixture of responses to this question. Some candidates produced excellent answers which explored both the arguments for conservation and for use, with a few examining the factors that might determine what would be the more efficient choice. There was some good discussion, for instance, of the disadvantages of cutting down rainforests in terms of the adverse effect there might be on the environment and on the country's tourist industry. There were also some very interesting comments made on the possible advantages including the impact on economic growth, employment and the current account of the balance of payments.

A proportion of candidates produced one-sided answers, most of which concentrated on the arguments for conservation. A number were also rather narrowly focused, often just on the possible environmental impacts.

Question 3

- (a) This was a well answered question with fringe benefits, job satisfaction, working hours, working conditions and location of the job being some of the most popular factors described. A small proportion of candidates, however, wrote about wage factors and a number just listed some non-wage factors.
- (b) The strongest answers focused on wage and overtime payments. Those who selected wages often explained how wages may be based on time rates or piece rates. The explanation on overtime payments often recognised that the amount paid per hour would usually be higher than the amount paid per hour on the standard working hours.
- (c) The answers to this question were somewhat narrow with a relatively high proportion of candidates stating only that wages tend to rise with experience. Not many candidates considered what might happen to an individual's earnings towards the end of his/her career.
- (d) Candidates found this to be a challenging question. The strongest answers related the standard factors, particularly demand and supply that generally influence wages, to what factors affect wages in the services sector and the manufacturing sector. Some of these candidates provided some interesting and relevant comments on differences in pay between the sectors which exist in their own countries.

A number of candidates also wrote in very generalised terms and did not seem to know how to answer the question. Indeed, the approach adopted by some candidates was to answer a different question; that is why a worker in the private sector may be paid more than one in the public sector. As mentioned earlier, it is important that candidates focus on the specific question set.

A small number of candidates confused the manufacturing sector with the primary sector and the service sector with the secondary (manufacturing) sector.

Question 4

- (a) Most candidates were able to identify three characteristics of perfect competition but a relatively high proportion just stated them and did not go on to analyse them as required. A number showed some confusion about the nature of the products produced in a perfectly competitive market. They implied that perfectly competitive firms engage in product differentiation.

Some candidates wrote about the possible advantages of perfect competition, for instance lower price. This approach did not focus sufficiently on the characteristics and overlapped with question part (c).

- (b) Again some candidates revealed confusion on this question. They actually described a price taker as a price maker and a price maker as a price taker. Other candidates produced vague answers such as a price maker is 'a firm that makes the price'. The strong answers distinguished between the two in terms of the influence or otherwise that the two different types of firm may have on the price and in which market structure each would be found.
- (c) There were some excellent answers to this question which explored whether price or price might or might not be lower and whether output may be higher in quantity and quality in perfect competition than in monopoly. These answers analysed the influences of the degree of competitive pressure, the extent to which economies of scale can be taken advantage of and the availability of funds and incentive to invest.

Other answers again showed some confusion between monopoly and perfect competition and some answers just stated prices would be lower and output higher in perfect competition without explaining why.

Question 5

- (a) Most answers were stronger on the indirect element than on the regressive element. Relatively high proportions of candidates recognised that an indirect tax is a tax on spending and were able to give a relevant example. A disappointing proportion, however, implied that the tax rate charged to shoppers is based on income and that a lower rate is charged to the poor. Such an approach misses the point that the tax rate charged to the rich and the poor is the same but the tax paid takes up a higher proportion of the income of the poor.
- (b) Most candidates performed well on this question by drawing accurate, well labelled diagrams and producing relevant comments. A number of candidates did, however, reveal a common confusion that an indirect tax will reduce demand and so shift the demand curve to the left. Others shifted both the demand and supply curves to the left. A small number of candidates transposed the demand and supply curves.
- (c) There was a range of performance on this question. The strongest answers compared the effects of progressive and regressive taxes, explored how tax revenues might be used, the possible effect on incentives and the impact of other policy measures.

Other candidates did not relate their comments sufficiently to the distribution of income. Some wrote about the possible effects a change in direct tax may have on the macroeconomy without referring to the distribution of income. Some candidates limited their answers just to stating that income tax is likely to be progressive and so fall more heavily on the rich.

Question 6

- (a) There were a number of approaches to this question. Some candidates mentioned an increase in the birth rate, fall in the death rate and net immigration and provided description either in terms of their meaning or in terms of their causes. Others mentioned, and some described, three causes of an increase in the birth rate or three causes of a fall in the death rate or three causes of net immigration. In terms of this latter approach, three causes of a rise in the birth rate was the most popular.

A number of candidates described factors that could influence population size but did not relate their comments to a growth in population.
- (b) Most candidates did refer to the likelihood that a developing country would have a higher population growth than a developed country. The majority of these explained the difference in terms of differences in birth rates. Some candidates, however, revealed the common confusion between population growth and population size. A small number of candidates also revealed a lack of understanding of the effects of a change in the death rate by stating that developing countries have a faster rate of population growth because of a higher death rate. A number of candidates who did refer to both the birth rate and the death rate did make pertinent comments

about rates of natural increase. There were also some interesting comments about the effects of net immigration on the rate of population growth in some developed countries.

- (c) It was disappointing that most candidates produced a static answer to this question by stating that an ageing population is one in which most people are old. Not many candidates recognised that it is a population in which the average age is increasing and so the proportion of older people in the population is increasing.
- (d) This was generally well answered with candidates revealing a good awareness the possible problems of an ageing population. A high proportion of candidates described the effect on government spending on health care and pensions and some mentioned the possible opportunity cost involved. A number also commented on the possible impact on tax rates.

Generally there was less attention devoted to why an ageing population might not be a problem. There were, nevertheless, some good comments on how the economy might benefit from some of those growing older continuing to work, more experienced workers being more productive and higher tax revenue. Very few candidates mentioned that an ageing population may be viewed more as an objective than as a problem since it would reflect higher living standards.

A number of answers made the common mistake of thinking there is a fixed number of jobs. These answers mentioned that if older people are in work this will stop younger people from gaining employment. Such a view ignores the fact that people are both workers and consumers.

Some answers were not well focused. For instance, a number of candidates wrote about the advantages and disadvantages of an increasing population without any reference to an ageing population.

Question 7

- (a) Most candidates were able to identify a number of potential benefits of free trade. The most common ones referred to were an increase the variety available for consumers, the opportunity to specialise and take advantage of economies of scale and lower costs of production and prices. Not all candidates went on to explain the advantages they had identified and a number did not focus on the possible economic gains.
- (b) The vast majority of candidates who answered this question showed a good knowledge of quotas although some revealed a confusion with tariffs. Few candidates revealed an awareness of exchange controls as a method of trade protection.
- (c) Good knowledge was shown about the nature of a subsidy and the mechanism by which it could reduce costs of production and prices. The link between the fall in the prices of domestically produced products and the protection of domestic industries from foreign competition was not always so well explained.
- (d) There were some strong answers to this question with some good comments particularly on the need to prevent unemployment and to stop dumping and the possible promotion of inefficiency. A relatively high proportion of those candidates who did attempt it, however, struggled with it. A number wrote one-sided answers, usually focused on the arguments for protection. These were often rather sketchy. There was also some confusion with arguments in support and against protecting a declining industry and the arguments for and against protecting an infant industry. In addition, a number of candidates wrote about the methods of protection rather than the arguments for and against protection.

ECONOMICS

Paper 2281/23 Structured Questions
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Key Messages

The one question in **Section A** was generally answered well and there was clear evidence that most candidates had read and understood the text provided, making reference to it in their answers. The rubric for the paper was followed by all but a few candidates from a relatively few number of Centres. There were also few instances of candidates changing their mind on which question to answer and where they did they often gained more marks. However, it is important that candidates read through all parts of a question before they start their answer as the last part of the question carries most marks.

In **Question 7** in particular, many candidates were able to give good examples, often from their own or a neighbouring country, to illustrate why countries may specialise and engage in international trade. This also applied to question 6 where quite a few candidates referred to local state monopolies.

General Comments

There was an increase in the number of very good scripts showing that the exam paper enabled well prepared candidates to score well on each question. However, there remain a significant number of candidates scoring very low marks usually across all their answers which suggests a lack of preparation. There was encouraging signs again this year that fewer candidates were using list-like responses and using bullet points as their main method of answering questions. Where it was used it tended to be candidates who had difficulty in writing whole sentences or may have been used as a quicker method of completing the final question. Where possible, candidates should seek to avoid using tables or bullet pointing especially where the question requires discussion.

Answers to question sections were normally of an appropriate length, with few lengthy answers to part **(a)** questions. This suggests that candidates are taking note of the number of marks for each section of the question. Short answers to part **(d)** questions were often because the candidate was unable to discuss the issue rather than not recognising it carried more marks.

Most concepts were well understood. Those that were not included the terms 'labour intensive', 'under-populated', 'over-populated' and 'Human Development Index (HDI)'. On the other hand, it was good to see the large number of candidates who understood that the use of the word 'discuss' at the start of each of the last sections in every question meant that a balanced argument needed to be given. Most did give a balanced view but in many cases the discussion was limited to just a few points.

A common weakness amongst candidates was to not answer the question being asked. So for example in **Question 4 (b)** quite a few candidates wrote in some depth about direct and indirect taxes and the difference between them but did not address the question which was about how changes in direct and indirect taxes affected demand.

Comments on Specific Questions

Section A

Question 1

- (a)** The term Gross Domestic Product (GDP) was generally understood by nearly all candidates through reference to total output and a country / economy. However, in quite a few cases candidates did not give a time period e.g. a year and therefore did not give a full explanation of the term.

- (b)(i) This was well done by most candidates who correctly identified an example for primary, secondary and tertiary sectors. In a few cases the answers given were too general e.g. giving manufacturing as an example of secondary sector rather than the manufacturing of cars. Equally, stating services as the example for tertiary sector was too general an example. Only a few candidates gave wrong examples e.g. confusing the secondary and tertiary sectors.
- (ii) There were some very good answers where candidates were able to explain that rising incomes and better education and training led to increased demand for and supply of tertiary industries. Quite a few explained that primary sector was often low value and it was better for countries to develop secondary and then tertiary industries where there was added value. Weaker answers either just repeated the data from the text or made a reference to the decline in primary and increase in tertiary sector without any explanation.
- (c) Most candidates understood how lowering interest rates would reduce the cost of borrowing, resulting in higher spending, increased output and therefore economic growth. Explanations on the effect of an increase in money supply were generally weaker. Good answers explained how increased money supply meant that people and firms were likely to spend more resulting again in increased demand and output. In quite a few cases candidates made no reference to money supply which meant that their response was incomplete. In just a few Centres, candidates stated that increased money supply would result in the value of the currency / exchange rate depreciating leading increased demand for exports and lower imports. Such answers were incorrect since increased money supply would, if output could not be expanded to meet demand, lead to inflation and result in lower exports and increased imports.
- (d) Generally answers were good on alternative policies which could result in raising the rate of economic growth. Common responses discussed expansionary fiscal policy and / or supply side policies e.g. education, subsidies, trade protection and how they affected demand. However, the question required candidates to also discuss whether these policies might be more successful than monetary policy and a significant minority of candidates did not address this and therefore did not fully answer the question. Typical correct answers included the fact that expansionary fiscal policy could lead to inflation and that there were potential time delays in supply-side policies. Some candidates also made the very good point that expansionary monetary policy was also potential inflationary and therefore the best mix was to use both expansionary fiscal or monetary policy and supply side policies.

Section B

Question 2

- (a) The majority of candidates were able to state that labour meant the use of human resources/ workers/employees. Some candidates also added that this could be a physical or a mental contribution. Again most candidates were able to give two examples of labour e.g. a farm worker and a doctor.
- (b) This question was not well done by many candidates. This was primarily because many candidates did not understand the term 'labour intensive' often confusing it with the amount of labour used or the number of hours worked by an employee rather than the high amount of labour used compared with capital. Therefore some answers concentrated on why labour was used even in examples where a significant amount of capital / machinery was also used. For those candidates that did understand the term there were good examples given e.g. labour was abundant and cheap; in some undeveloped countries capital was too expensive, certain products and services required personal attention and skills e.g. hairdressing and teachers.
- (c) Overall, candidates showed a good understanding of why a worker should join a trade union. Answers often included reference to better wages, working conditions and help in gaining better skills and qualifications. In some cases, candidates did not discuss it from the point of view of a worker but from the general viewpoint of the benefits of having trade unions which meant that answers given were less specific about the effect on an individual worker. Most answers were balanced in that candidates did identify disadvantages and therefore reasons not to be encouraged to join a trade union. These included the cost of the membership fee, the disruption caused by industrial action including loss of jobs, the fact that in some industries / occupations trade unions

are weak and might not make a difference to wages and working conditions and the fact that firms may prefer not to employ members of trade unions.

Question 3

- (a) Candidates identified and analysed a number of potential causes of rising costs of production. These included increase in costs of raw materials, energy, equipment, rent and higher wages e.g. both fixed and variable costs. Some candidates identified other factors such as higher indirect taxes by the government e.g. to reduce pollution or the general deflation of the economy. Others referred to imported inflation or inflation caused by increased demand for scarce resources including labour. Nearly all answers were linked in some way to the motor cycle industry, but a few made no reference at all although in most cases their answers would have applied to the motor cycle industry.
- (b) Most diagrams were correctly drawn and labelled showing a shift in the supply curve to the left and the new equilibrium point. Relatively few candidates showed a shift in the demand curve rather than the supply curve or failed to show the correct new equilibrium point. The analysis was less well done because candidates often did not make reference to the equilibrium price or quantity which was the question being asked.
- (c) A good understanding of the concept of elasticity of supply was shown by the majority of candidates. Candidates were able to give a correct definition, although a few confused it with changes in demand. Many were also able to explain that there was a positive relationship between changes in supply and changes in prices and that for example a value of greater than 1 meant that supply was elastic (or vice versa).
- (d) Many answers given here did not explain why time was likely to be the main influence on elasticity of supply. A common error made was to state that in the short-run supply was elastic whereas it is more likely to be inelastic because at least one factor is fixed in supply. There was also confusion with elasticity of demand. The most common other possible influences identified were the ability to store a product e.g. if a product can be stored it would increase elasticity and the nature of the product or service, including the time taken to supply it. A popular comment here related to the supply of agricultural products such as rice where within a season if prices rose it would not be possible to increase supply, which is really an explanation of the influence of time. Less common responses included how costly it was to adjust the supply e.g. easier to do so if the product was labour intensive rather than capital intensive. However, a significant minority of candidates were unable to explain any other influence on the elasticity of supply.

Question 4

- (a) Most candidates had a clear understanding of at least one influence on spending other than changes in taxation. The most common influences described were changes in interest rates, level of income and consumer confidence in the economy which was often linked to personal factors such as job security. Inflation was also commonly mentioned but many candidates gave an incorrect description e.g. that inflation would lead to lower spending whereas in practice concerns about inflation usually lead to higher spending now rather than paying higher prices in the future. Another common error was to relate consumer spending to micro rather than macro factors e.g. changes in prices of particular goods. In some cases candidates identified an influence on spending but were unable to describe how it affected spending rather than just demand. In a few cases candidates may have misread the question as they wrote about what spending influences rather than the other way around.
- (b) Nearly all the answers showed that candidates understood what was meant by direct and indirect taxes and the difference in effect on spending of increasing or reducing these taxes e.g. increases in tax would reduce disposable income and therefore reduce demand and vice versa. Few candidates explained that direct taxes and indirect taxes might have a different effect on demand. e.g. most direct taxes were progressive and were likely to hit higher incomes more whereas indirect taxes were regressive and had a bigger impact on lower incomes. Quite a few candidates wrote about direct and indirect taxes in some depth but did not explain the impact on spending.
- (c) Most candidates recognised that a balanced answer was needed. The main concerns identified related to greater demand resulting in inflation and a deficit on the balance of payments if imports increased. Another common concern was that people would reduce their savings and that the

government may have to come to their aid if they became unemployed or has insufficient income when they reached old age. Surprisingly, the benefits of increased spending were less well done. Most answers mentioned that higher spending could result in higher demand and therefore growth in the economy with the best answers making reference to existing spare capacity in the economy, reduced unemployment and fewer benefits paid out by the government. Some candidates also made the point that higher spending would generate higher taxation which could be used by the government for supply side policies such as improving infrastructure, education and health which could further raise the standard of living in the country.

Question 5

- (a) Most candidates had a clear understanding of the advantages and disadvantages of a sole proprietor. The answer needed to offer two advantages and two disadvantages which most candidates did. However, in some cases the description was very brief and therefore did not warrant full marks. In particular quite a few candidates identified unlimited liability but did not describe what it meant,
- (b) Many candidates related the goals just to a sole proprietor. Such answers included earning enough to survive, expansion, providing quality services / products and maximising profits. Other candidates took account of bigger firms including monopolies and apart from the goals already identified gaining economies of scale and increasing market share as well as expanding abroad.
- (c) There was an element of overlap with part (b) in some of the answers given. Many candidates gave one reason why a business would be small and a second reason for why a business would be big but there was no requirement to do this. A common error was to give a reason for expanding e.g. economies of scale rather than why a firm was large. Common reasons given for staying small included because the owner preferred to remain small and stay in touch with customers, the nature of the business e.g. hairdressing, supplying a small niche market and the inability of small businesses to obtain capital for expansion. Businesses were often big because it had been easier for them to borrow funding e.g. through becoming a private or public limited company. How new a business was, was also identified as a reason for being small or big.
- (d) Most candidates gave a balanced account of whether or not a monopoly was in the best interests of a consumer. Benefits included using economies of scale to reduce prices and use funding for research and development to improve quality and range of products available. Some candidates also identified state monopolies as being beneficial particularly in some countries where local examples of beneficial monopolies were given. Disadvantages included the argument that due to the lack of competition there was no pressure to keep prices down as consumers had no alternative provider and that they were inefficient with few new products and lack of choice for consumers. However, some answers did not get much further than explaining what was a monopoly.

Question 6

- (a) Answers often referred to high birth rates contributing to population growth. In some cases the approach taken gave a very detailed account of why birth rates could be high in one country and not in another and how this affected population growth and this was an acceptable response. Many candidates did not limit their response to birth rates but also explained that low death rates and net immigration could also lead to high population growth in some countries and this was an equally acceptable response.
- (b) The concept of over-populated or under-populated countries was not well understood or explained. Often answers given were repetitive in that candidates described what they thought was meant by being over-populated and then wrote the opposite for underpopulated. The most common response was that over-population meant that the population was too large for the land and was densely populated because birth rates were much higher than death rates. However, the key point that was often missing was that the population was too large for the resources available thus output per person was lower than it could be resulting in a lower standard of living. Solutions include reducing the population size e.g. emigration and / or increasing resources e.g. more capital but few candidates made this point. There was some reference to the optimum population although this is not in the syllabus. Answers on under-population tended to reflect the point that there were not enough people living in the country but with little further development.

- (c) There was a wide range of answers given here. Some candidates clearly knew that the HDI took account of GDP per head but also life expectancy and quality of healthcare and explained fully how these enabled comparisons to be drawn about the standard of living in different countries. However, far too often candidates were unclear what measures were in HDI and what were not but had a go. This often led candidates to make comments on the effectiveness of HDI by reference to measures that were not included in it. This made it difficult to make the point that it only included a narrow range of indicators. However, common explanations of why it was not the best way of measuring standard of living included reference to the effects on the environment e.g. pollution, the using up of scarce resources, political freedom, significant difference in income and inaccurate collection of data especially in some of the poorest and least developed countries.

Question 7

- (a) Candidates showed a reasonable understanding of how specialisation applied to international trade and how countries could benefit from a wider range of products at a cheaper price if they traded with other countries. However, in many cases the development was rather limited and in some cases was applied to individuals and division of labour or referred to firms and countries rather than the world.
- (b) Answers tended to be quite narrow in scope and descriptions tended to concentrate on the risks of being vulnerable to changes in demand for the products they specialise in and potential shortages in supply of goods that were imported from other countries – especially agricultural products. Better answers raised other issues such as less efficient industries being unsuccessful and leading to unemployment, the possibility of dumping by other countries with surplus produce and other countries using trade protection to stop imports of the product that a country specialised in.
- (c) Most candidates were able to explain the difference between a floating and a fixed exchange rate e.g. the first being determined by market forces and the second by government intervention. Many were not fully clear on how the government intervened and quite a few candidates did not explain what was meant by market forces. As a result not many candidates got full marks on this question.
- (d) Many answers given explained that a floating exchange rate meant that the balance of payments was automatically corrected by changes in the rate of exchange. Better answers explained how a balance of payments surplus or deficit affected demand and supply for the currency and therefore the exchange rate and why this was better than government intervention and the use of reserves. Again many candidates were clear that a disadvantage of floating exchange rates was that it led to uncertainty in what the rate would be which could have an adverse effect on trade. Therefore there was an advantage in the stability offered by a fixed exchange rate system. In a few cases, answers suggested that a floating exchange rate within an agreed range or band might offer a better solution. Poor answers tended not to get beyond restating what was the main characteristics of a floating exchange rate and did not consider why this might be better than a fixed exchange rate. Some strong candidates gave examples of countries with floating and fixed exchange rates and why they chose to have floating or fixed exchange rate.