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ECONOMICS

Paper 0455/11
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **2**, **3**, **4**, **6**, **15**, **17**, **20**, **21**, **25**, **26** and **30**. These questions were answered correctly by 80 per cent 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 **5**, **18** and **27**. These questions were answered correctly by fewer than 45 per cent of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall.

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

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Comments on specific questions

Question 5

Question 5 was answered correctly by 23% of the candidates who chose option **C**. 27% chose option **A**, 12% chose option **B** and 38% chose option **D**. This question required an understanding of the idea of an equilibrium price in a market. At P_S there will be an excess demand, so buyers will bid up the price for the good which is in short supply. The price will stabilise when the demand and supply become equal at price P_E.

Question 18

Question 18 was answered correctly by 40% of the candidates who chose option **C**. 33% chose option **A**, 22% chose option **B** and 5% chose options **D**. The proportion of income taken as taxation is 20% for weekly incomes of $100 and $150. After that the proportion taken in tax is less than 20%. This is a regressive tax – the higher the income the lower the rate of taxation.

Question 27

Question 27 was answered correctly by 23% of the candidates who chose option **A**. 55% chose option **B**, 15% chose option **C** and 7% chose option **D**. Sometimes the use of a quota is confusing. When a quota is increased (option **A**) it means that more of the good is allowed into the country. This is unlike a tariff, where an increase usually results in fewer goods entering the country. More imports with fewer restrictions is an approach towards freer trade.

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ECONOMICS

Paper 0455/12
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **4**, **5**, **9**, **10**, **15** and **30**. These questions were answered correctly by 85 per cent 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 **1**, **3**, **11**, **20** and **27**. These questions were answered correctly by fewer than 40 per cent of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall.

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

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Comments on specific questions

Question 1

Question 1 was answered correctly by 30% of the candidates who chose option **C**. 16% chose option **A**, 8% chose option **B** and 46% chose option **D**. The *essential* characteristic of a free good is one that has zero opportunity cost.

Question 3

Question 3 was answered correctly by 22% of the candidates who chose option **D**. 4% chose option **A**, 49% chose option **B** and 25% chose option **C**. Option **D** has the largest amount of capital goods and it is capital goods rather than consumer goods which in the long run are more likely to lead to an outward shift in the production possibility curve. **D** and **B** are both on the production possibility curve, but **D** has the higher amount of capital goods.

Question 11

Question 11 was answered correctly by 36% of the candidates who chose option **C**. 22% chose option **A**, 37% chose option **B** and 5% chose option **D**. The engineer earns $55 000. The tax rate is 20% so the disposable income would be $44 000. 10% of that is $4400. The credit card repayment is paid out of the disposable income and is not deducted from the total of $55 000 before calculating the savings. Those who chose **B**, took 10% of the salary and ignored the consultancy fee and the tax rate.

Question 20

Question 20 was answered correctly by 34% of the candidates who chose option **D**. 29% chose option **A**, 19% chose option **B** and 18% chose option **C**. A recession occurs when there is a negative change in GDP over two consecutive quarters.

Question 27

Question 27 was answered correctly by 26% of the candidates who chose option **D**. 62% chose option **A**, 7% chose option **B** and 5% chose option **C**. Questions about quotas often cause confusion. When a quota is increased, option **A**, more goods are permitted to be imported; this would not be following a trade protection policy.

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ECONOMICS

Paper 0455/13
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **2**, **3**, **4**, **6**, **8**, **9**, **15**, **16**, **26** and **30**. These questions were answered correctly by 85% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **21** and **24**. These questions were answered correctly by fewer than 50% of the candidates.

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

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Comments on specific questions

Question 21

Question 21 was answered correctly by 47% of the candidates who chose option **A**. 8% chose option **B**, 25% chose option **C** and 20% chose option **D**. The 'basket' of goods chosen when considering the changes in price levels is indeed a representative sample of current household spending (option **A**). The 'basket' does not consist of the same unchanging group of goods nor is it the 50 most popular items of spending.

Question 24

Question 24 was answered correctly by 37% of the candidates who chose option **B**. 40% chose option **A**, 12% chose option **C** and 12% chose option **D**. Mobile phone networks have become available in many rural areas in developing countries. Their provision often occurs before the provision of medical research units, transport systems and universities all of which require large fixed costs and a sizeable population in the area to make them worthwhile.

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ECONOMICS

Paper 0455/21
Structured Questions

Key messages

A key message from this examination is to read all the words of the question very carefully. For example, **Questions 1(c)** and **1(g)** ask for the impacts on the firms, **4(b)** and **7(d)** the impacts of the consumer, and **5(d)** the impacts on the economy. Although there can be some over-lap between these, it is worth remembering that the motives for each of these groups tend to be very different so it is important for candidates to respond to the specific question asked.

Whilst part **(d)** of the optional questions carries the most marks, they do not need to be excessively long to reach full marks. The best answers scored highly for their use of economic terminology and logical chains of reasoning succinctly. It should be emphasised that no marks are given for repeating the wording of the question.

General comments

Most candidates used their time efficiently to both complete the paper, and to give a length of answer to the various question parts that was appropriate to the marks available.

In **Section A**, there are questions that require specific reference to the extract and failure to do this meant that not only did candidates sacrifice marks, but there was also a high chance of spending too long on the question through thinking about what to write rather than focusing on the information given in the extract.

In **Section B**, the need to produce a two-sided response to part **(d)** seems very well understood. Similarly, almost all candidates answered the **(c)** parts of the optional questions in an analytical manner, without a counter argument, as required. In the **(b)** parts, candidates are often asked to explain **two** reasons or causes; it is important that these are separated into two distinct points of identification and then that each one is explained separately to meet the mark scheme requirements.

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Comments on specific questions

Section A

Question 1

(a) Most candidates were able to identify 2 correct functions; the key requirement was to ensure that the functions were mentioned in the extract. For an identification question such as this, using the exact wording of the extract is sufficient, and is expected.

(b) Whilst it seemed clear that candidates had a good knowledge of perfect competition characteristics, many found it difficult to apply this to the extract material. The most successful approach was to identify two features that were not true of the perfect competition model, e.g. use of brand names and selling different services, and then contrast these with the equivalent perfect competition characteristics.

(c) The wording needed to be studied carefully, as the question asks for a bank's motives, and is thus looking for factors that would affect its own performance. The question also implies that selling abroad is 'instead of' not 'as well as' selling in the home country, so issues such as expansion and economies of scale are not automatic. Those candidates that interpreted the question correctly produced some thoughtful answers based on possibilities that the other countries might have, for example, larger populations, higher incomes and willingness to use banks services, lower costs of production, more favourable government policies and less competition. For strong analytical reasoning, it is important that candidates recognise the difference between revenue and profit. A common cause of confusion was to try to introduce arguments that related to exchange rate differences.

(d) (i) This question was looking for a simple 'no' answer, followed by some supporting evidence. There is no requirement to explain why the relationship shown exists. Here there were plenty of country examples to contradict the view that countries with the higher growth rates tend to have the higher unemployment rates, relative to others in the sample group.

(ii) The question uses the word 'usually' and not 'always', so a 'yes' could have been backed up with the evidence that only one country (Egypt) was clearly not conforming, or alternatively giving an example of a country that did conform. Some application of numbers from the bar chart was expected.

(e) This question was generally answered well. The idea was to generalise about the nature of older workers, for example having gained more experience and having had more time for promotions, whereas younger ones might generally be physically stronger and are likely to be more confident with new technology. A few candidates showed misunderstanding of the process of wage setting by writing about peoples' needs in terms of family commitments and lifestyles.

(f) Almost all candidates recognised that this question was geared towards the labour-intensive nature of farming, and the predominance of subsistence farming.

(g) Provided that the question was read carefully, to ensure that the focus was on the impact of the company rather than the consumer or the economy, this produced some excellent responses. A high proportion of the available marks could be awarded through consideration of economies of scale (on the plus side) and diseconomies of scale (on the negative side), explaining their meaning and giving an example of each. It could quite reasonably be argued that costs could rise or fall, in which case explanations were needed to justify the different outcomes. Recognising the impact on levels of competition and thus on pricing and profits was another successful strand of analysis.

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Section B

Question 2

(a) Most candidates defined this accurately. Common errors were to refer to demand, or to define relatively inelastic rather than perfectly inelastic. The importance of being precise with wording, and reading the question carefully was evident.

(b) Many candidates recognised that some firms are in the public sector and would have goals related to welfare rather than profit. There were relatively few candidates able to gain all 4 marks by producing a second reason. There was some confusion between the goal of profit maximisation and the reasons why profits might fall. The best answers chose satisficing, survival or growth strategies with a convincing argument as to why these might be pursued.

(c) Candidates displayed some impressive knowledge of football and its financing. In order to frame this into an answer using economic analysis, a supply and demand approach was required. Those candidates that answered the question in this way did very well.

(d) This was a question that produced an impressively wide range of interesting arguments both for and against the idea that governments should use some of their tax revenue to build sports stadiums. The impact on government finances, peoples' health, macro-economic objectives such as employment and balance of payments, and broader social costs and benefits were some of the most common aspects considered. Some confusion was evident when candidates took the view that not everyone would wish to use the stadium, an aspect that is true of government spending in general. However, a successful, if rare, approach was to suggest that stadiums might be more efficiently provided by the private sector. The use of opportunity cost and giving an example of an alternative area of spending featured well in most responses.

Question 3

(a) This was usually answered well. As a definition question, accuracy in terminology is required, with references to a fall in a currency being too imprecise. The idea of it being a measure of value and being a rate against another currency(s), were both required for a complete definition.

(b) Some candidates showed an impressive understanding of how a floating exchange rate works, and what advantages might arise. Whilst there are different routes towards gaining full marks, the question does need to be split into two separate advantages with each explained. Weaker answers merely described the system without clearly identifying what the benefits might be.

(c) Most candidates knew that fiscal policy included both government spending and taxation, and developed a good chain of reasoning that linked changes in one of these to the inflation rate. Candidates need to be aware that inflation can be caused by cost-push factors as well as by too much total demand, and fiscal policies that focus on expanding total supply can also reduce inflation. Some candidates introduced tariffs, but care is required to analyse this correctly; because to reduce demand-pull inflation tariffs would need to be lowered to raise imports and reduce demand for domestic goods.

(d) A few candidates wrote about a deficit, rather than a fall in a deficit. This made a significant difference to the analysis and highlights the importance of careful reading of the question. There were some very strong answers to this question, forging links between a rise in exports / fall in imports to other economic objectives (growth, unemployment and inflation). Whilst it is perfectly acceptable to argue that higher exports might cause an appreciation of the exchange rate, and then consider how this might affect those objectives, candidates need to beware of getting trapped into a circular argument of explaining issues arising from a resulting rising deficit, which then reverses the main perspective of the question set.

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Question 4

(a) Most candidates had a reasonable understanding of the concept of economies of scale. For an accurate definition, it is vital to specify that the costs are 'average' costs, to distinguish from total costs, which would still be rising with output.

(b) As with all the **(b)** part questions, the need to split this into two separate benefits was not always addressed carefully enough. The best answers considered what a consumer would desire – lower prices, more variety, more quality – and explained how free trade could achieve these. Some of the better answers drew links with higher levels of competition, or incorporated the idea that free trade leads to greater specialisation and potentially economies of scale. However, many answers were largely descriptive and went little further than just identifying the outcomes, without any explanation.

(c) Few candidates gained full marks because they did not explain the process by which reducing transport costs could increase a country's exports and imports. The idea was to generate a chain of explanation based on supply and demand, whereby lower costs would lead to lower prices and then raise demand. Again, a repeat of the wording in the question 'increase a country's exports and imports' was used heavily as analysis without reference to an increase in 'demand'. It should be noted that the question refers to both exports and imports, so a similar thread of analysis can be produced for each to access the marks.

(d) This question demonstrated some confusion about what living standards meant, and partly reflecting this there were relatively few good answers. The most successful route was to use a clear definition of higher living standards (perhaps using the HDI components of health, education and income per head) and explain why these are important. Saying that higher incomes allows higher consumption of goods and services, and education allows higher productivity and increased long run growth, provides a succinct and convincing case on the plus side. Counter arguments can be that other economic objectives could be more important, with a justification. An alternative approach is to argue that the pursuit of higher living standards could conflict with other objectives – inflation, environment, etc. Some answers became confused by trying to argue that a focus on education would be better than living standards. To do well on this question it is necessary to apply economic concepts in preference to a common-sense approach.

Question 5

(a) This question gave a wide variety of incorrect responses but provided a straightforward way to access the marks if the meaning of price indices was apparent.

(b) By contrast, this question was typically answered very well, showing that candidates had a clear understanding of different supply-side policies and how they work.

(c) The answers to this question were variable. The best answers showed a strong understanding of how inflation affects international competitiveness (and hence exports/imports and the current account), menu costs, investment confidence, savers, etc. Candidates that only argued that inflation would reduce demand and lead to a recession lacked sufficient logic and ended up making a circular argument. In order to argue that inflation causes unemployment, it is necessary to specify that the inflation must be cost-push inflation rather than demand-pull. An approach that wrote about the disadvantages of high inflation was also an acceptable one.

(d) The effects of stronger trade unions were well understood by most candidates who were able to discuss the benefit of this on the economy. Most candidates focused on the benefits of higher wages, improved health and safety, and the provision of training. The downsides concentrated on industrial disputes and the increased business costs and inflation associated with the higher wages. This was a question where higher wages could be considered both as a cost (for the firms' profits, and for cost-push inflation) and a benefit (to the workers), and it is acceptable to put it on both sides provided they are supported with explanation. A very few confused trade unions with trade blocs.

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Question 6

(a) Most candidates had some understanding that net immigration relates to the movement of people from one country to another. Most responses only gave a partial definition, usually by focusing on the inward movement of people or stating that it is the difference between immigration and emigration. Very few responses recognised that it represents the situation where immigration is greater than emigration. Weaker responses discussed the total number of migrants, rather than how the total changes over a period of time.

(b) Very few responses recognised that the situation in the stem relates to one of excess demand of a free resource such that a market would respond by raising prices to both stimulate supply and reduce demand. Many candidates were confused by the term *market forces* and discussed actions which only the government or other authorities could undertake.

(c) This was well answered by candidates who could identify two or more demand factors (e.g. wages, skill levels, price of capital equipment) and could show how the level of labour demand is related to them (e.g. an increase in wages would reduce demand for labour). Weaker responses failed to identify any such factors or analysed factors affecting the supply of labour.

(d) Most candidates could offer some discussion of how government spending can raise economic growth, but relatively few were able to give a detailed discussion of why it might not. The best approaches were to focus on total government spending as a component of total demand for goods and services, and to consider how different types of supply-side policies (e.g. education, subsidies or infrastructure) would raise productivity and longer-term growth. A common misunderstanding was to suggest that some areas of government spending have no impact on economic growth because they were not useful, such as weapons. A clear grasp of economic growth being a rise in real GDP, which measures the total output of the economy, is a key requirement for doing well on this question.

Question 7

(a) Most candidates knew that the question referred to the relationship between taxes and income. However, relatively few understood that the important factors are the relationship between the level of income and the proportion of income taken as tax. Weaker responses stated either that the amount of tax paid, or the rate of tax, increased as incomes fell.

(b) This question was answered well by candidates who understood that social costs are the combination of private benefits *and* external benefits, and could give examples of each. Weaker responses simply gave a range of examples of the benefits of healthcare without classifying them as being examples of either private or social benefits.

(c) There were excellent answers to this question with candidates having a strong appreciation for the different types of taxes and their purposes. Weaker responses focused on one reason without considering others – typically such answers gave a long list of examples of government spending without considering other reasons (e.g. reducing imports, redistributing incomes, discouraging the consumption of demerit goods).

(d) Most candidates gained good marks on this question. Candidates were equally happy discussing the reasons why consumers might benefit from privatisation (e.g. lower prices, higher quality etc.) and why they might not (consequences of monopoly power, increased external costs etc.). Weaker responses typically focused on groups in society other than consumers such as taxpayers or producers.

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ECONOMICS

Paper 0455/22
Structured Questions

Key messages

There are a number of key messages arising from this examination. Candidates need to:

- Avoid common confusions including *substitutes* and *subsidies*, *commercial* and *central* banks, and *elastic* and *inelastic* demand.
- Stay focused on the question asked. Some candidates wander off the point of the question so that their response appears to answer a different question. For instance, in their answer to **Question 4(d)** some candidates recognised there would be an opportunity cost involved such as spending on healthcare. They then, however, devoted more attention to the benefits of more government spending on healthcare than to the issue of subsidising bus transport.
- Avoid jumping stages in explanations. For instance, in their answer to **Question 6(c)**, some candidates mentioned that deflation would result in a fall in consumer spending without explaining why.
- Clearly indicate the questions answered. Some candidates did not write down the number of the question and others wrote down the wrong number next to their answers.
- Read the stem of the optional questions in **Section B** very carefully. The stems can help avoid confusion and help candidates appreciate the links between the questions parts.

General comments

The vast majority of candidates attempted all the parts to **Question 1** and all the parts to three optional questions. Most candidates answered the **(a)** parts briefly, as is required, and devoted an increasing amount of time to the **(b)**, **(c)** and **(d)** parts. The majority of candidates also recognised the need to explore both sides in the case of the 'Discuss' questions, and not to draw a conclusion.

A pleasing proportion of candidates showed the ability to draw on a range of topics from the syllabus and to apply the concepts to real world issues. There was evidence of the candidates thinking as economists and making use of the skills of an economist, including drawing clear diagrams and assessing issues in a logical and objective manner.

A number of candidates included economic concepts, such as merit goods, public goods, and comparative advantage that are not on the syllabus. It is, of course, possible to gain full marks using only the topics on the syllabus, however, while use of economic concepts not on the syllabus is not expected it is always credited if relevant to the question.

Some candidates needed to show stronger analytical skills. The answers to the **(c)** parts in **Section B** were sometimes rather sketchy and did not always adequately explore the links. For instance, in their answer to **Question 5(c)**, a number of candidates wrote that more women are looking for work because of a fall in the birth rate. They did not, however, bring out the link between a lower birth rate and more women entering the labour force.

A number of candidates also did not include enough economics in their answers to the **(d)** parts. Some of these repeated points and others produced answers based more on general knowledge.

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Comments on specific questions

Section A

Question 1

The performance on the first question has been steadily improving. A higher proportion of candidates are showing the ability to interpret the extract and to apply relevant economics in their answers.

(a) Most candidates were able to identify two relevant fixed costs of production in Fig. 1. A small proportion of candidates revealed some confusion by referring to raw materials as a fixed rather than a variable cost.

(b) The key to this question was to not only identify two reasons but also to explain them. There was some particularly good explanation of why a rise in the productivity of workers may offset the effect of a rise in the price of vanilla on the price of ice cream.

(c) This was well answered, with a high proportion of candidates drawing clear and accurate diagrams and providing relevant written comments. The drawing of diagrams has been improving over time. Most candidates now draw diagrams of an appropriate size, using a ruler and not confusing demand and supply curves. In this case, only a small proportion of candidates incorrectly labelled the axes and only a small proportion incorrectly shifted the supply curve.

(d) The majority of candidates did recognise that most of the data in Table 1 does show a positive relationship with countries with a high GDP per head also having a high HDI. They provided supporting evidence and mentioned that Cuba is an exception. Some also recognised that this is the expected relationship. Only a small proportion, however, actually analysed why there is often a positive relationship or why Cuba is an exception. Some candidates wandered off the focus of the question and wrote, at some length, about the benefits of using HDI as a measure of living standards compared to using GDP per head.

(e) There were some excellent answers to this question which developed reasons both why a government should encourage people to save more and why it should not. There were some particularly strong comments on the effects of a rise in saving on inflation and employment. Some candidates wrote about the benefits of saving to the individual savers without linking these benefits to whether the government should encourage people to save more.

(f) Most candidates did pick up on the reference in the extract to cash benefits having the potential to increase school enrolment and attendance of the children of poor families. They developed this reference into a chain of logical links between education and higher income.

(g) There were some strong answers to this question. Candidates discussed how a market system may influence the allocation of resources to reflect consumer demand, price, and quality. There were some thoughtful comments on market failure. A number of candidates, however, did not focus on consumers and wasted time by discussing the effects on workers and the economy. Some candidates mistakenly wrote about a planned economy.

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Section B

Question 2

This was a popular question, although not all candidates explained the points they made in the answers to parts **(b)**, **(c)** and **(d)**.

(a) The majority of candidates were able to identify a possible opportunity cost of building an airport, Not all candidates, however, brought out the meaning of opportunity cost.

(b) There were some interesting answers to this question. Some candidates provided clear explanations of why a government would want its country to turn from a developing into a developed country, for instance, so that a higher output may enable poverty to be reduced. A number of candidates, however, did not go beyond identifying reasons. Some only provided a list of reasons, sometimes more than four, without explaining any of them.

(c) There was some confusion shown between external costs and private costs of production. There were also some excellent answers which explored a range of external costs that can be caused by the building and expansion of an airport. These answers not only identified external costs but also gave clear analysis why these are external costs.

(d) Again, there were some excellent answers. A number of these explored the influences of, for instance, contact with consumers and economies and diseconomies of scale. Some candidates, however, made unsupported statements, for instance, a number stated that a small firm would charge a lower price but did not explain why this might be the case. The stronger answers did provide supporting analysis for the points they made. In the case of a smaller firm charging a lower price stronger answers discussed how, for example, a government subsidy could allow a small firm to charge a lower price than a large firm.

Question 3

This was the least popular question. There were some strong answers but a number of those who did answer it struggled on the **(b)** and **(d)** parts.

(a) Most, but not all, candidates were able to give two examples of capital goods that may be used by a farm.

(b) The key to this question was to recognise the components of the current account of the balance of payments. Some candidates did reveal a strong awareness of the composition of the current account. Of the other three components, it was the possibility of a trade in services deficit which was the most commonly explained.

(c) Candidates tend to be well informed about economies of scale. To do well on this question, however, candidates were required to apply economies of scale to farming. Not all candidates did this. Of those who did, there was some particularly good analysis of buying and technical economies of scale in the context of farming.

(d) There was a full range of performance on this question. Some strong answers explored the influences of the nature of resources the developing countries may possess, demand for primary products and the difference in the benefits that may arise from producing primary, secondary and tertiary products. These answers drew on topics from across the syllabus including specialisation, working conditions, demand and supply, and trade protection. A number of candidates, however, did not seem to know how to approach this question. They wrote around the topic and did not apply much economics.

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Question 4

This was the most popular question with a relatively high proportion of candidates performing well on the **(a)** and **(d)** parts.

(a) The vast majority of candidates were able to define a substitute and to give a relevant example. A small proportion of candidates revealed a confusion that has been shown in the past. This is the confusion between a *substitute* and a *subsidy*. Reading the stem carefully might have avoided such confusion in this instance.

(b) As with some other questions, some candidates identified points, in this case advantages, but did not explain them. Those who did explain them tended to focus on the ability to charge high prices and the possibility of low average costs of production. Generally, a good awareness was shown of the nature of monopoly.

(c) There was a mixed performance on this question. Not all candidates recognised the significance of percentage changes. Instead of mentioning that elastic demand, for instance, occurs when a change in price results in a greater percentage change in quantity demanded, they just referred to a change in price causing a large change in demand. As required by the question, some candidates wrote about how price elasticity of demand can influence profit rather than revenue. A number of candidates confused *elastic* and *inelastic* demand.

(d) Some candidates provided well thought out answers to this question. There was some good analysis, particularly in terms of why a government should subsidise bus transport. In their answer to this question, candidates did tend to support the comments they made with relevant economic analysis. Candidates showed a good awareness of the nature and effect of a subsidy. There was some interesting discussion about the effects of subsidised bus transport on the poor and the environment.

Question 5

The strongest answers on this question were often to part **(c)**.

(a) Some confusion was shown with a number of candidates mistakenly identifying a rise in the birth rate as a cause. The two most common reasons given were, nevertheless, a fall in the birth rate and a fall in the death rate.

(b) Candidates tended to recognise the influence of an increase in demand and explained why this may occur. Not many, however, showed an awareness that price could have risen due to a decrease in supply. Some candidates produced static answers with reference to limited supply,

(c) There were some excellent answers to this question. Candidates showed a good awareness of the reasons why more women may enter the labour force. Improvements in the education of women were particularly well developed. In the vast majority of cases, the answers were based on economic analysis rather than general knowledge or value judgements.

(d) Not all candidates established the points they made. For instance, a number of candidates stated that a rise in the birth rate will cause unemployment without giving any reason why this might be the case. Some candidates produced strong answers. A number of these distinguished between the short run and long run effects and examined the on the use of resources, the size of the labour force, and the dependency ratio.

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Question 6

This question was the second least popular question. Some of those who did answer it struggled with the **(b)** and **(d)** parts.

(a) A small proportion of candidates confused a commercial bank with a central bank. Most candidates, however, gave an accurate definition.

(b) Some candidates provided clear explanations. A number of these explained the role of a stock exchange both in terms of public limited companies and governments raising finance. Some other candidates revealed a lack of awareness of what a stock exchange does.

(c) Awareness of the nature of deflation has increased over time. A relatively high proportion of candidates were able to analyse both demand-side and supply-side causes of deflation. A small proportion of candidates wrote about the consequences rather than the causes of deflation.

(d) There were some excellent answers to this question. These analysed clearly how some policy measures intended to reduce unemployment may cause inflation, while others may not. Other candidates managed to analyse why government policy measures may cause inflation but could not think of any measures which would not result in a rise in the price level.

Question 7

This question focuses largely on international trade. This topic is not always very popular but this time a relatively high proportion of candidates chose this question and there were some strong answers.

(a) This question was well answered. Very few candidates confused an import tariff with an import quota.

(b) Some candidates just mentioned that the world would have a higher GDP which, by definition, is what an increase in world output is. Other candidates produced strong answers which examined how higher output could, for instance, increase employment and reduce poverty.

(c) There were some well thought out answers to this question. These analysed the effect of a recession both on consumers' willingness and ability to purchase finished imports and firms' willingness and ability to buy imported raw materials. Good links were provided with the application of, for instance, demand theory and the reasons for, and effect of, a depreciation of the currency.

(d) A small proportion of candidates did not make good use of their time on this question. They devoted most of their answers to describing different forms of trade restrictions. A pleasing proportion of candidates, however, did analyse in depth the possible effects of removing trade restriction. A very good understanding was shown of the dangers of dumping, the argument for protecting infant industries, and the benefits of free international trade.

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ECONOMICS

Paper 0455/23
Structured Questions

Key messages

Use of the correct economic terminology is essential for success in this examination. Precise use of terms can also save the candidate a lot of time when answering questions. For example, it is very difficult to explain exports and imports clearly without using these precise terms, but many candidates avoid them and use very long phrases involving goods produced by the home country and sold to another country. Similarly, profit and productivity have precise meanings in economics, but candidates often use them carelessly when they really mean revenue and output respectively.

There were two questions in this examination where a diagram was required, **5(c)** and **6(c)**. It is very important that diagrams are clearly labelled in each instance and there are marks available for this labelling. In a supply and demand diagram five labels are required: two on the axes - price (p) and quantity (q), two on the curves - demand (D) and supply (S), as well as an arrow or label indicating the shift/movement.

It is also very important to read the wording of the questions very carefully in order to avoid answering a different question. For example, **Question 1(c)** requires the candidate to *use the table* and analyse the link between water shortage and low GDP per head, but it does not require the candidate to speculate on reasons beyond those suggested by the table**.** Similarly, **Question 3(b)** asks for the *advantages to a country* of specialisation, but many candidates answered in terms advantages to workers which was not asked for or, therefore, required.

General comments

The majority of candidates follow the rubric instructions correctly; however there are still those who do not answer four questions in total (one compulsory plus three optional choices) as requested. Those candidates who answer all seven questions are at a great disadvantage, because they do not have sufficient time available to answer any of the questions satisfactorily. It is also not acceptable to take various parts from all seven questions and answer a selection of the candidate's choosing.

It is also very important for candidates to understand that answering a question successfully does not involve writing everything that they know about a topic. Selection and precision is vital, as is consideration of the command word and the number of marks available. In **Section B** part **(a)** usually requires a concise identification or definition and no more. Candidates who spend a long time on part **(a)** questions invariably have insufficient time for the longer part **(d)** questions. Further, the stem of each question in **Section B** should be read very carefully because, although candidates do not have to refer to it in their answers (unlike referring to the extract in Section A questions), it helps candidates to appreciate the links between the questions parts and avoid confusion.

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Comments on specific questions

Section A

Question 1

(a) Most candidates could satisfactorily use the extract to identify two causes of low life expectancy in developing countries

(b) (i) The key to a good answer was an understanding of the nature of the economic problem – the allocation of limited resources. Those candidates who used this concept were then able to link this to water shortages. Answers without this concept were consequently too vague.

(ii) The correct approach to this question was to take the relevant information from the extract and use economic theory to apply it to the problem of worsening water shortages. In this case, the best approach was to show how population increases (demand) and climate change (supply) would cause the problem to become worse.

(c) As indicated in the key messages above, it is very important for candidates to use the data as requested by the question. Most were able to show that there is an inverse link shown in the table between risk of water shortage and GDP per head. The key to a good answer, however, was to use examples of countries from the data to support this view and then refer to Saudi Arabia as a country that contradicts it.

(d) It was encouraging to see most candidates performing this elasticity of demand calculation correctly. The most common mistake was to perform the division upside down, with 10/0.7 producing a result of 14 – common sense would have indicated that water does not have such a very high elasticity!

(e) Good answers used the concept of elasticity of demand to explain that an increase in price would increase revenue. Weaker answers either ignored elasticity or confused revenue with profit. It is very important for candidates to understand that profit is basically revenue minus costs, and that it cannot be used as another word for revenue.

(f) There was a clear distinction here between precise answers which gave a clear explanation of the inability to afford essentials, and answers which were too vague about poverty.

(g) Candidates main problem with this question was misunderstanding of the term *natural* resources. Natural resources are a factor of production (land) which can be combined with other factors of production to produce goods and services. Having understood this, it was a straightforward task to discuss the importance of land in comparison to other factors in the production process, such as labour, capital, and enterprise.

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Section B

Question 2

(a) This question was usually answered well. Some candidates, however, gave answers about the willingness to strike and the size of membership which might have been more appropriate for part **(b)**.

(b) Most candidates could identify two impacts of trade unions on member welfare, but many did not develop the answer any further by explaining the significance of increased wages and improved working conditions.

(c) The best answers to this question focused on types of unemployment. Reduced spending on healthcare for example, would cause structural unemployment for doctors and nurses, whilst reduced government spending overall will reduce total (aggregate) demand causing cyclical unemployment.

(d) It was relatively straightforward for candidates to establish a link between a reduction in the number of candidates and poorer healthcare, but many then found it difficult to develop their answer. The key to a good answer was to discuss how poorer health would affect productivity in an economy and then to examine how, for example, technology might be able to replace doctors.

Question 3

(a) A surprising number of answers were unclear about the distinction between a tariff and a quota. Those candidates who defined tariffs (taxes on imports) had misunderstood the question.

(b) The best answers to this question were focused on efficiency and the ability to trade. An explanation of economies of scale in this context would have added to the quality of answers.

(c) As indicated in the key messages above, a major difficulty faced by many candidates who attempted this question was a reluctance to use the specific economic terms *exports* and *imports*. This often led to confusion and a lack of clarity in answers. In addition, it is important to note that some candidates got this question the wrong way round and looked at import quotas imposed by the home country rather than the other country. This of course, led to incorrect answers and illustrates the importance of reading the question very carefully.

(d) The answers to this question were mostly of a good standard. Candidates were able to identify price and quality aspects of increased private provision – arguments both for and against – and better answers then proceeded to discuss market failures such as monopoly and externalities. Some answers, however, assumed that more private provision would provide greater variety and choice but this is not guaranteed: privatisation often results in rationalisation and a reduction in the number of products available – bus privatisation in the UK is a good example of this.

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Question 4

(a) This question was usually answered well, with candidates able to identify two of the many functions of a central bank. Some candidates, however, confused fiscal policy and monetary policy and so incorrectly identified tax and government spending.

(b) It was clear from answers to this question that not many candidates had a comprehensive understanding of how the CPI is calculated. It was not necessary to give detailed numerical examples, but answers needed to include a basket, price changes, and particularly weights. Weighting was considered by very few candidates and this inevitably had a detrimental effect upon the quality of answers. The marks available for this question should have been a guide to candidates that four marks requires four stages in the calculation of the CPI.

(c) Almost all of those who attempted this question produced competent answers on the impact of interest rates upon saving, but there was considerable confusion about investment. The most common error here was to assume that saving and investment is the same thing, but saving is income not consumed whereas investment is the acquisition of capital.

(d) Identification of supply-side policy measures was usually good. The most popular approach was to discuss the impact of subsidies but analysis of taxation policies was often too vague. If supply-side taxation policies are to be considered then it is necessary to look at the impact of adjustments to different types of taxation, such as corporation tax and income tax. The most successful approach was a discussion of education and training, comparing the short-term effects on government spending with the long-term effects upon productivity and economic growth.

Question 5

(a) Answers to this question were divided between those who had a clear understanding of progressive taxation and those who were too vague. It is important for candidates to understand that the key to a correct definition here is to explain that progressive taxes take a higher proportion of income from low income earners. It is not sufficient to say 'the rich pay more' or 'the poor pay less'.

(b) The best approach to this question was to explain that the government would want to reduce poverty in order to reduce spending on things such as welfare benefits. It is important for candidates to understand, however, that reducing poverty is not necessarily the same as reducing unemployment. The unemployed will tend to be poor, but many households can still be in poverty when there is full employment if they are in jobs which pay a very low wage. Similarly, if the government increases unemployment benefit significantly then fewer households will be in poverty.

(c) This question was not answered well on the whole. There was a lot of confusion displayed in answers, with diagrams showing demand moving to the right rather than supply moving to the left because of an increase in the cost of production. Quantity demanded moves along the supply curve to the left because of the shift in the supply curve caused by an increase in sales tax and this causes the higher price paid by consumers.

(d) Very few candidates spotted the theory implied by this question, namely that cutting direct taxes produces an incentive to work harder whilst increasing indirect taxes is intended to have the same effect. The most popular approach, for which some credit could be given, was to discuss the effect of indirect taxes on harmful goods such as cigarettes – comparing the externalities involved with the regressive nature of such taxes. It was rare to see indirect taxes on imports discussed.

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Question 6

(a) Most candidates could give a general idea of capital-intensive production but precision in answers was much rarer. The most common answer was to say that capital-intensive relies heavily on machines or does not use much labour, but it was important to compare the two for a satisfactory answer. It is also possible to compare capital use with factors other than labour (land and enterprise), but this was hardly ever seen in answers.

(b) It was encouraging to see consideration of external costs, with examples, given in answers to this question. There was still, however, considerable confusion about the meaning of market failure demonstrated in many answers. It is very important that candidates do not confuse market failure with business failure, in this case for example, the potential for the exhaustion of oil reserves in Saudi Arabia. Very few candidates clearly defined market failure as an inefficient allocation of resources.

(c) Some candidates, having chosen **Question 6**, decided to ignore this section altogether. This is not a good strategy because, as a consequence, only 14 marks were then available for the whole question. Those who did attempt this question often demonstrated good understanding of production possibility curves and were able to draw the relevant diagram, clearly labelled with the two products - kerosene and LPG - on the axes. (It was good to see less confusion with supply and demand diagrams where price and quantity are the axes labels.)

(d) As indicated in the key messages above, the most significant issue for candidates was ensuring that they read the question carefully before commencing their answer. The question concerned benefits, or otherwise, to *consumers* but many candidates directed their answers to benefits to workers or the economy instead. Good answers examined the benefits of removing monopoly powers in terms of competition, choice and quality, comparing that with the disadvantages in terms of the benefits of economies of scale and the consequent reduction in average costs and prices.

Question 7

(a) A clear, concise definition was rarely seen in answers to this question. Most candidates had some idea of a recession as falling economic growth, but this is not sufficient as an answer. A good definition must give some indication that the candidate understands that a recession involves *negative* economic growth and an idea of the time span involved, i.e. two consecutive quarters.

(b) Most candidates could explain that a recession involved falling incomes with reduced spending as a consequence, but not many could provide a second reason such as the uncertainty which a recession is likely to cause in the minds of consumers.

(c) The most significant weakness in answers was a tendency to answer one half of the question but ignore the other. The question concerned both government spending *and* tax revenue, so analysis of both was required for a satisfactory answer. Rising unemployment is likely to cause an increase in government spending on items such as unemployment benefits, but it will also reduce tax revenue from both direct and indirect taxes.

(d) As indicated in the key messages above, it is very important to use precise economic terms in the context of this question. If the candidate uses the terms *exports* and *imports* the question becomes relatively straightforward, but discussing demand for products or prices in general confuses the issue and it is often unclear whether these products are exports or imports. Using these specific terms the candidate could then explain that, with cheaper exports, demand for exports increases and with dearer imports, demand for imports reduces. The best candidates were then able to consider the impact of elasticity of demand: inelastic demand for imports would mean that a depreciation would not have a great effect for example.

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