

ECONOMICS

Paper 0455/11
Multiple Choice

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

This 30-question multiple choice examination was taken by 389 candidates and the mean score was 20.7.

The questions to which most candidates gave the correct answers were **2, 3, 4, 6, 9, 15, 17, 24** and **30**. Over 80% of the candidates gave correct answers to these questions, which covered a range of topics from the syllabus and also the skills of knowledge and analysis and interpretation.

The questions that were answered correctly by fewer candidates were **11, 22** and **27**, with fewer than 35% of the candidates choosing the correct option.

For **Question 11**, the correct option, B, was chosen by 34% of the candidates, while 16% chose option A, 15% chose option C and 34% chose option D. It is unsure why candidates thought that governments rather than private companies were primarily motivated by risk-taking (option C), nor why it was thought that workers were likely to gain productivity bonuses, especially as the control of public sector wages is a tool of government policy used to reduce expenditure (option D). It may have been that the question was misread and that the candidates thought they had to identify a reason for workers choosing a private sector company rather than government employment.

Question 22 was answered correctly by 33% of the candidates who chose option A, while 54% chose option C, 8% chose option B and 4% chose option D. The reason for the error is probably not because the candidates do not understand what a trade surplus means but because of confusion in working out the changes. A higher sales tax on cars with large engines will reduce the demand. Most of these cars are imported, so imports will fall. This will be likely to increase the trade surplus, not reduce it. The second column in the question shows 'increase' in both option A and option C. Candidates were thus able to deduce correctly the change for home produced cars.

Question 27 asked about the migration of skilled workers. The correct option, A, was chosen by 56% of candidates, 44% chose option B and 19% chose option C. It is most likely that newly trained, skilled workers are, on average, younger workers. As a result, if they left the country, the average age of the remaining workforce would increase (option A).

The candidates who took this paper achieved very good results and they are to be congratulated.



ECONOMICS

Paper 0455/12
Multiple Choice

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

This 30-question multiple choice examination was taken by 1725 candidates and the mean score was 20.5.

The questions to which most candidates gave the correct answers were **1, 3, 4, 7, 9, 10, 16, 18, 25** and **26**. Over 80% of the candidates gave correct answers to these questions, which covered a range of topics from the syllabus and also the skills of knowledge and analysis and interpretation.

The questions that were answered correctly by fewer candidates were **12** and **28**, with 35% or fewer of the candidates choosing the correct option.

For **Question 12**, the correct option, B, was chosen by 35% of the candidates, while 12% chose option A, 18% chose option C and 34% chose option D. It is unsure why candidates thought that governments rather than private companies were primarily motivated by risk-taking (option C), nor why it was thought that workers were likely to gain productivity bonuses, especially as the control of public sector wages is a tool of government policy used to reduce expenditure (option D). It may have been that the question was misread and that the candidates thought they had to identify a reason for workers choosing a private sector company rather than government employment.

Question 28 asked about the migration of skilled workers. The correct option, A, was chosen by 29%, while 49% chose option B and 15% chose option C. It is most likely that newly trained, skilled workers would be, on average, younger workers. As a result, if they left the country, the average age of the remaining workforce would increase (option A).

The candidates who took this paper achieved very good results and they are to be congratulated.

ECONOMICS

Paper 0455/13
Multiple Choice

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

This 30-question multiple choice examination was taken by 614 candidates and the mean score was 23.3.

The questions to which most candidates gave the correct answers were **1, 2, 4, 8, 9, 10, 11, 12, 14, 16, 17, 19, 23, 27** and **28**. Over 80% of the candidates gave correct answers to these questions, which covered a range of topics from the syllabus and also the skills of knowledge and analysis and interpretation.

The questions which were answered correctly by fewest candidates were **13** and **26**. Nevertheless, even for these two questions there was still a high proportion giving the correct response.

For **Question 13**, the correct option, B, was chosen by 51% of the candidates, while 7% chose option A, 10% chose option C and 31% chose option D. It is unsure why candidates thought that governments rather than private companies were primarily motivated by risk-taking (option C), nor why it was thought that workers were likely to gain productivity bonuses, especially as the control of public sector wages is a tool of government policy used to reduce expenditure (option D). It may have been that the question was misread and that the candidates thought they had to identify a reason for workers choosing a private sector company rather than government employment.

Question 26 asked about the migration of skilled workers. The correct option, A, was chosen by 49%, while 32% chose option B and 14% chose option C. It is most likely that newly trained, skilled workers would be, on average, younger workers. As a result, if they left the country, the average age of the remaining workforce would increase (option A).

The candidates who took this paper achieved very good results and they are to be congratulated.

ECONOMICS

Paper 0455/21
Structured Questions

General Comments

The quality of the responses varied a great deal. There were some very good answers from a number of candidates, who were able to demonstrate successfully a sound knowledge and understanding of economics and a sensible and mature ability to explain and discuss a number of key economic concepts and issues. There were also, unfortunately, a number of relatively weak answers where the candidates needed to demonstrate much greater knowledge and understanding of the subject.

There were relatively few rubric errors, although some candidates did answer all seven questions on the examination paper when the actual requirement was to answer **Question 1** in **Section A** and just three questions in **Section B**. This meant that a great deal of valuable time in the examination was wasted, a fact which would almost certainly have affected the eventual grade achieved.

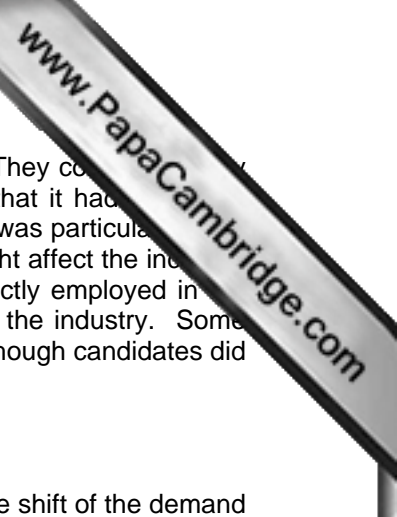
Candidates need to pay very close attention to the precise wording of the questions, especially in terms of the particular command or directive word being used. For example, if the question asks the candidate to identify something, as in **Question 1 (a)**, where candidates were required to identify **two** reasons why people chose to holiday in Kenya, or to explain something, as in **Question 6 (c) (i)**, where candidates were asked to explain what was meant by opportunity cost, then a relatively brief answer is needed. However, if the question requires the candidate to discuss something, as in **Question 5 (c)**, where candidates were required to discuss which indicators economists might find most useful to determine whether a country is developed or developing, or in **Question 7 (c)**, where candidates were asked to discuss what might happen if free trade between countries was established, candidates need to go into much more detail, often giving two sides of an argument and then coming to a logical, well-reasoned and justified conclusion.

Candidates also need to look very closely at the number of marks given to each part of a question, as this gives a very clear indication of how much detail is required and how much time should be taken to answer it. For example, **Questions 1 (a)** and **6 (c) (i)** and **(ii)** were given just two marks each, whereas **Questions 1 (d)** and **7 (c)** were each allocated nine marks.

Comments on specific questions

Question 1

- (a) This part of the question was answered particularly well by the majority of candidates, who were able to identify correctly two reasons why people choose to holiday in Kenya, such as to get away from the colder climates in Europe and North America and to visit the safari parks and beaches.
- (b) The majority of candidates correctly recognised that there was a significant change to Kenya's balance of payments in 2008. Prior to 2008, tourism was Kenya's largest foreign exchange earner and brought in more money than the combined earnings from the next two largest earners. After 2008, however, there was a large fall in the demand for holidays in Kenya, which was likely to lead to a worsening of the current account balance.
- (c) Most candidates were able to explain clearly what is meant by economic growth, stating that it is the increase in a country's real output over a period of time measured through the change in Gross Domestic Product.



- (d) The majority of candidates were able to answer both parts of this question. They considered Kenya's economic growth was regarded as a 'success story', pointing out that it had risen from 0.5% to 7.0% between 2002 and 2007 and stressing that a figure of 7% was particularly high. They then went on to consider how a fall in the number of holiday makers might affect the income and employment of people in Kenya, arguing that the incomes of those directly employed in the tourist industry were likely to fall, as well as the number of jobs available in the industry. Some candidates even suggested that there might be a negative multiplier effect, although candidates did not need to refer to this precise term as it is not on the syllabus.

Question 2

- (a) The majority of candidates were able to draw an accurate diagram showing the shift of the demand curve to the right and the shift of the supply curve to the left. They then went on to describe how this would lead to an increase in price. Common errors included either not labelling the two axes or labelling them incorrectly (with price and quantity the wrong way round), while a few candidates labelled the demand and supply curves incorrectly. It is very important that candidates take care when drawing diagrams so that they are accurate and labelled correctly.
- (b)(i) Most candidates understood that the incomes of fishermen were likely to rise as a result of the increase in price caused by the increase in demand for fish and the decrease in supply of them. A few candidates then developed their explanation to consider that the actual extent of the increase in incomes would depend on the price elasticity of demand.
- (ii) The majority of candidates recognised that the impact on the profits of food retailers was likely to be somewhat uncertain. They would be likely to gain from the increase in the price of fish, although the actual effect would depend on the price elasticity of demand, but they would be likely to lose from the decline in the demand for meat. The actual outcome would depend on the extent to which consumers were likely to switch from one product to another and on the relative profit margins of the two products.
- (c) This part of the question was concerned with how a government might seek to influence private industry. Most candidates were able to consider taxes, both direct and indirect, and subsidies. The better answers then went on to consider different kinds of regulations, for example in relation to prices, wages, health and safety, and the protection of the environment.

Question 3

- (a) There were some very good answers to this part of the question. The majority of candidates were able to suggest various reasons why companies might spend money on training to increase the skills of their workforce, such as to increase their level of productivity, which would be likely to lead to an increase in profits.
- (b) Again, there were some good answers to this part of the question. Candidates were able to suggest a number of possible reasons why a person might be unwilling or unable to move from one job to another, such as less convenient working hours, the cost and time involved in travelling if one job was further away than another and the possibility of less satisfactory working conditions.
- (c) The majority of candidates were able to put forward a number of possible reasons why a worker might want to join a trade union, such as being part of a strong and powerful organisation that would be able to negotiate on behalf of individual workers in such aspects as wages, working conditions and pension provision. Most candidates were able to point out that a worker would have a stronger case as part of a wider body of workers rather than simply acting by themselves.
- (d) Most candidates were able to discuss how a government might influence the demand for and the supply of labour. For example, from the demand side, a government could give tax relief to firms to encourage an increase in production, which should lead to the employment of more workers. From the supply side, a number of candidates suggested government expenditure on education and training. Answers that only dealt with demand or supply, rather than both as required by the question, were limited to a maximum of four marks. It is very important that candidates read a question very carefully before attempting to answer it.

Question 4

- (a) The majority of candidates were able to identify two types of business organisation that are found in a mixed economy and they then went on to describe their characteristics. Most candidates selected private limited companies and public limited companies, but a number of candidates chose the sole trader, the partnership, the multi-national, the co-operative or the public corporation. Most answers were of a good standard. There was some confusion in relation to public limited companies: candidates need to understand that such organisations are not part of the public sector.
- (b) Most candidates demonstrated that they understood that most countries had a mixed economy because of the possibility of market failure in a market economy. For example, merit goods would be underprovided, demerit goods would be overprovided and public goods would not be provided at all. Candidates did not need to refer to these precise terms, as they are not included in the syllabus, but they did need to show that they understood why such failures of the market economy would give rise to the need for government intervention.
- (c) The majority of candidates were able to discuss how firms and business organisations grew in size. They recognised that this could occur in two ways. Firstly, there might be internal expansion, for example as the result of an advertising campaign leading to an increase in demand for a product. Secondly, there might be external expansion, such as through a merger or takeover. A number of candidates demonstrated a sound knowledge and understanding of the different types of integration, contrasting vertical and horizontal integration and using appropriate examples to support the points being made.

Question 5

- (a) The majority of candidates recognised possible reasons why low rainfall might have a disastrous effect in many developing countries. They often began by identifying key features of developing countries, such as their reliance on the primary sector and especially agriculture, and then went on to stress how this could be adversely affected by low rainfall.
- (b) Many of the candidates were able to suggest a range of economic policies that the government of a developing country might adopt to reduce the problem of food shortages, such as subsidies and/or tax relief to farmers, improvements in the provision of irrigation and assistance in the stockpiling of food reserves.
- (c) This part of the question was answered reasonably well by the majority of candidates, who were able to discuss the indicators that economists might use to determine whether a country was developing or developed. Many candidates referred to Gross Domestic Product, and it was pleasing to see that a number of candidates referred to the Human Development Index, which is a relatively new addition to the syllabus. Candidates then needed to discuss which of the possible indicators might be the most useful but this aspect of the question was overlooked by many. It is again necessary to stress the importance of reading the question very carefully before answering it.

Question 6

- (a) The majority of candidates were able to identify and explain two concerns that a health education programme might cover, such as family planning and avoiding the spread of infection.
- (b) Most candidates recognised that increased spending on health care would be likely to lead to an increase in the birth rate and a decrease in the death rate. They went on to stress that such developments would be likely to lead to an increase in the average age of the population or, in other words, an ageing population.

- (c) (i) Most candidates had some idea of what was meant by opportunity cost. In order to gain the available marks, candidates needed to explain the concept in terms of the benefit foregone when choosing the next best alternative.
- (ii) Again, most candidates had some idea of what was meant by social benefit. To gain both marks, candidates needed to explain that social benefit was equal to the sum of private benefits and external benefits.
- (d) The majority of candidates were able to offer a useful discussion in relation to whether it was possible to apply the two concepts of opportunity cost and social benefit to health care programmes. They recognised that, given a situation of limited resources, a decision to introduce health care programmes would be likely to lead to an opportunity cost in terms of the other items of public expenditure the money could have been spent on, such as building roads. They also recognised that such programmes would have both a private benefit, in terms of individuals being healthier and living longer, and an external benefit, in terms of individuals becoming more productive and therefore contributing to a better standard of living for the population.

Question 7

- (a) Most candidates were able to explain the difference between a tariff and a quota. In order to gain all three marks, candidates needed to make the distinction between them very clear by stating that, while a tariff was a tax on imported goods, a quota was a restriction on the amount of items imported into a country. A quota could operate in terms of a physical amount, a particular value or a certain percentage share of a market.
- (b) Many candidates focused on the possible advantages of tariffs, such as the reduced demand for the more expensive imported products (assuming that the demand was price elastic) making it more likely that consumers would demand home-produced goods, and maintaining employment in such industries. However, to gain full marks, candidates also needed to consider the possible disadvantages of tariffs on imported goods, such as the possible inflationary consequences and the possibility of other countries imposing tariffs on imported goods into those countries as a retaliatory measure.
- (c) In this final part of the question, candidates were required to discuss what might happen if free trade between countries was established. Many candidates considered the possible advantages, such as the greater competition for firms and the greater degree of choice for consumers. To gain full marks, candidates also needed to consider the possible disadvantages of free trade, such as the collapse of infant and/or sunset industries, which would lead to an increase in unemployment. It is important that candidates recognise that, when the command word 'discuss' is used in a question, they need to look at two points of view before coming to a conclusion.

ECONOMICS

Paper 0455/22
Structured Questions

General Comments

The quality of the responses varied a great deal. There were some very good answers from a number of candidates, who were able to demonstrate successfully a sound knowledge and understanding of economics and a sensible and mature ability to explain and discuss a number of key economic concepts and issues. There were also, unfortunately, a number of relatively weak answers where the candidates needed to demonstrate much greater knowledge and understanding of the subject.

There were relatively few rubric errors, although some candidates did answer all seven questions on the examination paper when the actual requirement was to answer **Question 1** in **Section A** and just three questions in **Section B**. This meant that a great deal of valuable time in the examination was wasted, a fact which would almost certainly have affected the eventual grade achieved.

Candidates need to pay very close attention to the precise wording of the questions, especially in terms of the command or directive word being used. For example, if the question asks the candidate to identify something, as in **Question 6 (a) (ii)**, where candidates were required to identify **two** other factors that influence the size of a country's population, or to define something, as in **Question 1 (a) (i)**, where candidates were asked to define fiscal policy, then a relatively brief answer is needed. However, if the question requires the candidate to discuss something, as in **Question 4 (c)**, where candidates were required to discuss the advantages and disadvantages of monopoly, or in **Question 6 (c)**, where candidates were asked to discuss whether a change in the occupational structure of a country would be beneficial for the economy, candidates need to go into much more detail, often giving two sides of an argument and then coming to a logical, well-reasoned and justified conclusion.

Candidates also need to look very closely at the number of marks given to each part of a question, as this gives a very clear indication of how much detail is required and how much time should be taken to answer it. For example, **Questions 1 (a) (i)** and **6 (a) (i)** and **(ii)** were given just two marks each, whereas **Questions 4 (c)** and **6 (c)** were each allocated ten marks.

Comments on specific questions

Question 1

- (a) (i) Most candidates were able to define fiscal policy as a tool of government economic policy operating through the raising of money via taxation and the spending of that money on various areas of the economy. A few, however, confused the term with monetary policy.
- (ii) The majority of candidates were able to explain how fiscal policy could be used to increase domestic demand, either through an increase in government spending or through a reduction in taxation or possibly through elements of both.
- (b) This part of the question was not answered quite so well as the previous parts, largely because candidates did not read the question carefully enough. Some candidates only wrote about public spending on health care or public spending on state benefits and the candidates that did write about both did not always assess which would be the **more** successful.
- (c) Many candidates were able to identify two possible reasons why so many people in Asia have to live on US\$1.25 or less a day, such as low productivity, a basic level of education or over-dependence on agriculture, but they did not always go on to explain these reasons in any depth. It is vitally important that candidates read the question very carefully, especially in terms of the command or directive word being used.

- (d) There were a number of good answers to this part of the question, with candidates offering a detailed discussion of the possible effectiveness of government policies to reduce poverty, such as increasing expenditure on improving education and the introduction of minimum wage legislation. Weaker answers were characterised by two particular issues. Firstly, some candidates wrote about spending on health care and state benefits, although the question explicitly stated policies other than these (because these two aspects had already been covered in part (b)). Secondly, a number of candidates simply described the policies without actually discussing their possible effectiveness in reducing poverty. These two issues again demonstrated the importance of candidates reading the whole question very carefully before starting to construct an answer.

Question 2

- (a) Many candidates were able to define the four factors of production correctly and provide appropriate examples of each. The one factor that seemed to cause the most problems was capital. A number of candidates defined this in terms of the money spent by a business and gave spending as an example. The correct definition of capital is man-made resources used in the production of goods and services and an example would be tools, machinery or equipment. Some candidates still only refer to three factors of production, but the syllabus clearly states four: land, labour, capital and enterprise. A number of candidates tended to focus on the rewards to factors of production, which was not asked for in the question.
- (b) There were some very good examples given in response to this part of the question. Most candidates were able to explain the nature of the economic problem as the conflict between unlimited wants and limited resources to satisfy those wants in terms of what to produce, how to produce and for whom to produce. This will, therefore, give rise to a situation of scarcity, leading to the need for a choice to be made.
- (c) The majority of candidates were able to compare how resources were allocated in market and mixed economic systems. They commented that resources were allocated through the price system in a market economy without the need for any government intervention, whereas in a mixed economic system the government would intervene in certain aspects of the economy, especially where problems arose as a result of market failure. A few candidates were confused and believed that a market economy was run by the government.
- (d) There were very mixed responses to this part of the question. A number of candidates were able to discuss both the advantages and disadvantages of a country's economic system changing from a mixed to a market economy, but some offered a one-sided view, arguing that there would be no disadvantages, despite the fact that there could be various examples of market failure. A few candidates misread the question and wrote about an economic system changing from a market to a mixed economy, again showing how vitally important it is for candidates to read the questions very carefully.

Question 3

- (a) Many of the answers to this first part of the question were rather disappointing. A number of candidates were able to describe money as a medium of exchange, but few were able to describe the other three functions - a unit of account, a store of value and a standard for deferred payments. Some candidates misread the question and wrote about the characteristics or attributes of money, such as portability and divisibility; no marks were awarded for such answers.
- (b) There were some good answers to this part of the question. Most candidates were able to draw the diagram accurately, showing a shift of the demand curve to the right, leading to an increase in the wages of pilots. Common errors included labelling the diagram incorrectly and having the demand curve shifting, incorrectly, to the left. A few candidates shifted the supply curve, rather than the demand curve, which could not be rewarded as no information was provided which might have brought about a change in the conditions of supply.
- (c) This part of the question was answered reasonably well. Most candidates were able to describe how an individual's earnings were likely to increase over their lifetime, for example as a result of greater experience, more skills and a number of possible promotions, but relatively few candidates went on to state that earnings will eventually fall after a certain age.

- (d) When responding to this part of the question, it was expected that candidates would discuss how some individuals spend less than their income while others spend more, for example the impact of rates of interest on savings accounts or uncertainty about the future. Many candidates misread the question and wrote instead about possible reasons for the difference in income between various individuals, for which they could not gain credit.

Question 4

- (a) Most candidates appeared to have some understanding of the main characteristics of a multi-national company. Candidates need to understand that the key characteristic of a multi-national company is that it produces in different countries, rather than that it is a company selling abroad.
- (b) This part of the question was answered reasonably well by most candidates. They demonstrated a clear understanding of possible reasons why small firms continue to exist in all economies, such as because of the personal service that they can provide or because the size of the market may be small, as in a niche market.
- (c) Most candidates demonstrated a good knowledge and understanding of the possible disadvantages of monopolies, such as the barriers to entry which eliminate competition and the fact that the price tends to be higher and the output lower when compared with firms in perfect competition. The question also required candidates to consider the possible advantages of monopolies. These could include the scope for economies of scale that lead to a fall in costs and possibly prices, and also the use of abnormal profits to fund research and development so that consumers would eventually benefit from improved products. Many candidates simply referred to the disadvantages and paid no, or very little, attention to the possible advantages.

Question 5

- (a) Many candidates had some idea of what was meant by full employment, such as when all those willing and able to work at a given wage are working, so that all unemployment is voluntary. A number referred to it in relation to frictional unemployment and some referred to a particular percentage of employed in an economy.
- (b) This part of the question was answered reasonably well by the majority of candidates. A number of different types of unemployment were explained, including demand deficient/cyclical, structural, frictional, technological, seasonal and regional. A few candidates offered an essentially list-like answer and so did not explain any of them in the depth required to gain full marks.
- (c) Answers to this part of the question varied a great deal. Many candidates offered a very good answer which described the main features of a retail price index, including the establishment of a basket of goods, the idea of a base year of 100 and the allocation of weights to different items in the index. Answers that focused on the different causes of inflation could not gain credit. This again showed the importance of careful reading of a question before attempting to answer it.
- (d) To gain higher marks on this question, candidates were expected to give a two-sided response. A number of candidates assumed that inflation was always harmful to everybody in an economy and only wrote about the disadvantages, such as the reduction in the purchasing power of a nominal sum of money and the negative effect on those on fixed incomes. It was also necessary to discuss the possible advantages of inflation, such as the stimulus it could provide to firms wanting to take advantage of the higher prices as long as the costs of production could be sufficiently controlled so that profits increased.

Question 6

- (a) (i) Many candidates gained full marks in this part of the question by explaining that net migration referred to the difference between immigration and emigration.
- (ii) Again, many answers to this part of the question also gained full marks by identifying birth rate and death rate as two factors, other than net migration, that could influence the size of a country's population.

- (b) There were some reasonable answers to this part of the question, with many candidates recognising the consequences of population growth for developing and developed countries. For example, they pointed out that it would be more of a problem for developing countries, given their faster rate of population growth and the effect of this on the scarce resources in such countries. The rate of increase of population in developed countries tended to be slower and any population growth would have less of an effect, given the higher standards of living in such countries.
- (c) This question did not appear to be well understood by some candidates. Some recognised that this referred to a movement away from the primary sector and towards the secondary and, especially, the tertiary sectors, but they then needed to go on to discuss whether such a change would be beneficial for an economy. The better answers stressed that such a change in the occupational structure of an economy was likely to help a country on its path to development, leading to higher standards of living.

Question 7

- (a) The majority of candidates were able to describe the structure of the current account of a country's balance of payments in terms of the visible account in goods and the invisible account in services. Better candidates went on to describe the other two features of the current account, these being income flows and current transfers.
- (b) This was answered reasonably well by the majority of candidates, who explained the various policies that a government could use to reduce a deficit on the current account of the balance of payments. Possible examples included a reduction of imports, possibly through the imposition of tariffs and/or quotas, and an expansion of exports, possibly through providing subsidies to firms. Answers which focused on increasing exports or decreasing imports only could not gain more than four marks.
- (c) A number of candidates demonstrated a sound understanding of the concept of specialisation by referring to the process by which individuals, firms, regions or whole economies would concentrate on producing those goods and services in which they had an advantage. Some candidates only referred to the division of labour, which limited the number of marks that could be awarded.
- (d) Most candidates were able to discuss the benefits and disadvantages of specialisation at the national level. For example, one advantage would be the greater degree of productive efficiency, while one disadvantage would be the problem of specialising in particular products where there was a decline in the demand for such products. As in part (c), some candidates referred to the division of labour only and this again limited the number of marks that could be awarded.

ECONOMICS

Paper 0455/23
Structured Questions

General comments

There are several key issues that stand out from the analysis of responses received.

For most candidates, there seemed to be a good link between the number of marks on offer and the length of answers given. Exceptions were **Question 1 (b)**, where answers from strong candidates were often in too much detail, and **Questions 4 (c)** and **7 (c)**, where some answers were too brief for 10 marks.

Candidates also need to be aware of key words, often highlighted in the question, which give guidance to candidates to ensure they do not write too much and encourage them to restrict their answers so that they can give a more detailed response. **Question 1 (c)** limited the response to three reasons and **Questions 2 (b)**, **4 (b)** and **7 (a)** limited the response to identifying two ways or factors. Generally speaking, this appears to have worked well.

In addition, there was a key word used in several questions which gave direction to the answer required. **Question 2 (d)** asked whether “it is a disadvantage to rely just on market forces”. **Question 3 (d)** used the key word “always” and this word was also used in **Questions 6 (d)** and **7 (d)**. **Question 4 (c)** referred to “better”. Essentially these words are used to encourage candidates to give a two-sided view or balanced view with perhaps a conclusion. Full marks cannot be obtained if only a one-sided view is given. This is explained in more detail below in the comments for each of these individual questions.

Comments on individual questions

Question 1

This question was generally well answered, although a few candidates found part **(d)** challenging. The length of answers was broadly in line with the marks available, although quite a few candidates wrote more than they needed to for the five marks available for part **(b)**.

- (a)** Most candidates were able to explain that a takeover meant one company buying or taking a controlling interest in another company, in some cases following a hostile bid. Responses on a merger needed to stress the fact that there was an agreement between the companies involved. Candidates also needed to understand that a merger would result in one company. In quite a few cases, candidates’ responses were about forms of integration, which was not relevant to this particular question.
- (b)** The majority of candidates were clear that economies of scale resulted in lower average costs. Some candidates gave a very thorough explanation of the main economies of scale. This was principally internal, although a few identified external costs as well. Almost all candidates successfully related it to the car industry. A few weaker candidates answered in terms of the strengths of a larger company in selling cars, increasing market dominance and increasing revenue, which was not correct. Alternatively, they described the types of economies without naming them. This part of the syllabus seems well understood by most candidates.
- (c)** This was generally well done and most candidates successfully identified three possible reasons. The most popular were: the recession (in the stem material); competition from other car companies; increased costs of complementary goods, especially petrol/oil; and cheaper or improved alternatives, for example public transport. Other relevant reasons were poor advertising/promotion by General Motors, poor management and inefficiency in production leading to higher costs and therefore prices, governments imposing higher taxes and import restrictions. A

few candidates provided more than three reasons. Most candidates related the benefits of General Motors, which was very pleasing to see.

- (d) In general, most candidates identified the central issue around opportunity cost of using public funding to support a private enterprise. Most candidates were able to give reasons for providing support from public funding, which essentially was about the high costs for the economy if the firm should fail. For example, unemployment, loss of home production, higher imports, the possibility of creating a stronger company with the ability to increase exports, generating additional profits resulting in the company repaying the loan and providing higher tax receipts. The opposite view was also well presented by some candidates. For example, the opportunity cost of the public funds not being used to support education and infrastructure, the possible creation of a monopoly and, if the company grew, greater pollution and consumption of scarce resources. Most candidates were able to give reasons for and against but a significant minority only gave one view with perhaps a one-sentence comment on the opposite view. Very good candidates gave a balanced conclusion. Very weak candidates tended to list a few uncoordinated reasons in bullet points or merely lift information from the stem. A few candidates unfortunately interpreted the question as being about the advantages and disadvantages of privatisation. There were also a few candidates, not always the weakest overall, who did not attempt to answer this part of the question.

Question 2

- (a) Most candidates were generally clear about the entrepreneur being the fourth factor of production. There was some confusion between the role of an entrepreneur and a manager, in respect of the organisation of factors of production. Most candidates identified the risk involved but fewer identified that the reward for risk was profit. The weakest candidates gave a much more generalised response.
- (b) Some candidates interpreted the word “promote” in the question as meaning their responses should focus on advertising, road shows and encouraging people to become entrepreneurs, for example, by supporting business courses at university and skills training for budding entrepreneurs. This was a perfectly acceptable response to make. However, other ways of encouraging enterprise were commonly put forward. These included those that supported new firms and infant industries with, for example, subsidies, grants, capital allowances and reductions in taxes on firms. A few candidates suggested regional policy, encouraging foreign companies and privatisation of public corporations. Answers that mentioned giving land and making general tax cuts not specifically targeted at encouraging enterprise gained few marks.
- (c) This part of the question, which asked for explanations with the aid of diagrams, proved to be challenging for many candidates. The expectation was that candidates would show scenarios in which either the demand curve would shift or the supply curve would shift, with the resultant effect on the equilibrium price and quantity in the market. Some candidates did this and, in some very good answers, the candidates used two different products for the two diagrams to show the effect of a fall in demand for one product and the shift of resources to another product. A significant number of candidates drew only one diagram and this was often confusing, since it showed shifts in demand and supply. In other cases, they drew just a demand and supply diagram with the equilibrium price and quantity and with lines drawn to show the effect of changes in price levels on demand and supply. Quite a few candidates drew a diagram where a shift in the demand curve to the right, resulting in a short-term rise in price, automatically resulted in a shift of the supply curve to the right, so that the market equilibrium price returned to its former equilibrium price. This is often not the case, but the written explanation seemed to give the impression that it would always happen. Other candidates just dealt with a shift in demand. Explanations were often related to the diagrams drawn. Some were very clear and precise but, where diagrams were confusing, the written explanations also often lacked clarity. Some weaker candidates were not confident in addressing the term “re-allocated”.
- (d) This was generally well done by good candidates. They were stronger at identifying the weaknesses of market forces, for example favouring the rich, failing to provide public goods and underproviding merit goods and overproviding demerit goods. Although these terms are not explicitly in the syllabus, many candidates were fully conversant with these terms and with market failure, including external costs, in general. Overall, candidates gave less information on the advantages of market forces in terms of efficiency and meeting consumer wants. This might have been because of what they had already written in part (c). Candidates needed to be aware that the key word “just” should trigger a two-sided response. Weaker candidates who did not interpret this

successfully gave answers that were one-sided and so lost marks. There were some candidates who did not answer this part of the question.

Question 3

- (a) This question proved to be challenging for most candidates. There were a few candidates whose responses were concise and clear. Most identified savings and loans but often the functions were confused with central banks and other financial institutions. Often answers were a few sentences long with a few well-known facts about banks listed in an uncoordinated way. The majority of Centres need to ensure that candidates are better prepared for explaining the main functions of a commercial bank.
- (b) The really good answers on the role of a stock exchange were provided by candidates in just a few Centres. Good candidates were able to explain the stock exchange's role in acting as a coordinated market for buying and selling shares and the strategic impact this had on personal savings and the ability of firms to raise additional funding, which could lead to economic growth. Quite a few candidates referred to how changes in the general share values on the stock exchange acted as a barometer on how well the economy as a whole was doing. There were several common misconceptions by some candidates. These centred on interpreting stocks as goods with reference to balance of payments or stock exchange relating to currencies.
- (c) This question proved to be challenging for most candidates. For full marks, it was expected that candidates would select two or three reasons for the differences and analyse why they existed, with reference to demand and supply. Weaker answers tended to be poorly structured and lacking analysis. Answers that were purely a description of what differences existed on the basis of skills, education, responsibilities, location, risk, gender, age, part- or full-time, sectors of the economy and strength of trade unions, for example, could not gain full credit. Candidates should be encouraged to select two or three reasons for in-depth analysis rather than trying to write down as many reasons as they know.
- (d) The majority of candidates were able to explain the reasons why someone on a high income would save more than someone on a low income. In some cases, this was supported by mathematical examples, although in some the calculations were inaccurate. The difference between the average and good candidate was in how they addressed "always". The expected response was that there were factors other than income that influenced savings, such as age, family, confidence in ability to earn in the future, level of debts, spendthrift or high spender by nature. Thus some high earners may save little and some low earners would save more. Candidates who did not address "always" were limited to no more than 4 marks. Weak candidates often gave a very short response, stating that high earners always saved more.

Question 4

- (a) This did not appear to be fully understood by many candidates. Most candidates were able to explain that a public corporation was owned or controlled by the government and went on to give examples of the type of organisations. Some candidates confused public corporations with public limited companies. Fewer candidates were clear about co-operatives, with some referring to partnerships instead. Better candidates did identify correctly worker or producer co-operatives and explained how they worked.
- (b) Again, this proved to be challenging for many candidates. The most common correct answers identified that labour is a derived demand and therefore demand for labour will rise if demand for the good or service rises. Equally good candidates wrote about productivity of labour affecting demand and the ability to substitute between capital and labour. Candidates who identified supply side factors rather than demand or who wrote about the level of wages determining the level of demand for a job could not be rewarded.
- (c) Given that this type of question has not been asked before in this format, there were a number of very encouraging responses. Stronger candidates started with the points that there was better job security in the public sector but higher wages in the private sector and were then able to develop the analysis further in terms of other benefits of working in the public sector such as, better promotion opportunities, better job satisfaction, better pension provision and the downsides of lack of opportunities for creativity and reward for excellence. For the private sector, the added advantages discussed included better working conditions, incentives for working hard and

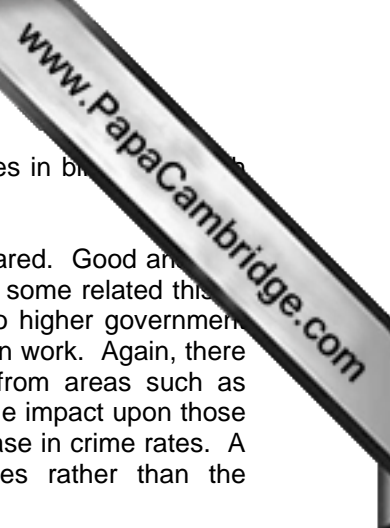
contributing to higher profits, taking initiatives, with a general emphasis upon efficiency and the ability to set up your own firm. The downsides also included poor pension provision and a lack of security for poorly-organised firms. Weaker answers were characteristically brief and limited to pointing out the better job security in the public sector versus higher wages in the private sector. There was a general lack of clarity on what was the public or private sector. Candidates need to ensure that the length of their answers matches the number of marks available. This part of the question carried 10 marks but many candidates' responses were too short compared with their answers for parts (a) and (b).

Question 5

- (a) This was generally done well by most candidates, who demonstrated a good understanding of the economic indicator. To gain full marks, candidates needed to explain that inflation is persistent or sustained. The weakest candidates tended to make reference to prices rising or the value of money falling.
- (b) Most candidates were able to identify at least two possible causes of inflation, such as demand-pull and cost-push, although not all used the names accurately. These two causes of inflation are well understood by most candidates. However, with demand-pull it was not always understood that prices rose because supply was unable to respond to increased demand because the economy was close to or at full employment. On cost-push inflation, most candidates were able to identify rising costs of raw materials or labour as the main factor. A large number of candidates also made reference to an increase in money supply by the government, the rising of indirect taxes, imported inflation and cost-pull by monopolies as possible causes of inflation. The weakest candidates were able to name the two main causes but were unable to explain why it happened.
- (c) Again, most candidates were able to explain that a subsidy was a payment by the government to a firm which lowered costs of production, although in some cases the latter was replaced by reference to firms lowering prices. Also acceptable were answers that referred to payments by the government that directly resulted in lower charges by the public sector, such as health and education fees. Answers that related subsidies to taxation did not gain credit.
- (d) There was some overlap in the answers between parts (c) and (d). Candidates on the whole were able to identify that subsidies resulted in lower costs passed on to consumers as lower prices and/or increased supply. This was particularly important for the provision of staple commodities such as rice and other essential services. Answers also often related to supporting infant or sunset industries and the impact that this had on employment and the balance of payments and how subsidies helped the poor and were a means of redistributing income. Another strong argument put forward for subsidies related to the provision of merit and public goods and addressing market failure. Candidates were generally weaker on identifying the possible disadvantages. A common response related to opportunity cost and what the funding could have been used for. There were also concerns about encouraging inefficient firms and firms not passing on the subsidy as lower prices (good candidates made reference to inelastic demand). Other concerns related to overproduction and distorting competition and how it was unfair to those firms not receiving the subsidy. Mention was also made of firms becoming dependent on the subsidy and retaliation by other countries if it affected their exports. An error made by some candidates was to say that a subsidy would result in higher prices since firms could now charge more. As an alternative, some candidates in a few Centres highlighted subsidies for consumers rather than producers and it was possible for them to gain full marks by taking this approach. Again, a balanced answer was required and so one-sided responses were limited to 4 marks.

Question 6

- (a) Answers were generally encouraging, given that this was the first time unemployment had been examined this way. Stronger candidates gave a good definition of the unemployment rate and then went on to explain reasons why data might be inaccurate. Common reasons given included the hidden/informal market, people who did not claim since they were working for their family, the fact that data collection was weak in some rural/remote areas of undeveloped countries and that in some industries inefficient use of labour meant that some workers were significantly under-used, which represented capacity in the labour market. Weaker candidates tended to concentrate on types of unemployment, such as seasonal and frictional unemployment, and argued that because there were always people entering and leaving employment it was difficult to calculate the rate.



Very weak candidates only made reference to other factors, such as changes in birth rates and overall size of the population, rather than numbers employed.

- (b) This was generally approached well and most candidates were suitably prepared. Good answers related to waste of resources, lower growth rates and standard of living, and some related this to the opportunity cost of full employment. A second common issue related to higher government expenditure and lower tax revenue that could result in higher taxes for those in work. Again, there were links to opportunity cost arising from re-allocating resources away from areas such as education and improvements in infrastructure. Another common issue was the impact upon those left unemployed, their deskilling if unemployed for a long period and an increase in crime rates. A few candidates misinterpreted the question and wrote about the causes rather than the consequences of unemployment.
- (c) Most candidates to a greater or lesser extent were able to state that the economic indicator measures the value of output and services in a country. To gain full credit, they also needed to mention that it related to the time period of a year. Candidates need to be aware of the meaning of the term “real”. Weaker candidates tended either to relate it to the size of the population and per capita calculation or to offer no explanation at all.
- (d) As with some earlier questions, the key discriminator in this question was the word “always”. Most candidates have at least a reasonable idea of why developed countries have a higher standard of living than developing countries. The usual explanation would be in terms of standards of education, health, life expectancy and reference to real GDP per capita and HDI. The discriminator between those candidates who gained up to 4 or 5 marks and those that went on to gain more was whether or not standard of living was the same thing as quality of life and whether all residents had the same quality of life. A common argument put forward by the strongest candidates was that GDP per capita was an average calculation and that in the developed countries there were pockets of great poverty and that in developing countries there were often very wealthy people. Equally, many candidates stated that quality of living took account of stress levels and pollution, which were often common in developed economies.

Question 7

- (a) Most candidates gave good answers to this question. The common correct answers related to the removal of import controls, increases in the standard of living, inflation in the home country and imports becoming cheaper and better in quality including new technologies. There were few incorrect answers and the usual reason for not scoring full marks was lack of depth.
- (b) The standard of responses was variable on this part of the question. The common correct answers included that a stable exchange rate made it easier to plan exports and imports since it removed risk and uncertainty. Amongst weaker candidates, this tended to be the extent of the answer given. Better candidates went on to state that this encouraged trade, especially tourism. Another advantage was that it reduced the possibility of speculation driving the exchange rate either up or down. Some candidates then extended this further by saying that this meant that the government needed to intervene to keep the exchange rate stable and that this meant having good reserves. Strong candidates explained that it also meant that the government needed to keep inflation in the country under control.
- (c) This question proved to be challenging for many candidates. It was expected that candidates would identify that a fall in the exchange rate would make exports cheaper and imports more expensive. Most made an assumption that exports would rise, imports would fall and the balance of payments would improve. A few candidates explained that this was dependent upon price elasticity of demand and made the point that if imports were raw materials then imports might rise and this could trigger cost-push inflation. It was hoped that candidates would also make the point that foreign reserves were not needed as for a fixed exchange rate. Strong candidates explained that if exports rose significantly and imports fell significantly, there would be upward pressure on the exchange rate to rise again. Weaker candidates tended to give the opposite argument to part (b) and few candidates gave sufficient depth in their answer to get close to the 10 marks available. Candidates needed to recognise the significance of the key word “always” as a trigger for a two-sided discussion, as one-sided answers were limited to a maximum of 6 marks.

ECONOMICS

Paper 0455/31
Analysis and Critical Evaluation

General comments

There was a wide range of performance on this paper, particularly on **Questions 1(f)** and **2(d)**. The strong answers revealed a good understanding of the subject and an ability to interpret and use the information in the extracts in an intelligent way. Most scripts were written clearly, although some of the scripts were rather difficult to read.

Comments on individual questions

Question 1

- (a) This was a well-answered question with most candidates being able to explain the meaning of the different sectors and to identify the sectors referred to. The two sectors which were best explained were the primary and the secondary sectors. A few candidates confused the primary and the tertiary sectors.
- (b) Candidates found this to be a challenging question. Candidates need to be aware of the meaning of 'real terms'.
- (c) Some candidates correctly identified two pieces of evidence, while most candidates were able to pick up on at least one piece of relevant information.
- (d) There were some good diagrams drawn to answer this question. They were clear, well labelled and showed the demand curve shifting to the right. Very few candidates confused the demand and supply curves and most drew in the equilibrium lines. In terms of written explanation, many candidates explained that the increase in demand would have raised the price but they also needed to mention what would have happened to the quantity supplied.
- (e) The strongest answers drew on the information to consider why the price might fall and why the effect is uncertain and/or why the price might rise.
- (f) In answering this question, it was important that candidates applied relevant economic theory. The strongest answers discussed the opportunity to take advantage of economies of scale, the risk of experiencing diseconomies of scale and the greater market power that may be gained. Weaker answers were more vague and implied that higher output must mean higher revenue which, in turn, must mean higher profit.

Question 2

- (a) The good answers to this question stated that the price index provides information on inflation and then explained why the government is interested in knowing the inflation rate and comparing it over time.
- (b) Most candidates were able to identify four relevant reasons, although some gave only two or three reasons.
- (c) Strong answers recognised that weighting refers to the proportion of total expenditure devoted to an item and then explained that a higher proportion is spent on food than on furniture. Some answers devoted too much time to discussing why food is a necessity whereas furniture is more of a luxury, without picking up on how this influences the relative amounts spent on the items.

- (d) The key to success in answering this question was to display knowledge of how a rise in the rate of interest influences consumer spending and saving, and to provide a strong interpretation of the information in the extract. Strong answers explored the effect that a higher interest rate has on the cost of borrowing, the reward for saving, consumer confidence, the type of goods purchased and the price level. Some candidates discussed the effects of a fall in the rate of interest rather than a rise, some appeared to confuse higher interest rates with higher prices and others seemed to think that the rate of interest is a cost of saving rather than a reward for saving.

ECONOMICS

Paper 0455/32
Analysis and Critical Evaluation

General comments

There was a wide range of performance on this paper. The best answers paid key attention to the words in the questions and answered them directly. They also revealed good data handling skills and the ability to apply relevant economic analysis and evaluation.

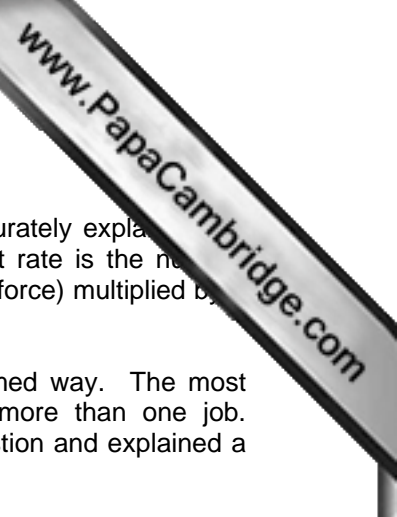
Comments on individual questions

Question 1

- (a) The two most common relevant causes identified were a fall in costs of production and advances in technology. A relatively high number of candidates gave two causes of an increase in demand for mobile phones rather than an increase in supply.
- (b) This question required candidates to compare ownership of mobile phones and computers in the three African countries with that in the three Western countries. There were some strong answers which made clear and relevant comparisons.

Some candidates spent some time comparing ownership within the regions rather than between the regions. The least productive approach in answering such a question is just to quote the figures. For instance, stating ownership of mobile phones is 20.9 per hundred in Kenya, 24.1 in Nigeria and 83.3 in South Africa whereas it is 103.6 in Germany, 116.6 in the United Kingdom and 77.4 in the United States. Candidates have to interpret and use the information.

- (c) (i) There were some good, well-labelled demand diagrams drawn which showed clearly the effect of a fall in price on the quantity demanded. A few candidates incorrectly shifted the demand curve to the right.
- (ii) Again, there were some good diagrams drawn. A few candidates labelled the vertical axis 'awareness' rather than price.
- (d) Strong answers interpreted the information and explained, for instance, the links between an improvement in communication, the balance between demand and supply, and the efficiency of markets. It was not sufficient just to lift sentences out of the extract – an explanation was required.
- (e) Most candidates identified two relevant characteristics. A few candidates were confused between a private limited company and a sole trader or a partnership.
- (f) (i) Again, most candidates correctly identified corporate taxes as direct taxes and some provided a clear explanation as to why.
- (ii) There were some excellent answers which discussed both why multi-national phone companies might be discouraged from setting up in a country by taxes on profits and why they might not. These recognised that corporate tax rates vary between countries and that there is a range of influences on where multi-national companies decide to locate.



Question 2

- (a) Most candidates explained what is meant by unemployment and a few accurately explained the unemployment rate. A number of candidates wrote that the unemployment rate is the number of unemployed divided by the total population (rather than divided by the labour force) multiplied by a hundred.
- (b) Some candidates explored one or two reasons in an interesting and informed way. The most common reasons given were people retiring and people initially having more than one job. Unfortunately, a relatively high number of candidates misinterpreted the question and explained a number of the possible causes of the rise in unemployment.
- (c) Most candidates were able to identify at least two reasons. The one that fewest identified was a reduction in full-time hours.
- (d) The strongest answers identified relevant information, such as real GDP per head, and went on to explain how the information could be used in the assessment. A comment such as higher real GDP per head would indicate a higher living standard is a stronger comment than higher real GDP per head is better.

ECONOMICS

Paper 0455/33
Analysis and Critical Evaluation

General comments

There were some very strong scripts which provided lucid answers, well supported with relevant economics. It was pleasing to see very few unanswered questions and a relatively high number of scripts that revealed a good, critical understanding of the extracts and an ability to analyse and make judgements.

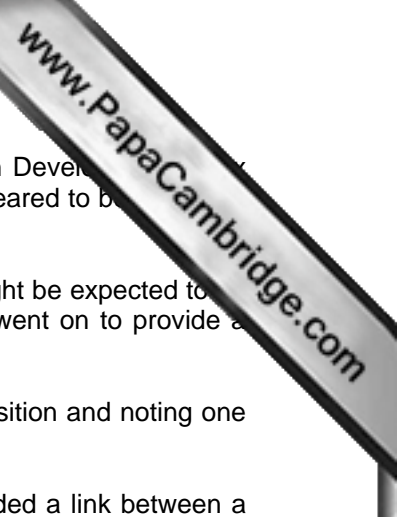
Comments on individual questions

Question 1

- (a) There was a high number of well-labelled, accurate diagrams which showed a rightward shift of the demand curve. These included equilibrium lines, the original price and quantity and the new price and quantity. Fewer candidates than in previous sessions confused the demand curve and the supply curve.
- (b) A key word in this question was 'explain'. Candidates needed to identify reasons and to explain why they would cause Gazprom's share price to fall. The two most common reasons identified were the reduction in dividends paid and the rise in the firm's debts. The stronger answers went on, for instance, to explain that lower dividend payments would have made purchasing the shares less financially rewarding. In turn, a reduction in demand would cause price to fall.
- (c) (i) Some candidates provided relevant and distinctive reasons, such as to finance expansion and to cover a shortfall in revenue. In some cases, there was too much overlap in the reasons given (for instance, to finance investment and to buy capital goods) for both reasons to gain credit.
- (ii) Most answers recognised that Gazprom's costs would rise in the short-term and, as a result, would reduce profits. The strongest answers also recognised that the long-term outcome would be uncertain and explained why the company's profits might rise or fall.
- (d) There were some good answers to this question. Some of these identified a number of relevant reasons, while others explored one or two reasons in depth. A number of answers made assumptions, such as large firms cannot go out of business, without establishing the point.
- (e) (i) Candidates had to make a judgement and support the judgement with evidence from the extract. The clearest approach was to define a monopoly and then consider what the evidence in the extract suggested and possibly mention briefly what other information it would be useful to examine.
- (ii) There was a wide range in the quality of answers produced. The strongest answers considered information that might indicate that a monopoly would benefit consumers and information that might suggest that a monopoly would not benefit consumers. Some answers lost the focus on consumers and discussed the effects a monopoly might have on shareholders and workers. It is important that candidates concentrate on what the question is asking.

Question 2

- (a) In this question, candidates had to come to an overall conclusion, provide supporting evidence and consider exceptions. The main way candidates could have gained higher marks was to provide the supporting evidence.



- (b) Most candidates showed some awareness of the components of the Human Development Index (HDI). A few confused the HDI with the Human Poverty Index and some appeared to be unsure about the nature of the HDI.
- (c) (i) A key word here was 'explain'. Most candidates recognised that low GDP might be expected to be associated with high foreign aid per head received. The stronger answers went on to provide a brief and relevant explanation.
 - (ii) This was generally well answered, with candidates considering the overall position and noting one or both of the exceptions.
- (d) There were some good answers to this question. These, for instance, provided a link between a rise in spending on health care, the health of workers, employment, labour productivity and output per head. They then went on to discuss the need for vacancies to exist for employment to rise and the opportunity cost of higher spending on health care.