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ECONOMICS

Paper 0455/11
Multiple Choice

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

General Comments

The questions for which most candidates selected the correct answer were 3, 5, 7, 11, and 19. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 6, 18, and 25. These questions were answered correctly by 40% or fewer candidates. The rest of the questions gave results which were well within the levels expected.

Comments on Specific Questions

Question 6 was answered correctly by 35% who chose option B. 12% chose option A, 6% chose option C and 47% chose option D. Option D would increase the supply and cause the supply curve to shift, any change in demand would be represented as a movement along the existing demand curve. Options A and C would shift the demand curve in the opposite direction to that shown on the diagram.

Question 18 was answered correctly by 34% who chose option D. 18% chose option A, 17% chose option B and 31% chose option C. When the tax is imposed the new equilibrium quantity would be Q_1 and the new price T. The government would receive TUZY. Compared with the original price (V) the consumer would pay part of the tax (TUWV – option C) but the producer also has to pay part of the tax. Options A and B involve the original quantity (E) which becomes irrelevant.

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Question 25 was answered correctly by 24% of the candidates who chose option B. 67% chose option A, and 9% chose option D. No candidate chose option C. The level of Gross Domestic Product (option A) is a misleading indicator of development because it does not take account of the population of the country. Of the options given the migration to the urban areas where there are more opportunities for employment is the most helpful indicator.

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ECONOMICS

Paper 0455/12
Multiple Choice

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

General Comments

The questions for which most candidates selected the correct answer were 1, 2, 9, 10, 11, 12, 18, 19, 20, and 28. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 3, 4, 5 and 22. These questions were answered correctly by 50% or fewer candidates. The rest of the questions gave results which were well within the levels expected.

Comments on Specific Questions

Question 3 was answered correctly by 45% who chose option A. 39% also chose option B, 6% chose option C and 10% chose option D. The curve shows the possibilities of production. Some events might make it unlikely that the full potential of an economy will be reached but they do not change the possibility that at some point it may be reached. B and D remain possible in the future. C is not possible as it is outside the production boundary.

Question 4 was answered correctly by 48% who chose option C. 28% chose A, 8% chose option B and 15% chose option D. The amount of profit cannot be determined (A) as no information is given about the costs incurred. The lost revenue would be $300 not $60 (B) and the figure for the daily opportunity cost (C) is inaccurate.

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Question 5 was answered correctly by 46% who chose option B, 22% chose option A, 10% chose option C and 23% chose option D. The equilibrium price is one where the market is in balance and there is no pressure for either the quantity demanded or the quantity supplied to change.

Question 22 was answered correctly by 49% of the candidates who chose option D. 5% chose option A, 32% chose option B and 14% option C. The inflation rate was lower in 2011 than in 2010 but it was still present (B). This would be disinflation. Prices do not fall until 2013 – a fall in prices is deflation.

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ECONOMICS

Paper 0455/13
Multiple Choice

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

General Comments

The questions for which most candidates selected the correct answer were 2, 5, 6, 7, 14, 19, 25, and 26. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The only questions which were answered correctly by fewer than 45% of the candidates were **Questions 21**, and **22**.

Comments on Specific Questions

Question 21 was answered correctly by 42% of the candidates who chose option A. 9% chose option B, 40% chose option C and 9% chose option D. The income of the poor would be included – the option does not refer to subsistence or home production. Exports and businesses are also included.

Question 22 was answered correctly by 33% of the candidates who chose option A. 11% chose option B, 8% chose option C and 47% chose option D. An increase in growth in one economy would be likely to affect the economies of other countries (D) unless it was a closed economy. Economic growth, however, would not necessarily benefit everybody (A). There may be some negative aspects from economic growth which would affect some people or the positive aspects may not be distributed to all the population.

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ECONOMICS

Paper 0455/21
Structured Questions

Key Messages

The most important message to emerge from this examination is that precise reading of the questions is an essential component of success. Unfortunately there were many instances where candidates, who had an otherwise excellent understanding of economics, misread the wording and proceeded to answer a different question to the one on the paper. Good examples of this problem could be seen in **Questions 1b** and **3d**: in **Question 1b**, because the focus of the extract was production in Cambodia, it was common to see answers which explained why supply may increase in the future, rather than the **demand** for rice asked for by the question. In **Question 3d** many candidates explained how specialisation could benefit firms whilst ignoring the benefits to **workers** required by the question. Such approaches to the questions could not possibly gain reward.

A sound understanding of key economic terms will always help candidates to do well, whilst imprecise or incorrect use of these terms can severely hinder a candidate's chances of success. As in previous examinations, money is the most widely misused term and it should not be use as a synonym for income, revenue, profit or capital, all of which have precise meanings in economics. There were many other examples in evidence but the ones which candidates tended to misuse the most were profits and capital. Profits are not wages, nor are they revenue, but are simply the difference between revenues and costs. Capital in economics has a precise meaning which often differs from those found elsewhere, and it is defined as assets generating income which have themselves been produced.

The **use of a standard calculator is permitted in this examination** and the focus of calculation questions is on economic knowledge.

General Comments

Although rubric errors are still rare in this examination, there was a noticeable increase in the number of candidates who did not follow the instructions given on the first page of the question paper, which ask candidates to attempt the one compulsory question in ***section A*** and three optional questions from the six available in ***section B***. A very small number of candidates attempted only three questions in total rather than four, but it was particularly disappointing to see a considerable rise in the number of candidates tackling all seven questions. Needless to say, this approach is unsatisfactory because it is not possible to produce comprehensive answers to so many question parts, especially those carrying six and eight marks, in the time available. A full practice of the paper (a "mock" examination in effect) prior to sitting the actual one would help candidates to avoid making this serious error.

The other significant problem facing many candidates was satisfactory time management, especially a tendency to write very long answers to parts **a** and **b** of questions, where short precise answers are all that is required and would have left more time for the longer answers required in parts **c** and **d**. When part **a** questions ask the candidate to identify, or ask for a definition, then nothing else is required, and two marks can be achieved with very short answers.

Finally, many candidates feel the need to write conclusions for almost every question, even for those question parts (**b** and **c**) which only ask for explanation and analysis, and where conclusions are really not appropriate. More often than not, candidates write a conclusion which summarises and simply repeats arguments already made. It is perfectly possible to score maximum marks by looking at both sides in the part **d** "discussion" questions without writing a conclusion. If a conclusion is used however then it must add something to the candidate's answer and not simply repeat points which have will already have been credited to the candidate.

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Comments on Specific Questions

Section A

Question 1

(a) Most candidates could score two marks on this question. Some misunderstood billions however, and it is now generally accepted that a billion is a thousand million or 1 followed by 9 zeroes. It is much easier to avoid using all of these zeroes however and to simply calculate that 80% of $6 bn is $4.8 bn

(b) Straightforward answers giving two reasons for increased demand, such as lower price and better quality for rice, were surprisingly rare. Many candidates tended to complicate their answers by reference to the supply factors outlined in the extract and thus missed the obvious economic demand theory required by the question.

(c) (i) There was widespread misunderstanding of the term "investment" evident in many answers to this question. Investment is basically spending on capital goods and is not the same as saving, nor is it spending on consumption. The key to a good answer was an understanding that economic growth increases output and incomes and that this will encourage firms to increase their capital spending. It was however common to see "more money" given as a reason but this is far too vague to be credited.

(ii) It was encouraging to see good use made of the information contained in the table to support answers to this question. The candidates who did best here were those who selected appropriate data to produce effective concise answers. There was a tendency for weaker candidates however to offer explanations where none were required.

(d) Most candidates could identify an increase in Cambodia's population from the data given. Many candidates however found it difficult to separate the two conflicting trends, and to explain that the influence of net migration (negative) had a much smaller effect than the natural increase (positive).

(e) It was usually fairly straightforward for candidates to identify reasons why building more roads and ports would increase rice exports. The main reasons given were easier access and reduced transport costs. However it was very common to see opportunity costs to the government, such as education and health spending, given as a reason why it might not, but this is unlikely to be the case here: exports by rice farmers are not directly linked to public spending of this kind.

(f) There was a considerable amount of misunderstanding of the functions of a stock exchange demonstrated in answers to this question. Goods and services are not traded here, nor are foreign currencies. Good answers identified buying and selling of shares with the aim of raising finance for investment, but answers which mentioned government securities were surprisingly rare.

(g) The main problem with many answers to the first half of this question was an inability to look beyond the obvious to provide answers which were not tautological: for example it is not enough to say that higher wages make the job more attractive or that everyone will want more "money". Some indication of the reasons why extra wages might be desirable, such as the ability to meet their needs and wants, was required. It was also surprising how few candidates mentioned the competition from other companies for workers. Most candidates could give non-wage benefits with two examples in the second part of the question but very few went beyond this point to discuss the possible effect of unemployment. However a large number of candidates lost sight of the question's focus and discussed the costs to the firm of raising wages, such as higher prices and lower sales.

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Section B

Question 2

(a) Most candidates could give a clear definition of demand as the willingness and ability to buy a product.

(b) Answers to this question were often characterised by vagueness, with candidates failing to specify the nature of the imbalance. To score marks it was necessary to indicate for example that supply **exceeded** demand and imply a surplus; it was not sufficient to state that supply was high and demand was low. Unfortunately diagrammatic answers were seldom satisfactory because candidates tended to focus on shifts in supply and demand rather than the imbalance asked for in the question.

(c) The best answers to this question explained how economic growth gave increases in output which would require more electricity for the production process, and combined this with an examination of the effects of higher income upon consumer demand for items which use electricity. It was rare however to see more investment in capital equipment given as a reason here. Falling unemployment however was quite often given as a feature of economic growth but this is not strictly correct: growth involves an outward movement of the production possibility curve whereas falling unemployment implies utilisation of underused resources.

(d) There was widespread confusion apparent in answers to this question because candidates did not have a correct understanding of the nature of social costs and social benefits. Social costs are a **combination** of both **private** and **external** costs, and so equating pollution for example with social costs is incorrect because pollution is an external cost which affects third parties. Good answers were thus few and far between and it was rare to see private costs, such as wages paid to workers at the power station, given as a separate item. As indicated in the general comments above, conclusions need to add something to the discussion but conclusions here were usually summaries of both sides rather than, for example, concluding by indicating that it depended on who owns the power stations – governments or private companies.

Question 3

(a) On the whole candidates demonstrated a good understanding of the nature of entrepreneurship in terms of risk bearing and combining the other factors of production.

(b) It was encouraging to see a sound understanding of income distribution here, with large numbers of candidates giving clear explanations of progressive taxation. The main weakness in answers was an inability to develop this further to explain how it is governments which can use this revenue to help the poor in society.

(c) Answers to this question were often weak and it was rare to see a clear understanding of monopoly and competition demonstrated. Most candidates who attempted this question could give lack of competition as a reason for higher prices, but very few explained that monopolies can restrict their output and that this will increase prices. It is wrong however to assume that firms in competitive markets will do the opposite and cut their prices – the more competitive the market, the less influence the firm has over prices, and of course in perfectly competitive markets firms are price takers.

(d) For many candidates an inability to read the question carefully cost them significantly, and answers which discussed whether **firms** benefited from specialisation unfortunately could not be rewarded unless they were linked to the benefits to **workers**. To succeed when answering this question it was necessary to focus on how specialisation helps workers develop their skills and the ways in which this was likely to benefit them, such as the higher wages they are able to earn. The "other side" of the question tended to produce better answers however, and boredom, along with potential unemployment, were usually given in answers.

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Question 4

(a) There were many clear concise answers given to this question for two marks. The main weakness in answers was a lack of precision, and it was common to see "running" or "managing" a firm given rather than single **ownership.**

(b) Subsidies are not loans, nor are they tax relief, but a number of candidates made this simple error. Subsidies are payments to producers and the key to a good answer was an understanding that this will reduce production costs. Subsidies can also be used for the purchase of capital equipment but this was only given as an answer by a relatively small number of candidates.

(c) There were some excellent answers given to this question, with a wide variety of advantages of small firms analysed. Perhaps because they were the focus in part **a** of this question, many candidates assumed that all small firms are sole proprietors and answered accordingly. But small firms take a variety of forms. A considerable number of candidates confused the significance of total costs and average costs. They stated that small firms have low costs as they employ a low number of workers and capital equipment. What they were focusing on was total costs. These candidates often did not consider how small firms' average costs might compare with those of larger firms. Large firms tend to have lower average costs because of economies of scale. It is true however that small firms are unlikely to suffer from diseconomies of scale.

(d) Tariffs were well understood by candidates on the whole but a significant minority ignored the international aspect and incorrectly focused on domestic taxes instead. The key to a good answer was to explain that tariffs reduce the demand for imports but it was common to see the assumption being made that demand for domestic products would rise without reference to the reduced import demand. Too many answers ignored the problems tariffs cause and there was a common assumption that tariffs were a "good thing". It is important for candidates to understand that tariffs may damage trade, raise prices and therefore reduce living standards for consumers. This is the reason why bodies such as the World Trade Organisation are constantly looking for ways to reduce or eliminate tariffs and promote free trade.

Question 5

(a) Many candidates who attempted this question gave an answer which was either too vague or which demonstrated misunderstanding of the nature of the labour force. A fall in unemployment ignores the fact that the unemployed are actually part of the labour force. It was surprisingly rare to see both birth rates and death rates given as an answer however.

(b) The main weakness in many answers to this question was a tendency to ignore weighting when explaining how the index is calculated. On the other hand however, good understanding of the CPI/RPI, base year and basket of goods was usually demonstrated.

(c) Good answers to this question tended to explain how free trade allows access to cheaper raw materials encouraging specialisation and competition. It was noticeable however that a number of candidates also examined the disadvantages of free trade – this was not required however because the directive word in the question is "analyse" rather than "discuss".

(d) Most candidates who attempted this question were able to produce a discussion of both sides of the situation. Good answers explained the reduced output and incomes and the problems for governments in terms of lost taxation and spending on benefits, whilst contrasting this with the flexibility provided by unemployment and the potential for keeping inflation under control. The main weakness demonstrated in answers was a tendency to equate poor people with unemployment – unemployed people will be poor but poor people will not necessarily be unemployed.

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Question 6

(a) It was pleasing to see an excellent understanding of regressive taxation demonstrated by the majority of candidates who tackled this question, with only a small number failing to explain that it is a higher proportion or percentage of income which is taken from the poor, rather than the amount.

(b) There were some very good answers to this question which focused on the size of firm, the type of firm and the ability to substitute capital for labour. The weakest answers were those which confused profits with revenue and which used the term "money" inaccurately. Increased revenues will not be sufficient to provide funds for investment if costs rise faster because profits will fall, whilst "money earned" is far too vague as an answer.

(c) The most popular approach to this question was to consider a reduction in interest rates and its affect upon borrowing, saving and demand. Full marks however could only be obtained by consideration of at least one other approach and, although some candidates explained how an increased money supply could increase the price level, it was extremely rare to see exchange rates considered in this context.

(d) Although there were good answers which explained how an increased sales tax could provide the government with more revenue for spending on public services, contrasting this with its regressive nature, there was also a considerable amount of confusion demonstrated about inflation. The key to understanding the impact of a sales tax upon inflation is to separate the cost-push and demand-pull influences: the sales tax will increase a firm's production costs whereas it will also have an impact upon demand-pull inflation by reducing spending power.

Question 7

(a) There was a clear understanding of a mixed economy demonstrated by nearly all of the candidates who attempted this question.

(b) Candidates produced an extremely wide range of answers to this question, including some extremely odd ones. Straightforward answers required an analysis of reasons for possible changes to forecasts for birth rates and death rates but many candidates concentrated on Nigeria (the focus of the question stem), rather than looking at **world** population, whilst a surprising number gave immigration as a possible reason, ignoring the difficult question of the source of such immigration.

(c) As was the case with several other questions in this examination, candidates often ignored a key word, in this case "structure", and concentrated instead on the size of the population. In addition, it was common to see answers which focused on the economic structure of a country (primary, secondary, tertiary) rather than the structure of the population required by the question. Good answers identified the younger populations in developing countries and contrasted them with older populations of developed countries, giving reasons for the different structures.

(d) Large numbers of candidates who attempted this question gave the Chinese policy of one child families as their answer, and many gave no other policies at all. Whilst this policy is relevant in this context, there are many other policies which could have been considered, such as those which would have an appropriate influence upon the birth rates and the death rates. Unfortunately however, a fascination with the Chinese policy often led to long rambling answers which prevented the candidate from exploring other avenues and gaining more marks. In view of current controversies around the world, it was surprising to see so few answers discussing immigration restrictions as a possible policy measure to reduce the growth of a country's population.

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ECONOMICS

Paper 0455/22
Structured Questions

Key Messages

Candidates should read questions carefully and pay much attention to the command words such as “Explain” and “Discuss”; and other key words in the questions such as “**more**”, “an **increase** in”, “**all** workers”, “the **main** economic aim” and so on.

As questions are set on a range of well defined skills and concepts, it is important that candidates have a good grasp of the whole syllabus to perform very well.

It is important for candidates to bring out clearly the links between events, examining cause and effect and concepts as well as intervening factors.

The **use of a standard calculator is permitted in this examination** and the focus of calculation questions is on economic knowledge.

General Comments

The question paper covered a wide area of the syllabus and each question was graded from a lower to a higher order of difficulty. Performance spread over all grades. Some candidates produced excellent answers which showed an impressive depth of knowledge. They demonstrated a very high level of understanding and very well developed analytical and evaluative skills.

Most candidates coped well with **Question 1 of Section A**. However, some candidates just copied parts of the extract and did not **make use** of the extracted information to answer the appropriate parts of the question correctly. With some more careful attention, they could have scored higher marks.

Of the six questions in **Section B, Question 1** was the most popular and **Questions 2 and 6** were the least popular. A large number of candidates answered parts **(a)** and **(b)** relatively well but attempts at parts **(c)** and **(d)**, which required higher order skills where application of economics knowledge was imperative, were less successful. A number of candidates provided relatively long answers which lacked relevant economic reasoning and some revealed confusion over key economics terms and concepts.

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Comments on Specific Questions

Section A

Question 1

(a) A relatively high proportion of candidates did not understand that the tertiary sector was increasing by 3% as other sectors shrank by this amount. A straight forward 62% + 1% + 2% i.e. 65% of GDP was expected. Some candidates did show the ability to handle and interpret numerical data.

(b) The two benefits of free trade **for Mexican firms** were generally well identified. But some candidates wrote general answers on the benefits to an economy, or to consumers, overlooking information from the extract.

(c) (i) Many candidates restricted their answers to a better living standard but stronger answers linked it to better nutrition, healthcare, housing and education.

(ii) Some candidates stated what GDP per head and the life expectancy of each country were without any reference to figures in Table 1. Some candidates produced perceptive answers to illustrate that although generally people in countries with a higher DP per head have a longer life expectancy, this might not always be the case, by comparing Bangladesh to South Africa. Many candidates focused only on the high GDP per head and high life expectancy relationship without showing the exception.

(d) This was a generally well answered question.

(e) There were some good answers to this question which provided a balanced discussion of the benefits to the Mexican economy of rising production costs in China and why it might not also benefit Mexico. The answers of some candidates lacked relevance by asserting that China would benefit from its rising production costs or otherwise.

(f) This was generally well answered with a relatively high number of candidates being able to bring out the differences between monopoly and perfect competition. Any two features **compared** scored full marks.

(g) There were some insightful answers which considered how the benefits to consumers in the form of lower price, better quality and innovated products encourage firms to produce what consumers want. However, a number of candidates copied parts of the extract without any real attempt to answer the question.

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Section B

Question 2

(a) In general, candidates were able to define ‘ resources’.

(b) A clear understanding of externalities was needed to be able to give a precise definition of external cost. This was quite rare. Many candidates wrote at length on pollution without linking it to damages to the health of those not travelling, i.e. third parties.

(c) This part was not so well answered. Quite a number of candidates concentrated on direct jobs (travel and tourism) although they could also have considered indirect jobs in other industries.

(d) Some candidates produced strong answers to this part and there was a good awareness of factors like income, price, population, price of related goods and so on. There were some very good answers explaining the factors affecting international travel and what will cause it to ‘continue to increase’. However, many candidates overlooked the meaning of ‘**continue to** increase’ and considered factors which might lead only to sporadic increases in demand such as summer times.

Question 3

(a) Many candidates could not provide a precise definition of supply. Many defined it as the willingness and ability ‘to produce’ instead of ‘to sell’. Further, whatever is produced might not necessarily be offered for sale.

(b) There was a range of responses to this question but performance was generally good. The question did not explicitly require a diagram to be included but many candidates chose to include one and used it to good effect. Candidates mostly wrote on taxes and subsidies and scored full marks.

(c) Candidates demonstrated a good awareness of what makes demand price-elastic: availability of substitutes, the output being a luxury and other typical factors leading to high price-elasticity. However, this was insufficient, as answers should have focused on what makes demand ‘**more**’ price-elastic. Answers such as closer substitutes, less addictive and so on were expected.

(d) Only a few candidates provided strong answers to this question to score full marks. Most candidates limited the scope of their answers to economic growth leading to higher wages without making the links clear. They could have developed answers related to higher labour demand, higher labour productivity and strengthened union’s power. This particular aspect of the question was not always clearly understood by candidates.

Question 4

(a) Most candidates were able to give a correct definition of productivity in terms of output, per factor input, per time period. Candidates could have referred to any factor of productivity but most of them wrote on labour productivity in terms of output per worker per hour. Some candidates overlooked the time factor.

(b) Most candidates explained successfully how labour and/or capital productivity might increase. Some also considered land productivity. Productivity of any factor could be considered. Examples of relevant answers were *(i)* improvement in education and training as more skilled workers can produce more; *(ii)* increase in wages and non-wage factors which may motivate workers to work harder; *(iii)* increased investment for advancement in technology since more up to date capital goods are likely to boost output. Candidates who wrote on land productivity and that it may increase through better fertilisers, irrigation, better seeds and de-rocking programmes also scored full marks. Some candidates based their answers on total output/production instead of productivity.

(c) This part proved to be quite difficult to many candidates who were unable to link HDI to the literacy rate, life expectancy and GDP per head. Instead of analysing the reasons for which a country might have a high HDI, many candidates only briefly mentioned the three factors affecting HDI. Good candidates broke down the component of HDI in terms of GDP per head, literacy rate and life expectancy and then analysed how an improvement/increase in these indicators would lead to ‘**higher**’ HDI. For example a good healthcare system and/or good nutrition will increase people’s

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life expectancy, a good education system/high spending on education and positive attitudes to education may lead to expected longer years of schooling; a high level of total demand, good quality of resources and sound economic policies can result in high GDP per head.

(d) The more able candidates provided a well-balanced answer which considered both the benefits and drawbacks for an economy from having full employment. The lower ability candidates focused on the benefits of full employment, thus providing a one sided argument. Possible benefits include efficient use of resources, high living standard and lower poverty; lower spending on unemployment benefits, higher tax revenue and thus government spending on other areas such as education and healthcare could be increased; less social evils like drugs, prostitution, theft and crime. Possible drawbacks included demand-pull inflation which might occur because high income might lead to higher aggregate demand. Cost-push inflation might also occur as shortage of workers could lead to pressure for higher wages; thus productivity may fall as the last worker employed may not be that skilled so would add less to additional output.

Question 5

This was the most popular question.

(a) Many candidates could not give an accurate definition of '**medium** of exchange'. Some confused it with the term 'exchange rate'. However, in many answers the characteristic of money as a commodity, which is generally acceptable in exchange of goods and services, featured well.

(b) There were some good answers to this question which explained the differences between the central bank and the commercial bank. Some answers were however too superficial or vague in the sense that the general functions of one or the other were listed without any comparison.

(c) There were some interesting answers which analysed how an increase in money supply could lead to greater spending causing demand-pull inflation. Reduction in savings may also result due to increased spending and inflation. However, many candidates dwelt only on inflation and did not comment on savings.

(d) The strongest answers to this question made use of relevant economic analysis to assess why price stability should be the major aim. There were some clear comments that inflation could have some benefits and of the need to have other aims. But some answers were too brief on the price stability aim and focused mainly on the other aims. Only very few candidates rightly pointed out that the '**major** aim' could change according to the prevailing level of economic activity or the prevailing economic situation.

Question 6

(a) Most candidates were able to produce a reasonable definition of capital goods while some others gave examples instead.

(b) This part was quite confusing for some candidates who could not link higher export prices with greater export revenue. Few answers contained inelastic demand for export, depreciation of currency, rise in incomes abroad and so on. Many responses were incorrectly based on how revenue would rise with an increase in export.

(c) This was quite well answered with candidates analysing the need to impose protectionist measures, subsidies, expenditure switching and reducing measures as well as supply side policies. Weaker answers were not necessarily inaccurate but they did not explore further the connection between government action and the favourable effect on the BOP.

(d) A good discussion was generally provided to this part question. A few candidates argued that both governments and the private sector should be involved without developing valid arguments. The scripts of many candidates did not contain a **balanced** discussion. Weaker candidates supported only one side of the discussion.

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Question 7

(a) Most candidates were able to produce a reasonable definition of a developed country with the strongest ones recognising a diverse range of relevant features.

(b) There were some good reasons given why people would spend most of their income. But the quality of answers varied widely though this part of the question required a lower order of economic reasoning. Many candidates only explained why people 'would spend', ignoring 'most of their income'. They also did not think about 'low income', 'low interest rate' or 'expectation of a price rise in the future', to mention a few.

(c) There was some clear analysis on how an increase in investment might increase a country's economic growth rate. But in many cases analysis was limited to economic growth and many candidates were not able to link investment to economic growth. The question required an understanding of "**how** an increase in investment may increase a country's economic growth rate".

(d) The best responses discussed a range of fiscal measures to reduce poverty. In some cases, answers overlooked the part on fiscal policy and candidates wrote vaguely on poverty reduction. There was also confusion between absolute and relative poverty. The good scripts referred to standard of living and low spending on unemployment benefits and also dealt with the other side of the argument, i.e., why it might not.

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ECONOMICS

Paper 0455/23
Structured Questions

Key Messages

Question 1 responses required candidates to select relevant information from the extract. It was good to see that many candidates were able to select and build upon information from the extract in their answers. There were very few instances of candidates just copying sentences in the hope that they contained the right information. This meant that the quality of answers given in Section A were of a good standard and often higher that those given in Section B.

The use of the same command words in each question in **Part B** would appear to have helped to make it easier for candidates to select the questions to answer and indeed assist in the amount of information to be provided for each part.

It is disappointing that the quality of answers to the part **(a)** questions in Section B has often been poor even for candidates who have done well on other parts of questions. The expectation is that the majority of candidates would have a good knowledge of economic concepts and terms. However, the evidence in this paper is that many answers are incomplete or lack precision.

In most of the part **(d)** questions in Section B there is a need for the candidate to give a **balanced** answer as they are required to analyse and evaluate. Full marks cannot be obtained unless there is an attempt to give both sides. The evidence from this paper is that there is often an imbalance or simply a reverse of the previous argument. The answers to part **(d)** questions will contribute significantly to the ability of candidates to get the top grades in this exam.

The **use of a standard calculator is permitted in this examination** and the focus of calculation questions is on economic knowledge.

General Comments

There is little evidence to suggest that candidates did not have sufficient time to answer four questions. Rubric errors were few.

The number of candidates producing a list as an answer continues to fall.

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Comments on Specific Questions

Section A

Question 1

(a) The majority of candidates were able to calculate that the number of people was arrived at by calculating 42% of 12 million. A few unfortunately put the wrong number of noughts at the end or multiplied 12 million by 58%.

(b) This was generally well done. Candidates were clear about how increased spending on education would reduce poverty. A common correct response was that it would result in better skills leading to employment or higher skilled jobs which would mean higher income and therefore a greater ability to buy basic necessities taking them out of poverty. Increased government spending on healthcare was less developed but many candidates identified that it could result in greater productivity and less time off work if workers were fit.

(c) Improved healthcare and net inward migration were contained in the extract and relatively easy to identify. Both would lead to an increase in average age of Rwanda's population and most candidates identified one of these reasons. A common misconception was that as half the population was aged less than 25 years they would get older and, therefore, the average age would rise. However, this makes an assumption not expressed in the extract that either the birth rate or death rate will fall in the future.

(d) Most candidates identified that the level of economic growth was related to the level of net migration. Most candidates were able to give specific examples e.g. Macau having the highest net migration and South Africa having the lowest. The best answers also explained why net migration affected the rate of economic growth. In a few cases, candidates identified a relationship but did not make reference to the data in Table 1.

(e) Most candidates correctly identified that agriculture in Rwanda was labour intensive citing that there had been little investment / lack of equipment. However, a significant minority wrongly gave the fact that 80% of the workforce being engaged in agriculture confirmed that it was labour intensive.

(f) Candidates were better at discussing why concentrating on products with inelastic demand was beneficial to farmers. Many explained that raising the price of an inelastic good meant that revenue would rise and that income was more secure than with products with elastic demand. Quite a few also explained that these were likely to be necessities bought by most people. There were fewer good responses on why it might not be beneficial to farmers. Indeed some answers did not address this issue at all. However, where they did, the common response was that it was risky to rely on just a few crops, e.g. could be affected by disease or poor weather, and that there could be competition from overseas if prices rose too much.

(g) The majority of answers explained that lower prices for food might arise because the government had removed import duties from food imports. Fewer responses explained that increased productivity by farmers could lead to lower prices. A common error was to select the sentence in the extract relating to energy costs and the banking sector without explaining how this lowered food prices.

(h) This was reasonably well done as most candidates were able to explain that borrowing could lead to higher consumption by individuals and higher investment by firms. Increased demand led to higher output and more employment. The reasons why it might not be beneficial were less well done. The issue of getting into debt was mentioned by quite a few but the impact on inflation and demand for imports was less commonly explained.

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Section B

Question 2

(a) There were only a few correct definitions given to the term "average revenue". This is surprising given the importance of the economic term and the fact that in the past candidates have understood the economic term "average cost". Whilst revenue was often understood, many responses did not explain that average revenue was simply total revenue divided by the quantity sold. Revenue was often confused with profits and average revenue was achieved by dividing total revenue by the number of firms.

(b) This was also not well done. A common response was that luxury products were simply expensive products without an explanation of why that made them elastic in demand. Whilst a few candidates correctly related the elasticity to the fact that such items made up a large proportion of a person's income, fewer identified that such products were more of a want than a need or the fact that usually luxury goods may have close substitutes which would make demand more elastic.

(c) Many candidates still confuse price elasticity of supply with price elasticity of demand. Therefore many of the answers given were incorrect since they affected demand rather than supply, e.g. advertising campaigns. Supply can become more elastic if products can be stored and if the factors of production can be made more flexible and available. Some very good answers were given here including, the use of artificial ingredients rather than natural ingredients that may be limited in supply, outsourcing production abroad and being able to switch resources between a range of products according to changes in demand.

(d) Answers were generally sound in that candidates understood the concept of profit and the characteristics of a foreign market. Popular responses highlighted that savings could be made from not paying import tariffs or the transport costs faced when exporting abroad and that the cost of factors of production, especially land and labour, might be cheaper in a less developed country. Very good answers often also mentioned favourable tax concessions from governments and that being based in the country meant it was often easier to identify market trends. The reasons why a firm might make less profit was less well done in most cases. Common factors included the cost of start-up costs and the loss of economies of scale achieved in producing at home as well as the fact that the foreign market might be in a developed country where costs were generally higher.

Question 3

(a) The term 'market economy' was understood by most candidates who identified such a market as one where there was no (or very little) government involvement and subject to a price mechanism or the market forces of demand and supply.

(b) For many candidates, the answer given suggests that they were not clear what was meant by an external cost, as many of the examples given were private costs to the individual. Where correct responses were given, references were made to the additional costs of healthcare for individuals with healthcare problems, such as obesity, which were paid for by everyone and that poor health could mean lower productivity of the workforce because of greater absence through illness.

(c) Many candidates identified reasons using information in the question stem. Thus extra income for individuals from gold payments from the Dubai Government for losing weight and subsidies paid to producers that reduced costs and, therefore, price of chocolate were common. Other candidates gave more traditional answers including growth in population, change in tastes, increases in prices of substitute goods and advertising as reasons why demand might rise in the future. However, overall, the number of candidates correctly identifying three reasons was relatively low.

(d) It was clear from the answers given that quite a few candidates still do not fully understand the economic term of market failure and confuse it with a firm(s) in an industry simply not making a profit. Many candidates were, however, able to explain that a government subsidy would reduce costs enabling a firm to increase supply and/or reduce the price of the good. Few candidates were able to explain how this reduced market failure. Those that did explained how this would assist the provision of, and consumption of, goods providing social benefits. Reasons why subsidies might not reduce

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market failure included producers not passing on the reduction in costs to consumers and the fact that the government could have used the revenue for other purposes which were more beneficial to consumers. A few mentioned that the subsidy might have been given to firms producing goods with high social costs, such as cigarettes, thus making market failure worse.

Question 4

(a) This economic term was understood by most candidates although a sizeable minority thought that such companies were in the public sector and owned by the government. A few also stated that such firms had unlimited rather than limited liability.

(b) Some of the reasons given why firms may differ in size did not relate to the same industry and therefore did not gain marks. Common correct reasons included factors such as how long a firm had existed for e.g. larger firms tended to be those that had existed for a longer period of time and therefore had a broader customer base and greater access to capital to grow in size. The other common reason was the goal of the owners and whether or not they wanted to grow in size or stay relatively small.

(c) Unfortunately, quite a few candidates did not explain why a firm might change the proportion of labour or capital it employed. Too many responses related to a static scenario about why a firm might be more labour-intensive or capital-intensive. In some cases the change related to different industries rather than the same firm. Those that did well made reference to the relative cost and productivity of using labour or capital and the reasons why this might change e.g. shortage of labour might increase labour costs making it cheaper to use more capital and less labour.

(d) Answers to this question were usually good with most candidates understanding and able to explain why larger firms can benefit from economies of scale which means that with lower costs they can sell at lower prices than small firms. However, there were also some good answers on why this might not always be so; e.g. diseconomies of scale and using monopoly powers to raise prices were common responses. A few stated that it could be that large firms produced a higher quality product or spent a lot of money on advertising their brand image which enables them to charge higher prices and retain customer loyalty.

Question 5

(a) This was another economic term where the number of correct responses was low. Labour is simply the human effort used in producing goods and services. However many candidates just referred to workers and did not mention the production.

(b) The majority of answers correctly identified that a rise in employment would mean that more people were likely to join a union and that this would give the unions more bargaining power. Fewer responses identified that this would mean an increase in revenue for trade unions or that it would enable them to successfully demand better wages and conditions of service for its increased membership. There was a small minority of candidates who confused trade unions with companies who employed workers.

(c) Most candidates appeared to understand the concept of inflation e.g. rising prices; but fewer were able to explain the process by which trade unions could cause inflation. Those that could explained how trade union action could cause both demand-pull inflation (where higher wages led to increased demand) and cost-push inflation (where higher wages meant higher costs for firms) who therefore increased their prices in order to maintain profits.

(d) The answers given showed that most candidates understood that unemployment could arise from firms reducing the labour force in order to cut costs e.g. where there was cost-push inflation although many candidates did not mention cost-push inflation. Very few mentioned that unemployment might arise from exports becoming less internationally competitive or imports becoming cheaper than domestic goods. On the other hand, quite a few candidates also made the point that if inflation was demand-pull, firms were less likely to reduce employment of labour because there was a need to increase output.

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Question 6

(a) Most candidates understood that a quota was a limit or restriction on imports.

(b) There was a wide range of responses to explaining the structure of the current account of the balance of payments. Some candidates were only able to identify trade in goods and trade in services without an explanation of what this meant. Others were able to identify income flows and current transfers as well, although often without any explanation. The answers generally suggest that most candidates understand what is meant by the current account but are not always able to explain what is included in each of the four components.

(c) Generally speaking most answers showed an understanding that where there was a surplus on the current account, exports were greater than imports and that there would be a greater demand for the currency of a country resulting in a rise in price or appreciation. Most assumed that this was due to a rise in exports rather than a reduction in imports and therefore a fall in the supply of the currency.

(d) Most candidates showed an understanding that a depreciation meant a fall in the value of a currency. However, fewer candidates were able to explain whether the consequences of the depreciation were likely to be good or bad. A common response identified that import prices would rise which could lead to cost push inflation but equally could result in domestic goods becoming more competitive both at home and in export markets. Generally speaking there was a good balance in answers.

Question 7

(a) Most candidates were able to identify two influences on household spending, such as income and wealth. Common errors related to identifying the impact of changes in the price and expenditure on individual goods and services.

(b) Responses showed that candidates could make the connection between recession and lower tax revenues. However, in quite a few cases, having identified that income and spending had fallen, the answer did not explain which tax revenue would have fallen. Often the candidate stated that there would be higher unemployment in a recession but did not state why income tax would fall. In some cases the candidate explained that the government may have reduced income tax in order to increase the purchasing power of consumers.

(c) The three main components of HDI are now understood by most candidates. For this question there was a need to analyse how these three components – education, healthcare and GDP per head were affected by a reduction in government spending in order to gain any marks. This was often not done.

(d) The answer to this question was done well by many candidates. The correct monetary policy meant lower interest rates and increased money supply which would lead to higher consumption and investment, leading to an increase in aggregate demand and supply, i.e. economic growth. A reversed argument would also explain why monetary policy could lead to a fall in economic growth. Good answers mentioned the possible effects on inflation and on the balance of payments and the fact that there were other government policies that might be more effective in increasing economic growth, e.g. fiscal policy and supply side policies. Very few candidates confused monetary policy with fiscal policy.

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