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ECONOMICS

Paper 0455/11
Multiple Choice

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

392 candidates took this 30 question multiple-choice examination and the mean score was 21.0, which is very similar to the mean score last year.

The questions for which most candidates selected the correct answer were 1, 4, 9, 10, 12, 13, 17, 20, 22, 25, 26, 27 and 30. These questions were answered correctly by at least 80 per cent 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 5, 11, and 15. These questions were answered correctly by at most 40 per cent of candidates. The rest of the questions gave results which were well within the levels expected.

Question 5 involved an understanding of a demand and supply diagram. 23 per cent of the candidates chose the correct option, A, 40 per cent option B, 24 per cent option C and 13 per cent option D. An external event caused a change in demand – this would be represented as a shift in the demand curve and not a movement along the curve. In this case, the demand curve would shift to the left. The government changed the sales tax on the product which would be represented by a movement of the supply curve. In this case, the supply curve would appear as a shift to the right as the tax was reduced.

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Question 11 asked candidates to understand the **most likely** reason for share price changes. Share prices are more likely to be influenced by interest rate changes than by either employment levels or tax rate changes. Share prices would be likely to rise if interest rates fell. 38 per cent chose the correct option, B. 41 per cent confused the relationship between interest rates and share prices and chose C. 18 per cent chose D.

Question 15 asked the candidates to calculate average fixed costs. The table showed total cost. Total cost at zero was $20 000 so this must be the value of the fixed cost as there would be no variable cost at zero output. The average fixed cost for 5 000 units would, therefore, be 20 000 divided by 5 000. 29 per cent chose the correct option, A. A majority, 53 per cent, chose D. D was the value of the average total cost, not the average fixed cost. The remaining 18 per cent were evenly split between B and C.

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ECONOMICS

Paper 0455/12
Multiple Choice

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

2303 candidates took this 30 question multiple-choice examination and the mean score was 20.4 which is very similar to the mean score last year of 20.1.

The questions for which most candidates selected the correct answer were 2, 4, 11, 21, 23, 24, 27 and 28. These questions were answered correctly by at least 80 per cent of 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, 7, 12, and 16. These questions were answered correctly by at most 40 per cent of candidates. The rest of the questions gave results which were within the levels expected.

Question 6 involved an understanding of a demand and supply diagram. 20 per cent of the candidates chose the correct option, A, while 38 per cent chose B, 25 per cent C and 17 per cent D. An external event caused a change in demand – this would be represented as a shift in the demand curve and not a movement along the curve. In this case, the demand curve would shift to the left. The government changed the sales tax on the product which would be represented by a movement of the supply curve. In this case, the supply curve would appear as a shift to the right as the tax was reduced.

Question 7 also involved an understanding of changes in demand, supply and price. Although the question did not ask about a diagram, it could be understood by imagining what would happen on a diagram if the changes that were specified occurred. It was answered correctly by 39 per cent of the candidates, who chose option D. 17 per cent chose A, 24 per cent B and 20 per cent C. The question involved changes in supply. External events caused a change in supply. Initially, this was a shift to the left as supply decreased (raising the price); then it was a shift to the right as supply increased when other countries helped by sending food (lowering the price). For both **Questions 6** and **7** candidates confused the reasons for a movement along a demand and supply curve and reasons for a shift in the curves.

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Question 12 asked candidates to understand the **most likely** reason for share price changes. Share prices are more likely to be influenced by interest rate changes than by either employment levels or tax rate changes. Share prices would be likely to rise if interest rates fell. 36 per cent chose the correct option B. 44 per cent confused the relationship between interest rates and share prices and chose C. 17 per cent chose D.

Question 16 asked the candidates to calculate average fixed costs. The table showed total cost. Total cost at zero was $20 000 so this must be the value of the fixed cost, as there would be no variable cost at zero output. The average fixed cost for 5 000 units would, therefore, be 20 000 divided by 5 000. 29 per cent chose the correct option, A. 57 per cent chose D. D was the value of the average total cost, not the average fixed cost. 9 per cent chose B and 5 per cent C.

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ECONOMICS

Paper 0455/13
Multiple Choice

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

651 candidates took this 30 question multiple-choice examination and the mean score was 23.4, which is very similar to the mean score last year of 23.2.

The questions for which most candidates selected the correct answer were 2, 3, 4, 5, 6, 10, 12, 14, 15, 19, 20, 22, 24, 25 26 and 29. These questions were answered correctly by at least 80 per cent of candidates. They covered different parts of the syllabus and were set to test different skills.

The question for which the fewest candidates selected the correct answer was 7. This was the only question which was answered correctly by fewer than 40 per cent of candidates. The rest of the questions gave results which were within the levels expected.

Question 7 involved an understanding of a demand and supply diagram. 31 per cent of the candidates chose the correct option, A. 27 per cent chose option B, 16 per cent C and 26 per cent D. An external event caused a change in demand – this would be represented as a shift in the demand curve and not a movement along the curve. In this case, the demand curve would shift to the left. The government changed the sales tax on the product which would be represented by a movement of the supply curve. In this case, the supply curve would appear as a shift to the right as the tax was reduced.

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ECONOMICS

Paper 0455/21
Structured Questions

Key Messages

Candidates need to focus clearly on the command word in each question. For example, some questions required candidates to identify (as in part of **Question 2 (a)**) and other questions required candidates to discuss (as in **Questions 1 (d)**, **2 (c)**, **3 (d)**, **4 (c)**, **5 (c)**, **6 (c)** and **7 (c)**). These command words indicate what candidates are required to do and this is reflected in the marks allocated to these different parts of questions.

Candidates are required to answer **Question 1** in ***Section A*** and three questions from ***Section B***. A few candidates, however, answered all seven questions and this substantially reduced the time that they could allocate to each of these questions.

General Comments

It was very pleasing to see many good answers from a number of candidates who successfully demonstrated a sound knowledge and understanding of economics and a sensible and mature ability to describe, explain and discuss a number of key economic concepts and issues.

Where candidates are required to use a demand and supply diagram (as in **Question 3 (b)**), they should ensure that these are drawn as neatly and as carefully as possible and that all parts of the diagram are labelled correctly.

Comments on specific questions

Section A

Question 1

(a) The majority of candidates demonstrated that they understood what was meant by economic growth by offering a description in terms of an increase in the total output, GDP and productive potential of an economy.

(b) Many candidates provided a good response to this part of the question, explaining that firms aimed to maximise profits for a number of reasons, such as the use of retained profit as a source of finance.

(c) There were a number of very good answers to this part of the question, with candidates describing how lending by commercial banks could have a significant impact on an economy, especially in relation to the provision of greater liquidity. A number of candidates used the example in the extract, pointing out that a reason for the high rate of economic growth in China was the fact that bank lending there had recently increased by 34 per cent. A number of candidates also considered the potential negative impact of such lending, especially in relation to the possible inflationary consequences.

(d) There were some very good balanced answers to this part of the question. Candidates contrasted the possible benefits of economic growth for an economy, such as a rise in standards of living, with the possible disadvantages, such as external costs through greater pollution. Answers which offered a one-sided response could gain no more than five marks.

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Section B

Question 2

(a) The majority of candidates were able to identify the factors of production in the information - namely managers as an example of either labour or enterprise, advanced machinery as an example of capital and employees as an example of labour. They then went on to explain these factors of production.

(b) Most candidates were able to explain how car producing firms might have benefited from the two types of integration. Horizontal integration, such as the merger of Tata and Jaguar, would have given rise to the potential advantages of a range of economies of scale, whereas vertical integration would have given rise to the securing of raw materials (in the case of backward vertical integration) or the securing of a retail outlet (in the case of forward vertical integration). Unfortunately, a few candidates confused horizontal and vertical integration.

(c) The majority of candidates were able to discuss the possible reasons why earnings in the car industry varied so widely, such as differences in skills, training, experience and qualifications. Better answers included a very useful discussion of the importance of demand and supply factors. A few candidates, unfortunately, provided a very general answer on wage differences, despite the fact that there was an explicit reference to employees in the car industry in the question, and such answers could be awarded no more than five marks.

Question 3

(a) The majority of candidates were able to give an example of an indirect tax, such as VAT or GST, and then describe it as a tax on expenditure, added to the price of goods and services, collected from the sellers.

(b) Candidates were required to produce a demand and supply diagram to show how the introduction of an indirect tax could affect the equilibrium price and the equilibrium quantity in a market. Many candidates correctly shifted the supply curve to the left, leading to an increase in the equilibrium price and a decrease in the equilibrium quantity. The diagram was then used to explain what happened in a market as a result of the imposition of an indirect tax on a good or service and it was pleasing to see many candidates gain all six marks. Some candidates, however, shifted the supply curve to the right and others shifted the demand curve. It was disappointing to see some inaccurately labelled diagrams, with either demand/supply or price/quantity labelled the wrong way round.

(c) Responses to this part varied a great deal. Some candidates demonstrated a very good understanding of possible reasons why markets sometimes fail. This was often in terms of the under-production and under-consumption of some goods or services by the market, such as education, and the over-production and over-consumption of others, such as cigarettes. A number of candidates also referred to problems of negative externalities and information failure. Other candidates, however, did not seem fully to understand what was meant a market failing.

(d) There were a number of good answers to this part of the question with candidates contrasting the possible advantages of the imposition of an indirect tax, such as through increasing price, with the possible limitations, such as the fact that such an increase in price might have little effect on the demand for certain goods if the demand for them was price inelastic.

Question 4

(a) Many candidates were able to offer a useful explanation of the possible factors that could influence people to save more, such as a rise in the interest rate or the greater availability of savings schemes.

(b) The majority of candidates recognised that there could be possible disadvantages to an economy of people saving a high proportion of their income, such as a fall in consumption, reduced government revenue from indirect taxes on expenditure and a possible increase in the rate of unemployment through lower demand.

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(c) Many candidates were able to offer a useful discussion of how a government could encourage people to spend a higher proportion of their income, such as a reduction in the rate of VAT or GST or a reduction in income tax, giving people a greater disposable income.

Question 5

(a) (i) Some of the definitions of full employment were not entirely accurate, with candidates stating that this meant that nobody in an economy was unemployed. The correct definition is that the number of employment vacancies in an economy is equal to the number of people unemployed in that economy, i.e. there is no demand-deficient unemployment.

(ii) The definitions of the unemployment rate, on the whole, were better than those of full employment and many candidates recognised that it referred to the number of people unemployed as a proportion of the labour force. A few candidates, unfortunately, defined it as the number of people unemployed as a proportion of the whole population of a country.

(b) Many candidates described the different types of unemployment which could exist in an economy, such as frictional, structural and cyclical or demand deficient. Some candidates, however, simply listed all the different types of unemployment which could exist in an economy and such answers could gain no more than three marks.

(c) There were some well balanced responses to this part of the question. Candidates pointed out that, on the whole, a rise in employment would benefit an economy, by leading to an increase in income and, therefore, an increase in standards of living. They then went on to state that, despite such potential advantages, it might not always benefit an economy because it could give rise to inflationary effects. A one-sided discussion could not be awarded more than six marks.

Question 6

(a) There were some very good answers to this part of the question, with candidates offering useful explanations of why the rate of population growth in some countries might be higher than in other countries. The reasons included differences in birth and death rates, net migration, religious beliefs and knowledge about family planning.

(b) (i) Most candidates recognised that as a country became more developed, it would be likely to affect the geographical distribution of its population with a move away from rural to urban areas.

(ii) This part was generally answered less well than the previous part, with some candidates unsure exactly what was meant by the occupational distribution of its workforce. Many candidates, however, demonstrated an understanding of the concept and offered a clear response in relation to reductions in the primary and, eventually, the secondary sectors and an increase in the tertiary sector.

(c) There were some very good answers to this part. Candidates discussed both the potential advantages of an increase in population, such as more consumers, and the potential disadvantages, such as possible inflationary consequences. Some candidates, unfortunately, produced a one-sided answer and could not be awarded more than five marks.

Question 7

(a) The majority of candidates were able to explain what was meant by trade protection, i.e. the restriction of imports coming into a country through a variety of methods. A few candidates misunderstood what was meant by the term and wrote about trade unions instead.

(b) There were some very good answers to this part of the question, with candidates providing a clear explanation of two reasons why a government might introduce trade protection, such as to protect an infant industry or to overcome a deficit in the current account of the balance of payments.

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(c) There were some useful discussions of the extent to which free trade could be seen as a benefit to all consumers and all producers. In terms of consumers, candidates pointed out that there would be a greater variety of choice, but that it might make potentially harmful goods more widely available. In terms of producers, candidates stressed that free trade was likely to lead to greater efficiency of production, but that infant (sunrise) and/or declining (sunset) industries might collapse, leading to an increase in unemployment.

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ECONOMICS

Paper 0455/22
Structured Questions

Key Messages

Candidates need to focus clearly on the command word in each question. For example, some questions required candidates to identify (as in **Question 3 (b)** and part of **Question 7 (b)**) or state (as in **Questions 1 (a) (i)** and **(ii)**, part of **Question 2 (b)** and **Question 5 (b)**) and other questions required candidates to discuss (as in **Questions 1 (d)**, **2 (d)**, **3 (d)**, **4 (d)**, **5 (d)**, **6 (c)** and **7 (c)**). These command words indicate what candidates are required to do and this is reflected in the marks allocated to these different parts of questions.

Candidates are required to answer **Question 1** in ***Section A*** and then three questions from ***Section B***. A few candidates, however, answered all seven questions and this substantially reduced the time that they could allocate to each of these questions.

General Comments

It was very pleasing to see many good answers from a number of candidates who successfully demonstrated a sound knowledge and understanding of economics and a sensible and mature ability to describe, explain and discuss a number of key economic concepts and issues.

Where candidates are required to use a demand and supply diagram (as in **Question 1 (b)**), they should ensure that these are drawn as neatly and as carefully as possible and that all parts of the diagram are labelled correctly.

Comments on specific questions

Section A

Question 1

(a) (i) The majority of candidates were able to state one reason for the increase in the demand for cocoa, namely the fashion for more expensive, high-quality chocolate which has a higher cocoa content.

(ii) Most candidates were also able to state two reasons for the decrease in the supply of cocoa, such as poor weather, under-investment in the industry, the effect of dry weather, pests and disease and the limited use of chemicals.

(b) Candidates were required to produce a demand and supply diagram to show how the changes in the demand for and the supply of cocoa had affected the equilibrium price and the equilibrium quantity in the cocoa market. Many candidates correctly shifted the demand curve to the right and the supply curve to the left, leading to an increase in the equilibrium price. The change in the equilibrium quantity was uncertain as this would depend on the particular shifts of the demand and supply curves. The diagram was then used to support the explanation of what was happening in the cocoa market and it was pleasing to see many candidates gain all six marks. Some candidates, however, shifted one of the curves (and in some cases both of them) in the wrong direction and it was disappointing to see some inaccurately labelled diagrams, with either demand/ supply or price/quantity labelled the wrong way round.

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(c) A number of candidates produced good answers to this part of the question, pointing out that large unpredictable fluctuations in the cocoa market made life difficult for cocoa farmers because it would make planning very uncertain and because the volatility in prices would be likely to lead to volatility in incomes.

(d) There were some very good answers to this final part, with candidates offering a well argued, balanced discussion of whether an economy would benefit from its government intervening to regulate an industry. For example, government intervention to establish fixed prices in the industry would help to stabilise incomes and maintain levels of employment, but this would go against the idea of greater efficiency arising from the operation of free market forces and there would be a risk that a government might support an inefficient industry.

Section B

Question 2

(a) The majority of candidates demonstrated quite a good understanding of the basic economic problem in relation to unlimited wants and limited resources, but to gain all four marks candidates needed to explain that as a result of this condition of scarcity, choices need to be made.

(b) Most candidates were able to state three of the four factors of production (land, labour and capital), but some were unable to state the fourth factor, enterprise. The explanations of three of the factors were usually sound, but some candidates demonstrated a lack of understanding of the meaning of capital; in this context, it refers to man-made aids to production and not money.

(c) The majority of candidates were able to define the concept of opportunity cost as the next best alternative that is foregone as a result of taking a decision. There were some useful explanations of why it was an important concept for economists, especially in relation to the various implications of exercising choice given that scarce resources would have alternative possible uses.

(d) There were a number of very good responses to this part, with candidates offering a balanced answer considering both the advantages and the disadvantages of a government allocating more resources to education and health care rather than to other forms of expenditure. Candidates pointed out that an educated and healthy workforce would be more likely to be productive, but at the same time they recognised that there were other areas in the economy that would also benefit from expenditure, such as transport or housing. Many candidates placed their answer within the context of opportunity cost, enabling them to produce a well reasoned discussion.

Question 3

(a) The majority of candidates were able to explain what was meant by the four different types of cost and benefit. A private cost would be borne by the producer or the consumer, a private benefit would accrue to the buyer or seller, an external cost is one that is borne by a third party and an external benefit would be provided to a third party.

(b) Most candidates were able to identify one example of each of these that might be involved in the building of a motorway, such as the construction cost, the profit, the noise pollution and the time savings respectively. A few candidates identified examples which had no relation to the building of a motorway.

(c) The majority of candidates clearly understood reasons why a government might want to involve private companies in the building of a motorway, e.g. their contribution to the cost of the project or their expertise and experience.

(d) Many candidates made a genuine attempt to offer a balanced discussion of how nearby communities would be likely to be affected by the building of a motorway, contrasting possible advantages, such as the creation of employment, with possible disadvantages, such as the noise pollution resulting from the use of the motorway. Some candidates, unfortunately, offered a one-sided answer and the maximum mark that could be awarded to such an answer was five.

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Question 4

(a) The majority of candidates were able to describe the various functions of a trade union, but some simply listed their functions without really describing them. A list-like answer will generally not be able to gain more than half of the possible marks allocated to a question.

(b) Most candidates were able to consider why some workers might not belong to a trade union, such as the cost of the annual fee or the fact that they were actually satisfied with their remuneration and working conditions and so did not see a need to join one.

(c) There were some very good answers to this part of the question, with candidates offering a useful explanation as to why small firms continued to exist in most economies, e.g. their greater flexibility in responding to changes in market conditions or because the size of the market was limited.

(d) There were some very good answers to this final part, with candidates contrasting the possible benefits from growing larger, especially in relation to the various types of economy of scale that could be gained, with the possible disadvantages, such as diseconomies of scale if a firm grew too large.

Question 5

(a) The majority of candidates demonstrated that they understood what was meant by economic growth by offering a description in terms of an increase in the total output, GDP and productive potential of an economy.

(b) Most candidates were able to state four economic aims that a government may have, other than economic growth, usually the expected four of full employment, price stability, the redistribution of income and stability in the balance of payments. Some candidates also stated environmental and exchange rate aims and these were accepted. A few candidates included economic growth, despite the fact that the question explicitly asked for aims other than economic growth.

(c) There were some very good answers to this part of the question, with candidates describing a range of policies that a government might adopt to increase the rate of economic growth in its country. These included monetary policies, such as a reduction in the rate of interest, fiscal policies, such as greater government spending, and supply side policies, such as an improvement in the quality of education and training.

(d) Many candidates, in their discussions, showed that they understood that economic growth could conflict with the achievement of some other government economic aims, such as price stability, but would be less likely to conflict with some other economic aims, such as an increase in employment.

Question 6

(a) There were some very good answers to the first part of the question, with candidates describing a number of things that an economist would need to know to decide whether a country should be classified as developed or not. These included GDP per capita, the Human Development Index, the occupational distribution of labour, the literacy rate and the quality of water. A few candidates, unfortunately, offered a list of the possible factors and these answers could be awarded no more than three marks.

(b) Many candidates offered a very good explanation of factors that could influence a country's birth rate, such as the age at which women decide to have children and the extent of knowledge about family planning.

(c) The majority of candidates were able to offer a well balanced discussion of whether encouraging multi-national companies to set up in a country would reduce that country's level of poverty. Possible advantages, such as the creation of jobs, were contrasted with possible disadvantages, such as the repatriation of at least some of the profits to the home country.

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Question 7

(a) Many candidates were able to explain reasons why countries specialised in producing different goods and services, e.g. focusing on products that their resources were best at making, especially within the context of different factor endowments in various countries. A number of candidates implied an understanding of the concepts of absolute and comparative advantage, although they did not need to refer to these terms explicitly as they are not included in the syllabus.

(b) There were some very good answers to this part. Most candidates were able to identify two methods of trade protection, such as tariffs and quotas, and then provide a detailed description of them. A few candidates seemed unsure about quotas, stating incorrectly that they were a form of taxation.

(c) There were some very well balanced answers to this part of the question, with candidates contrasting the possible advantages of free trade, such as the greater variety of choice, with the possible disadvantages, such as an imbalance in the current account of the balance of payments.

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ECONOMICS

Paper 0455/23
Structured Questions

Key Messages

For **Question 1** in ***Section A***, which is the compulsory question, it is very important that candidates read all the data provided before they start writing, and use it where appropriate in their answers. Most candidates made good use of the extract in their answers to parts **(b)** and **(d)** although a few tended to write out large sections especially in part **(d)**. Candidates need to be selective in what they take from an extract.

For ***Section B***, candidates should read through all questions on the paper before deciding which three questions they may be best at answering. In particular, candidates should look at the last part of each question since it usually carries the most marks.

Candidates should also take account of the number of marks (shown in brackets after the question) in determining the length of their answers. For example the last part of each question in this exam carried at least 8 marks and in two cases carried 10 marks. However, some candidates wrote answers that were quite short.

Where possible, candidates should avoid listing or making excessive use of bullet points, since this prevents a full explanation or discussion being given. Very short comments mean that the development of the explanation or discussion is missing which may significantly reduce the marks that can be awarded on such questions. This was particularly true of some answers to **Question 3(b)**.

Reference to local examples to illustrate answers is always welcomed as it shows a candidate's ability to apply economic concepts, and this was clearly shown in some responses to 3 **(a)**, 5 **(b)**, 7**(b)** and 7 **(c)**.

General comments

It was encouraging to see that there were not many rubric errors, although there were still a significant number in a very few number of Centres, and that most candidates were able to complete four questions.

A number of economic terms and concepts were well understood by most candidates e.g. economic development (**Question 1**), the basic economic problem and market system (**Question 2**), monopoly (**Question 4**), exchange rate (**Question 6**) and migration (**Question 7**). However some candidates were still unclear in **Question 2** about the difference between an increase in demand (e.g. a shift in the demand curve) and the response to a change in price (e.g. a movement along the existing demand curve).

As reported in previous years, candidates need to look carefully at the command words at the beginning of questions e.g. identify, describe, explain and discuss, as these are asking for different levels of response. For example, identify means that a simple answer is required without explanation as it only requires a candidate to show their knowledge or select from data provided e.g. **Question 4(a) (i)** on co-operatives. Explain, however, requires a candidate to show their understanding of a term or topic and perhaps include an example from their own experience. This usually carries 4 to 6 marks. Where a question requires a discussion, candidates need to ensure that there is a balanced discussion. It often is the last part of a question and carries the most marks. One-sided answers will not get more than about half marks.

In some cases, the question states the number of reasons, examples or functions that the candidate needs to write about to get full marks e.g. 1 **(b)**, 3 **(b)** and 4 **(a) (i)** and this is done to help candidates limit the amount that they write. Exceeding the number does not gain additional marks and reduces the time available for other questions.

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Comments on specific questions

Section A

Question 1

(a) Most answers correctly identified at least two of the possible benefits of economic development e.g. a rise in jobs / employment, higher output / economic growth, higher income and an increase in standards of living. The best answers explained why and also referred to how governments could improve infrastructure, education and health care as government income rose. A few responses were of a list-like nature which limited the number of marks that could be awarded.

(b) Many answers explained correctly that the government was prepared to sell land at very low prices so that the natural gas and oil was extracted by companies leading to economic development and additional revenue for the government to spend on raising the standard of living. The second most common answer explained low prices in terms of the large supply of land available or the need to offer land for extraction of oil cheaper than other countries to ensure development. Where only one advantage was identified this limited the number of marks that could be awarded. The best answers made the point that the government would gain more from the tax revenue raise from extraction of oil and gas than they would lose from selling at low prices. However, it was also clear that for some candidates it was difficult to identify a reason why the government was selling the land at a very low price other than that it did not cost them anything to obtain.

(c) This part of the question was not so well done. Some answers confused a government owned company with a planned economy and therefore did not address the question fully. Others wrote about advantages as well which was not required. The most common answer was that because such companies lacked a profit motive they tended to be inefficient and workers lacked motivation. Better answers also made the point that government companies usually responded to government objectives such as reducing unemployment rather than responding to consumer demand. Many answers referred to the comment in the extract that government companies were some of the worst polluters of the environment in Peru.

(d) It was pleasing to see some very good answers given to this part of the question. There were very few prepared responses and nearly all candidates made direct reference to Peru. The best answers had a balanced argument on whether or not to develop or conserve the natural resources. Where they did not, it was mainly due to failing to distinguish between the short term and the long term. Where answers were one-sided, however well done, marks were limited to just over half-marks. The best answers drew on Peru raising concerns about the rate of increase in extraction of oil and gas from the rainforest and the long term implications of the destruction of the rainforest. They also explained how government tax revenues raised from extraction could be used to develop the infrastructure of the country so that when the rate of extraction reduced the country would not go into recession. Many answers commented upon how important it was to sustain the extraction over a period of time, although the concept of sustainability is not actually in the syllabus.

Section B

Question 2

This was a very well answered question with most candidates gaining their best marks on it. There were a large number of excellent responses which suggests that most candidates have a very good understanding now on demand and supply. This was true even of candidates who did less well on other questions.

(a) The large majority of answers correctly identified that the basic economic problem was one of scarcity, i.e. the difference between unlimited wants and limited resources, but they did not always go on to state that this situation required a choice to be made. A few answers implied that candidates were unclear about the difference between demand and wants. A few answers wrongly interpreted the economic problem as one of determining what, how and where to produce.

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(b) Most candidates did well in answering this question. The approaches taken were different. Some obtained full marks by explaining briefly at least four factors, such as changes in the price of substitute or complementary goods, changes in income and fashion and the impact of advertising. Another approach was to explain in more detail how several factors influenced demand. A common error was to relate the change in demand to a change in the price of the good itself, confusing an extension of demand with an increase in demand.

(c) The demand and supply diagram was drawn correctly by nearly all candidates who attempted it. The main error was to label the quantity axis as quantity demanded. A few answers showed a shift in the supply curve or labelled the demand and supply curves incorrectly. The explanations given were also good with most answers stating that the shift in the demand curve led to an increase in the equilibrium price and quantity. However, some answers tended to refer to an increase in demand resulting in a shift from, say, P to P1 and Q to Q1, i.e. just describing the diagram and not giving an explanation.

(d) The market system was clearly understood by most candidates and some very full and detailed answers were written which gained full marks. Such answers identified the key characteristics of the market system and gave a balanced response on its advantages and disadvantages. Advantages highlighted included consumer sovereignty, prices acting as signal in the allocation of resources and the role of profit in motivating firms to use resources efficiently. Disadvantages commonly mentioned were the wide distribution of income between rich and poor, the development of monopolies and the likelihood of market failure arising from externalities and the under consumption of some goods, e.g. education, since a profit could not be made and the overconsumption of other goods, e.g. cigarettes and alcohol, which are harmful but firms can make profits.

Question 3

(a) This part of the question offered an opportunity for candidates to write briefly about the functions of the central bank. Most answers showed that candidates understood the difference between the central bank and commercial banks. However, there was an overall tendency to list the functions without any depth to their description, which is why most candidates were unable to get full marks. The better answers came from those candidates who gave more detail to just three or four functions. A common error was to state that the lender of last resort function applied to any institution and not just other financial institutions. Some candidates clearly did not understand what being the government's bank actually meant.

(b) The explanation of the functions of money continues to be an area of the syllabus which is not understood well. A significant number confused properties of money e.g. durability, portability etc. with the four functions of means of exchange, unit of account / measure of value, store of value and standard of deferred payment. Where candidates did identify functions, many of the answers were more of a list than an explanation and therefore full marks could not be awarded even if they had correctly identified three functions. This limited response is disappointing given the frequency at which this part of the syllabus is examined.

(c) This part of the question produced a significant range in response. The least developed answers did not get much beyond repeating the lender of last resort function and even here some answers were confused on what was meant by a financial institution. Good answers explained the consequences for the financial system if a financial institution collapsed e.g. consumer confidence, loss of savings and jobs and the impact this would have on the economy, which could lead to government support. These answers often differentiated between the sizes of the financial institutions, e.g. 'too big to fail'. Good answers also gave reasons for giving limited or no support e.g. reliance on bailout and the opportunity cost on other areas of government expenditure. In some scripts, there were also good references and understanding of what has happened in the USA and Europe in recent years.

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Question 4

(a) The majority of answers showed limited understanding of what co-operatives were and too often there was reference to other organisations such as public limited companies. Sometimes there were vague comments about 'being owned by people'. However, there was evidence that co-operatives were understood where candidates were able to identify two features, such as they were owned and controlled by members and that each member of a co-operative had an equal share on the basis of one member, one vote.

(b) Despite some incorrect answers being given in part **(a)** most answers were correct in providing two examples of co-operative. Financial, producer and consumer co-operatives were very common.

(c) Most answers correctly identified the difference between a public limited company and a public corporation. The difference in marks reflected the quality of the explanation given, especially for public corporations where some candidates were unable to comment further than 'they are controlled by the government'. Where errors were made this was due to confusion between private and public companies and about limited liability and ownership. Some candidates wrongly thought that both are in the public sector.

(d) The answers given to this part showed that most candidates had at least a basic understanding of a monopoly. For many, the advantages were explained in terms of the benefits to the firm arising from economies of scale and dominance of the market, which enabled them to make very large profits and compete in the global market. Fewer candidates commented on the advantages to consumers if the firms passed on lower costs in the form of lower prices. On the other hand, most answers were clear that monopolies often resulted in higher prices and less choice for the consumer but few mentioned possible disadvantages for the firm, e.g. inefficiency and possible regulation by the government.

Question 5

(a) Surprisingly, most candidates failed to give a fully correct answer. The problem was that many described a progressive tax as one where taxes rose as income rose. However, this is not necessarily correct since taxes could rise at a slower rate than income making it a regressive tax. The correct response was to state that the <u>rate</u> of tax rose as income rose. A number of candidates did provide a worked example, but in many cases it showed a proportionate tax where tax doubles as income doubled. Equally there was some confusion on regressive taxes. Most regressive taxes are flat rate and apply equally to everyone and therefore the impact is felt more by those on lower incomes. Many candidates explained regressive taxes simply in terms of lower taxes paid as income rose. Some candidates interpreted giving an example as meaning a worked example with figures rather than an example of a tax, e.g. income tax.

(b) The answer to this part of the question was well done with most candidates identifying at least two reasons, e.g. discouraging the consumption of harmful goods, discouraging imports, providing revenue to finance public expenditure were common answers. However, a few candidates referred to income redistribution even though the question had made clear that answers should not relate to this reason for imposing taxes. Some answers, however, were more limited and were rather list-like in approach with candidates not really developing their explanation of the possible reasons to any great extent.

(c) Most answers showed that candidates understood what was meant by redistribution of income and that this was achieved through using progressive taxes and expenditure targeted at those in poverty or through providing universal services e.g. education and health. Good answers on advantages explained the impact for those less well off in improving their standard of living and the positive effect on the economy as a whole, although some weak answers tended to dwell on socio–economic consequences such as less crime. The disadvantages were not so well done and few got beyond de-motivation of those on higher incomes and encouraging those in poverty to stay on benefits rather than work. Few identified other disadvantages such as the opportunity cost. There was also some confusion about whether or not redistributing income from the rich to the poor led to higher or lower demand in the economy. Some answers were rather limited, with candidates needing to develop their discussions more fully.

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Question 6

(a) Most answers explained correctly that the exchange rate showed the price or value at which a currency is bought and sold with another currency. Many answers gave a specific example often using their home currency.

(b) Changes in the demand and supply of the currency were commonly identified as the main reasons why exchange rates would fluctuate. Good answers went into more depth on what caused demand and supply to change e.g. imports/exports, interest rates and speculation. Some answers mentioned inflation but did not make the point that it was the difference in inflation in the home country compared to other countries that affected the exchange rate.

(c) Most answers correctly identified that the current account included the trade in goods and the trade in services. However, it was necessary to write about both income and current transfers to get full marks. A few also made reference to the capital account which was incorrect (and not on the syllabus).

(d) There was a very wide range in the quality of answers to this part of the question. Most candidates limited responses to a change in the exchange rate. Others referred to other actions which could influence a deficit on the current account e.g. applying tariffs, and applying deflationary measures which would reduce consumption of imports. Whilst credit could be given for this where it was shown to supplement exchange rate changes, an answer which purely related to other measures would gain relatively few marks. Competent answers correctly identified that a change in the exchange would have an impact on the level of exports and imports and described the impact of a rise or a fall in the exchange rate. Good answers stated that whether this would be enough to remove the deficit would be dependent on the elasticity of demand for exports and imports and that if the latter was inelastic reducing the exchange rate might not close the gap. Others wrote about the time it would take to take effect, the actions of other countries and issues about quality of exports not being good enough to increase sales even if they were cheaper

Question 7

(a) Most candidates understood that net migration related to population movement. However, to get full marks answers needed to make clear that it was the difference between the number of immigrants coming into a country and the number of emigrants leaving a country over a specified period of time (usually a year).

(b) There were some very interesting reasons given for why people emigrated, many of which were relevant examples from candidate's own country and this was pleasing to see. Common reasons identified were in relation to employment and career opportunities, standard of living, the environment and business opportunities. Some candidates also drew a distinction between pull and push factors.

(c) There were a range of answers to this part of the question. For some the answer was one-sided and tended to be about the negative effects possibly influenced by actual experiences in their own country. Too often the picture painted was one of low skilled migrants and a negative impact on the labour and housing market and increased pressures on government expenditure on education, health and benefits and the possibility of over-population – all of which could be true. Better answers were more balanced with at least some discussion on the positive effect of immigrants e.g. filling vacancies for jobs that the home population would not take; the additional labour force resulting in higher production and economic growth; that immigrants may bring with them new skills and may set up their own businesses that contributed to economic growth. Some candidates wrote about the positive effect that immigration had had for their country and seemed to accept that migration between countries was normal. A few stated that there was a need to ensure that the level of migration should to be managed by the government so that the positive effects outweighed the negative effects and this showed a high level of understanding of the issues discussed. Very few candidates discussed non-economic effects and where they did they were not taken into account as the question specifically related to economic effects only.

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ECONOMICS

Paper 0455/31
Analysis and Critical Evaluation

Key messages

To do well on this paper, candidates need to:

- examine the extracts carefully, as the questions require them to apply their knowledge and understanding to the information
- recognise that in answering the last question on each extract, both width and depth are necessary - points need to be explained and discussed
- write clearly so that their answers are easy to read
- be prepared to undertake basic calculations including subtractions, divisions and working out percentages
- draw lines from the equilibrium points to the price and quantity axes on demand and supply diagrams.

General comments

There was a range of performance on this paper with some candidates making good use of the extract and exploring questions in sufficient detail. A number of candidates produced particularly good answers to **Questions 2(a)**, **2(c)(ii)** and **2(d)(ii)**.

There were few unanswered questions and most candidates allocated their time appropriately.

Comments on specific questions

Question 1

(a) This was well answered by most candidates.

(b) (i) A clear explanation was required which recognised the nature of poverty both in terms of lack of income and lack of basic necessities. Another acceptable way of approaching the question was to distinguish between absolute and relative poverty.

(ii) A key distinguishing feature here was between candidates who identified a difficulty that the poor experience and those who both identified and explained the difficulty.

(c) (i) Most candidates recognised that a conventional commercial bank may be reluctant to lend to the poor because of a concern that the loan might not be repaid. The strongest answers stated two distinct reasons.

(ii) There were some good diagrams drawn which were labelled appropriately and which showed the initial equilibrium and the new equilibrium. A few candidates confused the demand and supply curves.

(d) (i) The strongest answers mentioned the ability to organise the other factors of production and the ability of bearing risks.

(ii) There were some good answers which discussed influencing factors and provided a clear comparison between working for someone else and starting a business. A number of these provided a good conclusion which summed up the key points.

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Question 2

(a) There was some confusion between a brain drain and a brain gain although most candidates coped well with this question.

(b) Most candidates picked up on the possibility of wage rises occurring due to a shortage of doctors in Ghana. The strongest answers explained two possible reasons why Ghanaian doctors might be encouraged to work in Ghana. A second reason which was explained particularly well was the possibility of doctors' wages falling in other countries.

(c) (i)* Candidates needed both to know what is meant by a private benefit and to recognise that it had to be taken from the extract. Many candidates did identify 'high pay/high paid jobs'. Others identified an external benefit and some a private benefit either not directly referred to in the extract or to a private benefit related to something other than education.

(i)* Many candidates identified higher output and/or higher tax revenue although some identified a private benefit.

(ii) There were a number of vague answers to this question. It was important that candidates should explain specific policies. The strongest answers concentrated on how subsidies given to higher education institutions could encourage more people to go to university by reducing the cost of studying and how lower income tax would give people more disposable income to spend on education.

(d) (i) In order to identify the Philippines, it was necessary to pay particular attention to the words 'relative to GDP'.

(ii) Again candidates were required to consider the remittance figure taking into account its size relative to the country's GDP.

(e) Some candidates produced good answers which explored relevant factors in appropriate detail. There were particularly good comments on the possible impact on GDP, the dependency ratio and whether the remittances would be greater than the lost potential output. Some answers were more limited, identifying one or two factors and not discussing them.

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ECONOMICS

Paper 0455/32
Analysis and Critical Evaluation

Key messages

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- recognise that in answering the last question on each extract, both width and depth are necessary - points need to be explained and discussed
- write clearly so that their answers are easy to read
- be prepared to undertake basic calculations including subtractions, divisions and working out percentages
- draw the lines from the equilibrium points to the price and quantity axes on demand and supply diagrams

General comments

There was a wide spread of performance on this paper. Generally candidates did well on **Questions 1(e)** and **2(e)**. Many found **Questions 2(b)(i)** and **2(d)(ii)** more challenging.

The paper revealed the importance of recognising the difference between a decline in a positive economic growth rate or an inflation rate and a fall in GDP or the price level.

There were few unanswered questions on this paper and most candidates allocated their time appropriately.

Comments on specific questions

Question 1

(a) (i) Most candidates calculated the Human Development Index (HDI) value correctly.

(ii) Most candidates were able to identify the income element. Some seemed to think that GDP per head and average income are different. As a result, they identified only one relevant component of HDI.

(b) (i) Almost as many candidates gave the formula as 'percentage change in price divided by percentage change in quantity demanded' as actually gave the correct formula. Some also omitted percentage.

(ii) There were some good answers to this question although, as in some previous sessions, there was confusion shown about the nature of price elastic demand and price inelastic demand. Some candidates appeared to think that if demand changes when price changes, demand must be price elastic. Candidates need to consider the extent of the relative change in demand to decide if it is price elastic or price inelastic.

(c) There was a range of responses to this question. Some candidates drew a clear and accurate diagram, including the lines drawn from the equilibrium points to the price and quantity axes. Some candidates shifted the demand curve rather than the supply curve and others confused the demand and supply curves.

(d) A few candidates just stated two factors of production. Most were able to identify from the extract two examples of factors of production changing their use.

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(e) There were a number of very strong and interesting answers to this question, discussing reasons both why a successful domestic diamond industry might benefit the Sierra Leone economy and why it might not. A number of issues were discussed including the possible favourable impact on employment, economic growth and tax revenue and the possible harmful effects of overreliance on an industry where demand might fall in the future and the possible detriment to the environment.

Question 2

(a) As in previous sessions, some candidates confused production and productivity.

(b) (i) Many candidates found this a difficult question. A number identified the information as indicating that real GDP had fallen rather than increased more slowly.

(ii) This was generally well answered with some candidates providing a good explanation.

(c) The performance on this question varied. Some candidates applied their economic understanding and provided good links between subsidising house-building and a reduction in poverty. They recognised how a subsidy might affect costs of production, the quantity, quality and price of housing and employment in the construction industry.

(d) (i) It was important to take 'per head' into account and most candidates did. Their answers were supported by workings showing the GDP of the countries divided by their respective populations, even if some mistook billions and millions.

(ii) Candidates needed to consider this question carefully. A number did recognise that population must have fallen by more than the decline in GDP.

(e) There were some excellent answers to this question exploring various influences and often relating them to the revenue from particular taxes. Others were rather sketchy. Some showed some confusion between tax rates and tax revenue and a number concentrated on why a government might want to raise tax revenue to the exclusion of other influencing factors.

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Paper 0455/33
Analysis and Critical Evaluation

Key message

To do well on this paper, candidates need to:

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- recognise that in answering the last question on each extract, both width and depth are necessary - points need to be explained and discussed
- write clearly so that their answers are easy to read
- be prepared to undertake basic calculations including subtractions, divisions and working out percentages
- draw the lines from the equilibrium points to the price and quantity axes on demand and supply diagrams

General comments

There were some excellent scripts produced. These revealed a sound knowledge of economics, an ability to apply that knowledge to the information in the extracts and a clear written style. They were few unanswered questions.

Candidates need to read the questions carefully. In this examination, candidates who paid particular attention to the key words in **Questions 1(c)(i)** and **1(c)(ii)** (explain), **1(d)** (net), **1(e)** (information) and **2(d)(ii)** (a garment firm) did well.

Comments on specific questions

Question 1

(a) A very small number of candidates appeared unable to undertake the calculation. A number of others confused billions with millions although most calculated the figures accurately.

(b) (i) This question was well answered with the vast majority of candidates revealing a good awareness of a fixed cost.

(ii) Again this question was very well answered with most candidates identifying rent and a smaller number identifying wages.

(c) There was a range of performance on this question. Most candidates were able to identify two relevant reasons.

(d) (i) Good awareness was shown of the nature of a labour-intensive industry.

(ii) This was the question which candidates found most challenging. The candidates who performed best showed both an awareness of the nature of internal economies of scale and an ability to apply the concept to a garment firm.

(e) Most candidates were able to identify some influencing factors. The strongest answers went on to discuss the factors. There were some particularly good answers which explored the effect of, for instance, a rise in the exchange rate, a fall in incomes abroad and a rise in the competitiveness of

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foreign garment firms. Some answers were rather narrow, often concentrating on just a rise in the costs of production.

Question 2

(a) Most candidates performed well on this question, referring to full employment and economic growth.

(b) This again was generally well answered. Many candidates drew clear, accurately labelled diagrams which showed a shift to the right of the demand curve and presented good written comments. A number did not draw the equilibrium lines and a very small number confused the demand and supply curves.

(c) (i) The performance on this question varied. The distinguishing feature was the depth of the answers provided. Some candidates identified the expected effect although they did not explain it. Others provided excellent links between the growth in tourism and the expected rise in employment. These picked up on not only the direct effects on employment in tourism but also the indirect effects on employment arising from increased spending on infrastructure, general rise in spending and the increased ability of the government to spend on employment generating projects.

(ii) Most candidates recognised that wages would be expected to rise and explained why. A few candidates stated that they expected wages would fall and were unable to justify this view.

(d) The majority of candidates correctly selected Spain. Those who did not pick up on the word 'net' identified the US. The US received the highest earnings from tourists visiting the country but came second to Spain in terms of net earnings.

(e) A key distinguishing factor here was whether a candidate identified the need to discuss the information required. A number did and produced strong answers which showed a good awareness of the key factors which should be considered. Some candidates answered a rather different question and discussed whether an airport should be built without exploring what information would be needed to make such a decision. Others identified influencing factors but did not explore their significance.

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