

# ECONOMICS

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Paper 0455/11

Paper 11

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

## General Comments

4299 candidates sat this paper. The mean mark was 19.4 which is slightly lower than both the mean of 20.7 in June 2014 and the mean of 20.4 in June 2013.

The questions for which most candidates selected the correct answer were **16, 20, 23, 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, 14 and 21**. These questions were answered correctly by fewer than 45% of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall. (If this were to be the case then it may indicate that those who scored well on the test overall might have seen an alternative, and possible, interpretation of the question which could possibly indicate a fault in the question).

### **Comments on Specific Questions**

**Question 9** was answered correctly by 35% of the candidates who chose option A. 51% chose option B, 2% chose option C and 11% chose option D. Although in normal circumstances cigarettes do not have an intrinsic value, they would have had a value if people were prepared to accept them as money.

**Question 14** was answered correctly by 31% of the candidates who chose option A. 13% chose option B, 12% chose option C and 43% chose option D. The aircraft, like any large piece of equipment, cannot be increased in the short run and is, therefore, a fixed cost. Some variable cost would be altered but this would be as a result of having fewer aircraft and it is not a cost that is immediately or directly affected.

**Question 21** was answered correctly by 39% of the candidates who chose option C. 3% chose option A, 6% chose option B and 52% chose option D. It does not matter what the tax rate or the interest rate was, the real value of income is affected by changes in the price level. An understanding of real income, or real value, is something that candidates would be advised to study as there is often a question on this topic.

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

# ECONOMICS

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Paper 0455/12

Paper 12

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

## General Comments

6987 candidates sat this paper. The mean mark was 20.5 which was slightly lower than both the mean of 21.2 in June 2014 and the mean of 21.9 in June 2013.

The questions for which most candidates selected the correct answer were **1, 4, 22** and **27**. 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 **3, 11** and **24**. These questions were answered correctly by fewer than 45% of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall. (If this were to be the case then it may indicate that those who scored well on the test overall might have seen an alternative, and possible, interpretation of the question which could possibly indicate a fault in the question).

### **Comments on Specific Questions**

**Question 3** was answered correctly by 42% of the candidates who chose option A. 5% chose option B, 47% chose option C and 7% chose option D. Originally the country was experiencing unemployment so would have been inside its production possibility frontier. An increase in technology would have moved the frontier outwards. The only option that allows for both of these is A.

**Question 11** was answered correctly by 41% of the candidates who chose option D. 26% chose option A, 5% chose option B and 27% chose option C. It is likely that the candidates who chose options A and C did not notice that the question asked for an answer which was **not** a good match. A marine biologist would be unlikely to be working with the general public.

**Question 24** was answered correctly by 27% of the candidates who chose option C. 25% chose option A, 9% chose option B and 39% chose option D. It is uncertain whether good use was made of resources, whether there was skilled labour or whether the country was self-sufficient but it is likely that none of these was true. The only option that can definitely be claimed to be true is C because estimates of GDP do not include subsistence production.

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

# ECONOMICS

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Paper 0455/13

Paper 13

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

## General Comments

154 candidates sat this paper. The mean mark was 19.8 which is slightly lower than the mean of 22.0 in June 2014 and the mean of 20.7 in June 2013.

The questions for which most candidates selected the correct answer were **2**, **4**, and **15**. 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 **6**, **17**, and **21**. These questions were answered correctly by fewer than 45% of the candidates.

### **Comments on Specific Questions**

**Question 6** was answered correctly by 34% of the candidates who chose option A. 36% chose option B, 25% chose option C and 5% chose option D. Elasticity of supply increases as the time period for production becomes shorter. Similarly, a decrease in the elasticity of demand for cars would make their demand less responsive to price changes and this may have been because of a greater wish to use cars than public transport because the quality of public transport decreased.

**Question 17** was answered correctly by 32% of the candidates who chose option B. 30% chose option A, 3% chose option C and 35% chose option D. The closeness of the percentage on three of the options may well indicate that the candidates were guessing. Although it may be possible that the company might have to pay import duty, the most likely the toy company would have had to pay is the goods and services tax.

**Question 21** was answered correctly by 42% of the candidates who chose option B. 8% chose option A, 26% chose option C and 24% chose option D. Consumption, an injection, fell. What would have reduced the impact of such a fall would either be an increase in another injection or a fall in a leakage. B is a fall in a leakage.

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

# ECONOMICS

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Paper 0455/21

Paper 21

## Key Messages

Virtually all candidates were clear about answering **Question 1** in **Section A** and three other questions from **Section B**. Candidates tended to answer questions in **Section B** in the order that gave them most confidence rather than numerical order. **Question 7** was the least popular. There were few signs that candidates experienced any problems on time allocation, although in a few cases the last question was answered in a bullet format. This approach makes it difficult to gain even half marks on questions where the command word is explain, analyse or discuss.

It was pleasing to see that the length of answers given reflected the number of marks available. Most candidates also understood that for part **(d)** of questions in **Section B** there was a need to give a balanced answer given that the command word 'Discuss' was used in all part **(d)** questions.

## General Comments

The questions in **Section A** are based upon the extract and the expectation is that candidates will make good use of the information in the extract as the basis for their answers. However, candidates need to be careful that they do not copy sentences within the extract as their answer, e.g. in response to the question on how a rise in interest rates could reduce inflation, lower mark answers included the sentence in the extract stating 'Such a change will be likely to influence consumer expenditure, investment and the exchange rate'. This did not provide a correct answer unless the candidate also explained how consumer expenditure, investment and exchange rates change as a result of the interest rate rise. The skill being tested is the ability to select the correct information and use it to inform the answer to the question.

A general concern was the rising number of candidates in this exam who did not answer the question correctly at the beginning of their response. For example in **Question 5(d)** in particular, candidates are asked to discuss whether a reduction in education spending will reduce living standards. However, quite a few candidates started their answer by explaining how spending on education raised living standards before then addressing the question. This does not gain any marks and also uses up valuable time available for answering later questions.

## Comments on Specific Questions

### **Section A**

#### **Question 1**

- (a) The extract provided five reasons why Sweden is considered to be a highly developed country. This question was generally well answered. The most common reasons selected by candidates were the high standard of living, the high average income of US\$ 49 000 and 70% of children went to university.
- (b) Whilst most candidates identified that people would work longer after a rise in the retirement age, quite a few did not state that this meant that the size of the labour force would grow. Some took an approach that explained that higher income for older people meant increased demand that led to greater output and thereby higher GDP and economic growth. Others explained that the government would pay out less in pensions and gain higher tax revenue that enabled it to spend on measures that would encourage economic growth, e.g. supply side activity such as improvements to infrastructure and improved education and training. Both approaches were correct.

- (c) (i) Very few candidates identified that there was a current account surplus. Too many candidates wrote in detail about the annual changes in the balance whereas what was required was to state that the surplus fluctuated and, over the period, it rose by US\$ 2 billion. In quite a few cases, there was no use made of the statistical information in the extract. Candidates are strongly advised to make use of **all data available** to gain the highest marks, especially when the question asks for it.
- (ii) This question required candidates to manipulate the data given using the current account balance and the percentage of GDP. As the balance had remained unchanged at US\$31 billion but it had fallen as a *percentage of GDP* from 7% to 6.8%, this meant that GDP must have risen between 2009 and 2010. Very few responses were clear about this. Some explained it as set out above or made the calculation that GDP rose from US\$443 billion to US\$456 billion. However, many answers stated that GDP fell from 7% to 6.8%. It is very important for candidates to be able to **manipulate** this type of data and to show their understanding of it.
- (d) Most answers given identified that a greater variety/choice and/or cheaper prices was a reason for importing cars. However, answers on why a country exported cars often stated that this enabled the country to gain additional revenue/balance the balance of payments. Whilst this may be a correct outcome it does not explain why it happens. The highest mark answers were able to explain that this was due to demand from other countries and in some cases made the point that the exports were cheaper or better quality cars.
- (e) Many candidates were able to get full marks on this question. They were able to explain part of the analysis that higher interest rates resulted in less borrowing as the cost had risen, and more saving as the reward had risen. This resulted in less consumer expenditure, a fall in (aggregate) demand and a fall in prices reducing demand-pull inflation. Fewer candidates explained the impact on investment or on the exchange rate. The lowest marks were given to answers that only stated that higher interest rates influenced consumer expenditure, investment and exchange rates (e.g. repeating what was in the extract) without *explaining how*. Again, candidates are clearly directed to **use the information from the extract**, which is the only way to gain the highest score.
- (f) When the directive of a question is **discuss**, it is vital for candidates to explain both sides of the situation to be awarded the highest marks; the advantages versus disadvantages or benefits versus drawbacks. The majority of candidates simply explained that a lower rate of inflation would usually increase the international competitiveness of a country's products. In this instance, even with a lower rate of inflation, a country's products might not be internationally competitive. Poor quality of goods, or goods that were still more expensive were the common answers given by those who addressed this question fully.
- (g) It was good to see that most candidates recognised that IKEA's products were elastic due to revenue rising when prices were reduced. However some responses implied incorrectly that this made the product inelastic. A few responses tried to come to a conclusion based upon the *likely* elasticity of the goods sold by IKEA, but again, candidates were required to use information from the extract.
- (h) Generally, candidates recognised that growth led to a number of advantages and were able to identify at least one of them such as market share, becoming a multinational company and benefitting from economies of scale. Most were also able to explain that the main goal was usually maximising profit which often came from growth. Other answers included reasons why a firm may not want to grow bigger and why some firms may have other goals such as providing public services or simply surviving. Diseconomies of scale were also identified as a reason why a firm may not want to grow too big.

## Section B

### Question 2

- (a) Most candidates were able to give a correct definition of 'Opportunity Cost'. Where they did not, it was usually because they did not state that the alternative had been given up or forgone. An example was not required and if given did not gain any marks.
- (b) Many candidates were able to explain that the economic problem was one of scarcity arising from unlimited wants but limited resources. However, few responses addressed why the economic problem can never be solved which required a comment to the effect that wants will always exceed



resources, for example because of growing world population, and few resources are renewable. Just a few candidates gave an answer which related the economic problem as being the earthquake in Iran/Pakistan.

- (c) Production Possibility Curves were drawn correctly by many candidates with most also explaining that the curve would shift inwards to the left. However, fewer candidates were able to explain that this was due to a reduction in the maximum output a country could produce with fewer resources. Some candidates only drew one PPC and gave a textbook explanation of points within the PPC and beyond it which was not the question. Others explained a movement along a single Production Possibility Curve often labelling the axes as resources and output. The PPC should always be correctly labelled with two **products** on the axes in order to illustrate production **possibilities**.
- (d) Emigration was understood by most candidates although a few were confused with immigration. A few candidates related emigration to the earthquakes in Iran/Pakistan explaining how this might help the country to recover and assisting the government to rebuild damaged infrastructure. In some cases this was very well done. The most common approach was that of explaining the benefits of emigration where a country was overpopulated/lacked sufficient resources to meet the needs of its population. Candidates were also good at explaining why a country might not benefit, e.g. often the most skilled workers left, increasing the dependency ratio and leaving a reduced workforce resulting in lower demand/output/GDP. Most answers gave a balanced view of the extent to which a country might benefit from emigration which suggests that most candidates understood that discussion required a balanced approach in this question.

### Question 3

- (a) Most answers were correct in stating that the equilibrium price was where demand equalled supply. In some cases this was supported by a diagram highlighting the point where demand and supply curves met.
- (b) The most common answers identified were higher interest rates and higher income. However, in quite a few cases the explanation was not developed/explained. Other responses included the level of confidence in the economy or personal circumstances and availability of loans being restricted. Generally speaking this was well answered.
- (c) A very high percentage of candidates drew correct demand and supply diagrams with most showing a shift to the left in the demand curve. However, to gain all six marks candidates need to analyse why the fall in income reduces the market price of housing. Many responses simply described the shift in the demand curve and the new equilibrium position which does not fully answer the question. The highest marks were gained by an explanation that a fall in income reduces the ability to buy houses which results in a lower market price and the amount of houses being traded.
- (d) Most answers showed a good understanding of what a subsidy was and there was good application to the housing market. Quite a few candidates drew correct D/S diagrams although these were not required, especially as one had been asked for in the previous question and the directive here was 'discuss'. There was a good balance in most answers between the advantages of a subsidy for housing and the disadvantages. Most stated that subsidies led to lower cost, increased supply and lower prices making housing more affordable. The best responses also stated that it would lead to demand for more workers, thereby generating more employment and a rise in GDP. The majority of candidates also recognised that there was an opportunity cost as it meant that either the government had to raise additional revenue through taxes or could have used the money for education/training or improvements in infrastructure.

### Question 4

- (a) Whilst many candidates were able to explain that multinational companies produced or had assets in more than one country, many did not make the point that it had its headquarters or was based in one country. This was necessary to gain both of the marks available.
- (b) The majority of candidates were able to explain at least two reasons why governments discouraged strikes. Common reasons given included disruption of output and services that might lead to loss of jobs and unemployment and may put off overseas companies investing in the country. It is

important for candidates to focus on the economic impacts of strikes rather than any social or political impacts.

- (c) Candidates generally were able to show relevant understanding about the purpose of trade unions. However, reasons why trade unions might be ineffective and therefore why membership might fall were not so clearly explained. Common reasons included the introduction of government legislation, e.g. minimum wage as well as the improved working conditions provided by firms.
- (d) Not all answers were clear that profit equals revenue minus costs and sometimes the terms output and productivity were confused. Most candidates were able to explain how a rise in wages would increase costs and therefore profits would fall, although in many cases this assumed that higher wages were paid from profits without mentioning revenue. The answers that understood that profit was the difference between revenue and costs were able to explain that higher wages could also result in higher revenue if workers became more motivated and increased output which could generate additional revenue. Only a few answers explained that firms might seek to cover the costs by increasing prices and the success of that depended on whether or not the product was inelastic in demand.

### Question 5

- (a) Most candidates understood that taxes were payments made to a government. Others also gained full marks by defining what a tax was without mentioning the government.
- (b) Candidates were usually able to identify two reasons why unemployment led to reduced tax revenue, e.g. unemployed earn less income and spend less on goods and services. Another common response was to answer at a macro level, e.g. an increase in unemployment resulted in a fall in aggregate demand and consumer spending and firms produced fewer goods and services. However, quite a few candidates did not provide details of the main taxes affected by unemployment, e.g. income tax, sales tax/VAT and corporation tax. Simply stating that tax revenue fell gained no marks as this was in the question. A few candidates explained that the government might purposefully reduce the rate of tax when there was high unemployment to encourage a rise in demand and that would lead to lower tax revenue.
- (c) Most candidates were able to explain two reasons why unemployment might increase. Common answers included education levels, falls in aggregate demand and changes in technology. Quite a few candidates used information from the question stem to explain why unemployment might increase if there was less expenditure by the government on education and health services. Seasonal and frictional unemployment was also explained in some answers. When the question directive is **analyse** (as opposed to explain) it is very important for candidates to develop their analysis of an issue, rather than just explaining it. To achieve high marks in this question that would mean analysing how the reason selected actually caused higher unemployment.
- (d) Most candidates were able to discuss how a reduction in education expenditure would affect skills, resulting in lower paid jobs and thereby a lower standard of living which could affect the development of the country and put off overseas investment. Some responses only looked at the impact on schools, including the potential growth of a private sector if parents could afford it, but that alone was insufficient for high marks. It was good to see that most candidates also discussed why a reduction in education spending *might not* affect living standards. A few stated that it depended on the size of the reduction and might take a number of years to take effect. Others assumed that a reduction in education expenditure might mean that the government could increase expenditure on other sectors of the economy, e.g. health and infrastructure which could also have a positive impact on living standards.

### Question 6

- (a) Most answers given were incomplete definitions. Many responses suggested that the birth rate was the number of live births per 1000 and in some cases also added per year. To achieve both marks a full definition of 'number of births per 1000 of the population per year' was necessary.
- (b) Most candidates were able to give at least one valid reason. Lack of use of contraceptives, religious and cultural beliefs, compensating for high infant mortality were the most common answers given.

- (c) Many answers did not recognise that an increase in the size of a farm could lead to economies of scale. Whilst most candidates understood that total costs might rise due to the need for extra labour and resources, many did not take account of the fact that average costs might change as farms increased in size. Some of the best responses analysed how economies and diseconomies of scale might arise as farms got bigger.
- (d) The advantages were generally well answered. Explanations included how a reduction in imports could lead to higher domestic output, greater employment and an increase in GDP and living standards. A few also analysed the impact on infant industries, less dumping and a positive impact on the balance of payments. The drawbacks of a reduction of imports were less well discussed or even overlooked which is disappointing after previous part (d) 'discuss' questions had generally considered both perspectives. Common correct answers included that consumers lost out from less variety of choice, possibly higher prices as there was less competition. It was recognised by some candidates that if the reduction in imports was as the result of protection measures there could be retaliation by other countries which could affect exports.

### Question 7

- (a) Most candidates indicated that recession meant a lower GDP but much less earned both marks by defining that this was for a minimum of two consecutive quarters. In such 'definition' questions candidates should attempt to state **2 distinct facts** in response.
- (b) Very few responses stated that exchange rates are influenced by the interaction of demand and supply for the currency. Most candidates identified that the rate could be influenced by factors such as the level of interest rates and exports and imports, and a few candidates were able to state how this affected demand and supply for the currency. In questions that ask candidates to explain 2 or 3 items candidates need to identify the item first and then explain each item fully.
- (c) Most candidates had a reasonable understanding of what was a supply side policy but were less confident on what was meant by productivity and in many cases only made reference to changes in output. Common policy measures included privatisation, deregulation, education and training and grant or subsidies. A few confused supply side policy measures with fiscal and monetary policies, which affected aggregate demand rather than supply. In many cases there was insufficient analysis on how the policy measure resulted in increased productivity. A common response was that education and training improved the skills of workers but candidates did not go on to explain how this led to greater productivity. The question directive **analyse** requires candidates to firstly identify correct items then analyse how they each help or deter the situation in the question.
- (d) On the whole, answers were much stronger on how a fall in international value of a currency would benefit an economy. A common theme was that lower (relative) prices meant more exports resulting in more domestic production, higher employment and a rise in GDP. A few answers did explain that a fall in international value of a currency could lead to higher import prices that could result in imported inflation. However, very few responses stated that the impact depended on the size of the fall in value or the elasticity of demand for exports and imports. As previously mentioned, the question directive 'discuss' requires candidates to apply their knowledge to both sides / perspectives of the question so that they argue / weigh up the benefits and drawbacks.

# ECONOMICS

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Paper 0455/22

Paper 22

## Key Messages

To perform well candidates need to consider the questions carefully and then apply their knowledge and understanding to the specific question asked. This requires them to be flexible in their thinking, considering issues in a way they might not have previously thought about.

## General Comments

There was a wide spread of performance on the paper. Some candidates found a number of the parts to **Question 1** rather challenging and not all candidates read the question parts carefully enough. Most coped quite well with the **(a)** question part. There was a greater difference of performance on the **(b)** question part. What tended to differentiate answers on this question part was both the depth of candidates' understanding and whether they had read the question carefully enough. The performance on the **(c)** part showed that some candidates had developed very strong analytical skills whilst others found it difficult to explore the links between economic variables and events. There were some strong and lucid answers to the **(d)** part but also some answers which lacked focus and sufficient economic content.

This session there was little evidence of candidates running out of time and only a very small proportion of candidates answered more than the three optional questions required. Most devoted their time appropriately and most clearly indicated which question part they were answering. A very small proportion of candidates' handwriting was only just legible. There was a relatively even spread of the optional questions selected. **Questions 3** and **5** were the most popular with **Question 4** being the least popular but there was not much difference in the numbers who selected each of the questions.

## Comments on Specific Questions

### **Section A**

#### **Question 1**

- (a)** Most candidates identified from the extract that Peru had a higher life expectancy. A smaller proportion of candidates worked out that Peru had a higher GDP per head. Some candidates mentioned features of the economy of Panama that do not appear in the Human Development Index.
- (b) (i)** This question tested candidates' understanding of the meaning of a fall in a country's inflation rate. A relatively high proportion of candidates confused a fall in the inflation rate with a fall in the price level.
- (ii)** Some candidates recognised that prices had to be highest in 2013 as the inflation rate was positive in each of the previous years. A relatively high proportion of candidates identified 2008 as this was the year in which the inflation rate was highest. They did not appreciate that the price level rose throughout the period.
- (c)** Candidates here had to recognise that Panama had a higher average annual inflation rate throughout the period. Those who did could provide relevant links to, for instance, Panama having a trade deficit whilst Peru had a trade surplus. Some strong answers also explained the effect of Peru's annual inflation rate being more stable on, for example, investment. Some candidates wrote about the effects of inflation in general and did not relate to the difference in the inflation rate of Peru and Panama. Others just copied out sentences from the extract.

- (d) This was generally well answered with a high proportion of candidates being able to analyse why a fall in the unemployment rate may reduce poverty. Links were provided in the candidates' answers to higher employment, higher disposable income and a greater ability to purchase necessities. Most of these candidates then went on to evaluate whether a fall in unemployment would actually reduce poverty. The most popular reasons given as to why this might not occur were that inflation might reduce purchasing power and that those newly employed might be on low wages. A small proportion of candidates did not evaluate. Some misunderstanding was shown. For example, some candidates implied that the unemployed are not part of the labour force and some assumed that if there is a progressive tax system it would mean that people who receive a rise in their income would be worse off.
- (e) This was generally well answered. Most candidates provided clear analysis of the benefits of specialisation and trade. They recognised the possible impact on productivity, costs, quality and choice. There were some perceptive comments made about differences in countries' factor endowments. A small proportion of candidates' answers were somewhat limited. For example, a number just gave examples of what countries trade in without exploring why the countries specialise and trade.
- (f) Some candidates described functions of a central bank not mentioned in the extract. A number of other candidates identified two functions from the extract but did not describe them. The function which was most commonly described was setting interest rates. Not many candidates who identified regulating the banking system went on to describe it.
- (g) A number of candidates did not read this question carefully enough and as a result wrote about the effect of having more commercial banks. They devoted time to examining the effects of increased competition rather than focusing on the growth of one commercial bank. Others provided static answers by just describing the functions of a commercial bank. They effectively answered a different question i.e. do commercial banks benefit customers. Some of those candidates who did directly address the question provided some strong assessment linked to the effect on the range, price and quality of services provided, economies and diseconomies of scale and market power.

## **Section B**

### **Question 2**

- (a) This was well answered although not all answers brought out the meaning of opportunity cost.
- (b) There was a mixture of responses to this question. Some candidates made good use of economics to consider why graduates are usually paid more than non-graduates. Others, however, answered the question in very general terms and did not relate, for instance, to demand and supply.
- (c) There were some strong answers to this question which included an accurate diagram and clear analysis as to why an increase in the number of graduates would increase productive capacity. A relatively high number of candidates, however, did not show the curve shifting to the right. They only drew one curve. Some did not take the curve to the axes. There was some confusion shown about the labelling of the production possibility curve. Some candidates labelled it with price and quantity and others with graduates and non-graduates, as opposed to 2 goods.
- (d) The strong answers were those which applied relevant economics and which considered both sides. Generally the comments on why graduates should not pay the full cost of their university education were stronger than those on why they should. Some candidates wrote in very generalised terms. There was also some confusion shown about the effect on total demand if graduates paid the full cost rather than the government.

### **Question 3**

- (a) The responses to this question tended to fall into three categories. The strongest answers recognised the contribution of capital relative to other factors of production, particularly labour, to the production process. Then there were those answers which recognised the importance of capital in the form of, for instance, machinery and finally there were answers which showed confusion over the nature of capital.

- (b) The performance on this question was disappointing. A relatively high proportion of candidates explained two reasons why the demand as opposed to the supply of a product might be price inelastic. Others wrote about why supply might be price elastic. Those candidates who did answer the specific question tended to focus on the production period and the availability of factors of production. However, it is a clear reminder to candidates to read the question carefully rather than answer what they thought they saw if they scanned the question too quickly.
- (c) Candidates generally performed well on fixed and variable costs. Most adopted a straightforward, short run approach which was perfectly acceptable. A number made perceptive comments about how the nature of costs changes in the long run. The analysis of the effects of an increase in output on average cost, however, was not so strong. Some candidates did recognise the significance of economies and diseconomies of scale. Some referred to increasing and diminishing returns. These last two concepts are not on the syllabus but were credited given their obvious relevance. A noticeable proportion of candidates, however, produced vague comments on this part of the question.
- (d) Candidates showed a strong awareness of the non-wage factors, particularly working conditions, promotion chances and fringe benefits, that influence people's choice of which industry to work in. It was, however, only the strongest answers which explored in depth why some people would be attracted by a rise in wages. These answers usually also explored the influence of qualifications and skills and the significance of differences in relative wages.

#### Question 4

- (a) This was well answered. The majority of candidates showed an accurate understanding of the meaning of Gross Domestic Product.
- (b) The two most common benefits identified were higher living standards and more tax revenue. In a number of cases, candidates did not go beyond identifying the benefits. This was particularly the case with more exports. A high proportion of candidates who mentioned more exports did not explain why this might be the case.
- (c) This was generally well answered. Most candidates also provided relevant, written explanation. A small proportion of candidates showed the supply curve shifting to the right and an even smaller proportion drew a diagram showing a decrease in demand. Only a few candidates transposed the demand and supply curves.
- (d) Candidates found this quite a challenging question. A number jumped stages in analysing why the rise in demand might cause Chile to experience a current account surplus. The answers tended to be stronger on why it might not result in a current account surplus. There were some good comments on what might be happening to other parts of the current account and some intelligent analysis was provided on the possible effects on the exchange rate and so on Chile's current account in the longer term.

#### Question 5

- (a) Most candidates were able to provide an accurate definition. Some, however, confused unemployment with economic inactivity. The answers this latter group incorrectly implied that the unemployed are not part of the labour force.
- (b) As with **Question 4(b)** most candidates were good on identification but not all provided explanation. When 'explain' is the question directive, candidates are required to identify the key point *and* explain it, for *each* cause/benefit, etc. asked for. Among the two most common causes identified were advances in technology and an increase in net exports. *To achieve explanation did not require much development.* What was looked for were some links either to total output or to productive capacity. Some candidates gave an increase in output or GDP as cause of economic growth. In this case the candidates were confusing a definition of economic growth with a cause.
- (c) Some candidates struggled with this question. Most assumed that a fall in the inflation rate means that prices are falling. Credit was given for the idea that the purchasing power would be higher than if the inflation was higher. This could be linked to a rise in output and so to a higher demand for labour. It was the stronger answers which also picked up on the possible impact on international competitiveness and investment via increased confidence.

- (d) Again a number who selected to answer **Question 5** struggled on this part. Some sought to answer a different question. They stated that a decrease in government spending would result in a fall in taxation without providing an explanation as to why this might be the case. They then went on to focus just on the effects of lower taxes. Other candidates did not seem to appreciate that government spending contributes to total demand. There were, nevertheless, some strong answers to the question. These examined the possible reduction in government spending on demand-pull inflation and the possible increase in cost-push inflation arising from a reduction in government spending on subsidies and education.

#### Question 6

- (a) There were some rather vague definitions given and not all candidates recognised that the rate is per 1000 population *and* per year.
- (b) This was well answered. Most candidates identified two relevant causes, most commonly an improvement in medical care and an improvement in living standards. And this time did explain how these could reduce the death rate.
- (c) There was a mixture of responses to this question. A relatively high proportion of candidates made the false assumption that if there is a high unemployment rate it must mean that there are a high number of vacancies. There was a lack of economic analysis in some other candidates' answers. A number of candidates did provide strong answers, often examining the possibility of differences in the skills set of those migrating and those unemployed in the country, differences in unemployment benefits available and differences in the costs of running a business in the two countries.
- (d) This was well answered with a high proportion of candidates showing an ability to compare the advantages and disadvantages of a market economy. It was particularly pleasing to see some strong analysis of the different causes of market failure as this is an area that candidates have struggled with in the past. A very small proportion of candidates confused a market economy with a planned economy.

#### Question 7

- (a) Most candidates mentioned interest rates in their definition and a number referred to two monetary policy measures. Some mentioned that monetary policy is a demand-side policy. This is, of course, true but it is not a defining characteristic as fiscal policy is also a demand-side policy. A number of candidates did, indeed, partially confuse monetary policy and fiscal policy by referring to decisions on interest rates and tax rates. Others showed a total confusion by referring to decisions on tax rates and government spending.
- (b) This was well answered. Most candidates did identify two functions, most commonly medium of exchange and store of value, and explained these. Some candidates could describe one or two functions but did not give the technical names for the functions.
- (c) There were some good answers to this question but also some which were not clearly thought out. A number mentioned that there would be higher training and equipment costs without recognising that two advantages claimed for division of labour are reduced training and equipment costs.
- (d) Candidates had to think about this question carefully and to adapt their knowledge and understanding. There were some strong answers which examined how domestic firms might respond to the greater competition from imports. A number of candidates wrote about the benefits of an increase in exports without establishing how a reduction in a country's trade protection might result in more exports. Some candidates produced an answer to a different question – discuss the arguments for and against trade protection. A small proportion of candidates showed confusion with trade unions.

# ECONOMICS

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Paper 0455/23

Paper 23

## Key Messages

The most important message to emerge from this examination is that candidates who read the question with great care are the ones who tend to do well, whilst those who write about what they **think** they see in the question can easily come unstuck. This was well illustrated in answers to **Question 3b**, where many candidates sought to give pre-prepared answers on the advantages and disadvantages of a market system, when all that was required was an explanation of how it works. Similarly in **Question 1c**, large numbers of candidates explained why demand for diamonds was inelastic when the question clearly states supply.

Candidates who do well in this examination tend to be those who use economic theory effectively and who have a sound grasp of the meaning of key terms. Conversely those who use economic terms loosely tend to have difficulty in scoring well. In 7d for example, the question asks about different rates of pay, and candidates with good economic awareness recognised that pay is determined in a market by supply and demand factors. Responses awarded with lower marks ignored this key aspect of theory and wrote vaguely about who deserved to be paid more. The key terms which cause the most problems for candidates are “money” and “profit”: there is a tendency to use these as blanket terms covering a wide variety of situations but they both have precise meanings. Money should not be used when income or revenue are involved for example, and profit is not the same as revenue, but is the difference between a firm’s revenue and its costs.

## General Comments

Rubric errors were pleasingly rare in this examination and most candidates were able to complete the compulsory question and the three choice questions satisfactorily. A bigger problem for many candidates however was time management, especially a tendency to write very long answers on parts **a** and **b** of questions, where short precise answers would have left more time for the longer answers required for parts **c** and **d**. It is also important to note that slang and colloquialisms are not appropriate in an examination such as this: phrases such as “a whole bunch of”, and words such as “stuff” and “kids” should be avoided, because they tend to obscure meaning and lack gravity.

Many candidates write conclusions to answers and some even produce them for the short **Questions a** and **b**. Whilst conclusions can be appropriate in the longer questions (**c** and **d**), if they are used they must add something *extra* to the discussion because concluding statements which simply sum up and repeat what has been said in the earlier analysis of the question, cannot score any further marks.

## Comments on Specific Questions

### **Section A**

#### **Question 1**

- (a) Most candidates could identify people living on less than \$2 a day and low GDP per head as reasons why Lesotho is considered a developing country. Many found a third point difficult and, although poverty was often given, this answer is too vague. This shows how vital it is for candidates to read the extract thoroughly so as to be able to identify that malnourished children and subsistence farming would have been more specific answers.
- (b)(i) It was very rare to see a correct answer to this question. Most candidates were not able to demonstrate a clear understanding of the graph and confused the level of output with economic growth. Economic growth shows the annual **change** in output and so on this graph output was increasing from 2008 to 2009, but the column was smaller, therefore it was slowing down. It is



therefore very important for candidates to understand the difference between **absolute levels** and **percentage changes** in any graphical representation of economic statistics.

- (ii) Similarly, very few candidates were able to interpret the graph successfully to demonstrate that 2013 was the year when output was highest. This is because the graph shows positive columns, indicating that output increased for every year up to 2013.
- (c) It was surprisingly common to see candidates refer to elasticity of **demand** in their answers. This illustrates the importance of a careful reading of the words when answering a question, and using the term indicated, rather than the term which the candidate expects to see. The key to a good answer was to demonstrate an understanding that time is a very important determinant of price elasticity of **supply**.
- (d) Most candidates could score marks on this question, with many good answers using a supply and demand diagram to indicate an appropriate shift in the supply curve. To gain the highest marks, it was necessary to explain how subsidies allow capital investment and/or reduce production costs.
- (e) This question was on the whole well answered, however marks were often lost due to lack of discussion. When the directive word is **discuss**, it is important to consider arguments both **for and against** the proposition; hence a one-sided argument could not score more than 3 out of the 5 marks available.
- (f) In order to answer this question successfully it was necessary to explain that tariffs raise the **price** of imports, but this was often overlooked in favour of vague assertions that imports are harmful / domestic firms are affected. Similarly, many answers ignored the current account position of the balance of payments. Raising government revenue however was a popular answer, which tended to score well as one of the reasons for tariffs.
- (g) There was a lot of confusion demonstrated by candidates when answering this question, notably a failure to make a clear distinction between GDP and the current account of the balance of payments. These are two quite distinct concepts but candidates often wrongly assumed that current account surpluses accrue to the government. Most candidates could make some reference to tourism and Lesotho's exports, but it was rare to see a full discussion of reasons why Lesotho's current account deficit was likely to reduce, and why it might not. This was another **discuss** directive, so essential to consider both aspects to achieve high marks.

## Section B

### Question 2

- (a) Most candidates could score at least one mark on this question. The main weakness in answers came from those who gave the price of a product rather than the level of prices in general.
- (b) It was encouraging to see clear accurate definitions of opportunity cost given in answer to this question. Candidates were then able to apply this successfully to spending on unemployment benefits and the costs in terms of public spending on items such as health care. It is important however for candidates to avoid expressing highly *opinionated* views about the perceived laziness and other aspects of the lives of the unemployed – this approach cannot gain reward.
- (c) Answers to this question generally indicated a very poor understanding of production possibility curves (PPC). It was rare to see the axes correctly labelled with Good A and Good B, but it was surprisingly common to see unemployment and output on the axes. The PPC must always be correctly labelled with two **products** on the axes in order to illustrate production **possibilities**. However those candidates who did label the axes correctly often incorrectly demonstrated increased unemployment by a shift of the curve to the left. Unemployment however is a situation where resources are under-used and so must be shown by points **inside** the PPC.
- (d) The main weakness in many answers to this question was to adopt an over-complicated approach. The best approaches tended to be the simplest, outlining the reduction in incomes caused by unemployment, the lower spending which ensues, and how this reduces demand in an economy. Finding reasons why rising unemployment might not reduce inflation proved a difficult challenge for all but a small minority of candidates however, and the most successful approach was a consideration of other costs of production such as raw materials.

### Question 3

- (a) Most candidates understood that regulations are rules or laws, although many found it harder to define them fully in economic terms, such as the influence that regulations have on firms.
- (b) The main weakness in answers to this question was a tendency to describe the advantages and disadvantages of the market system. This was not a discuss directive but an **explain** one. All that was required was a straightforward explanation of market forces and the price mechanism. In fact it was surprisingly rare to see the price mechanism mentioned at all.
- (c) A surprising number of answers completely misunderstood the nature of this question and wrote long answers about business failures, focussing on aspects such as bankruptcy caused by lack of demand for company products. The best answers began with a clear definition of market failure in terms of inefficient resource allocation and followed this with analytical examples such as monopoly power, negative externalities and lack of information.
- (d) It was encouraging to see a large number of answers to this question examining a variety of issues on both sides of the discussion. The most successful approach considered the increased output and employment from exploitation of forestry and contrasted this with the negative externalities and resource depletion which would occur.

### Question 4

- (a) Most candidates could identify at least one influence upon saving, with income and interest rates the most popular. However a number of answers were too vague and “having money” does not convey the idea of income, whilst inflation on its own is insufficient because the expectation of future price rises was the correct reason.
- (b) A large number of answers focused on the characteristics of money, such as portability and divisibility, but these do not explain why cash is considered as money. It must be emphasised that money is determined by its **functions** and not by its characteristics. These functions are medium of exchange, store of value, unit of account and standard for deferred payment. Those candidates who understood this were then able to score well on this question.
- (c) The most successful approach to this question was the most straightforward one. Bank lending can increase spending by both households and firms, and this will stimulate output. Many candidates however were distracted by a consideration of interest rates and the dangers of defaults on loans, displaying a lot of confusion in the process.
- (d) As in other questions, the inexact use of an economics term, in this case **money**, often led to extremely vague and imprecise answers. Thus “lack of money” is insufficient as a reason why the poor might borrow more than the rich because a consideration of income was required. Good answers were those which demonstrated understanding that the poor may be more inclined to get into debt, but often lack the ability to obtain loans. It was however common to see repetitive answers which covered the same point in reverse – for example “the poor cannot afford loans” and “the rich can afford loans” can only be credited once. Finally class is a sociological, rather than an economic concept and should be avoided in this context.

### Question 5

- (a) This question was generally well answered, with most candidates able to give features of a private limited company, such as limited liability and shares which are only sold to known individuals.
- (b) To answer this question successfully it was necessary to read the wording carefully and give **influences on** factors of production. Unfortunately a considerable number of candidates gave pre-prepared answers on the four types of factors of production which simply did not answer the question satisfactorily. Good answers identified influences, such as the cost and availability of factors, and then linked this to examples such as labour intensive and capital intensive firms.
- (c) The most productive route for candidates to take when answering this question was to consider economies of scale with examples. However it was also necessary to go beyond this to be able to score well, and better responses also considered points such as market power and mergers. Many

candidates considered diseconomies of scale however, but this was not an appropriate answer: diseconomies of scale will increase average costs and so reduce (not increase) profits.

- (d) There were many potentially successful approaches to adopt when answering this question and, provided both sides were discussed, it was fairly straightforward to do well on this question. Good answers tended to focus on the creation of employment and higher GDP by foreign producers, contrasting this with the potential problems caused for domestic producers and workers. Answers which focused on social and cultural matters were not acceptable here however, because the question specifies “an economy”.

#### Question 6

- (a) Most candidates could identify some form of joining together of firms for one mark. However the second mark required more than just producing the same product; the best answers indicated that the firms were at the same *stage* of production.
- (b) There were some good answers to this question although a large number of responses demonstrated a low level of understanding of the nature of perfect competition, particularly when it came to how such firms behave. Firms in PC cannot influence price because they are price takers, nor do they compete on quality because the products are homogeneous.
- (c) Those candidates who understood that supply side policies are implemented by **governments** to improve economic performance by making markets work more efficiently were able to do well on this question. However it was common to see answers which simply examined how firms alone could improve their supply, but unfortunately this approach could not score marks. On the other hand, cuts in corporation tax as an incentive to firms is acceptable as a reason for improved economic performance.
- (d) Most candidates were able to explain how lack of competition and market power enabled monopolies to charge higher prices. Many however found it much more problematic to discuss why they might not, and answers which simply examined why prices in perfect competition were lower were not an appropriate alternative here. The best answers understood that monopolies could have lower prices because of economies of scale, better research and development, and the threat of overseas competition.

#### Question 7

- (a) Some answers to this question were unnecessarily vague and did not cover the most important aspect of an exchange rate, namely that it is a price or value. An accurate and straightforward definition simply stated that an exchange rate is the price of one currency in terms of another, for full marks.
- (b) As with **Question 7a**, many candidates lost focus when answering this question and assumed that a floating exchange rate simply improved the economy. The key to a good answer however was to demonstrate the self-correcting nature of floating exchange rates which should, in theory, eliminate a current account surplus or deficit. This means that there is no need for government intervention.
- (c) Those who attempted this question could generally score well. Most candidates could link the rise in unemployment through lower incomes to lower consumption of goods and services. Good candidates then developed this further in terms of factors such as poor health and lack of education provision.
- (d) Candidates produced a wide range of answers to this question, with the best answers focussing on supply and demand factors. It was also possible to illustrate the discussion with an appropriate diagram. Wages paid to workers are the **price** of that labour and good candidates understood that prices in a market are determined by the interaction of supply and demand. Once that idea is expressed in the answer, it is a relatively straightforward process to explain the factors which influence supply, such as the skills of workers, and those which influence demand, such as the demand for the finished product (coal and cars in this case).