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ECONOMICS

Paper 0455/11
Paper 11 Multiple Choice

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

General comments

The mean mark was 19.5, which was slightly lower than the mean mark of 20.9 last year.

The questions for which most candidates selected the correct answer were **2**, **4**, **8**, **9**, **11**, **23**, **25**, and **28**. 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**, **14**, **17**, **19**, and **20**. These questions were answered correctly by fewer than 45 per cent of the candidates.

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Comments on specific questions

Question 5 was answered correctly by 18 per cent of the candidates who chose option **C**. 20 per cent chose option **A**, 43 per cent chose option **B** and 19 per cent chose option **D**. Government provision of services does not necessarily cause market failure (option **A**). It is the existence of external benefits that causes the market to fail to take full account of the resource allocation decision that has been made (option **C**).

Question 14 was answered correctly by 35 per cent of the candidates who chose option **A**. 18 per cent chose option **B**, 32 per cent chose option **C** and 15 per cent chose option **D**. The fixed costs are shown as a horizontal line. The sloping lines represent variable costs (starting from O) and total costs (starting from the level of fixed costs) and, as these sloping lines are parallel, so the distance between variable costs and total costs (WX) is fixed costs, option **A**. (Fixed costs could also be measured at YZ but that was not an option.)

Question 17 was answered correctly by 22 per cent of the candidates who chose option **D**. 14 per cent chose option **A**, 5 per cent chose option **B** and 59 per cent chose option **C**. The sales tax is fixed at 20 per cent. If the same percentage tax is charged irrespective of income it will mean that it will represent a higher proportion of the income of the lower income groups than of the higher income groups which is defined as a regressive tax.

Question 19 was answered correctly by 36 per cent of the candidates who chose option **B**. 35 per cent chose option **A**, 22 per cent chose option **C** and 7 per cent chose options **D**. The significant word in option **A** is 'always'. A fall in interest rates (option **A**) may increase borrowing and spending but it would not necessarily always increase inflation. A rise in interest rates (option **C**) would make borrowing more expensive and would, therefore, not increase the level of investment. Changes in interest rates are likely to have an impact on production either through changes in spending or changes in investment, so option **D** is incorrect.

Question 20 was answered correctly by 24 per cent of the candidates who chose option **A**. 43 per cent chose option **B**, 7 per cent chose option **C** and 26 per cent chose option **D**. In 2015, the rate of inflation was 2 per cent so prices were rising and were higher than in 2014 (option **A**). The most popular choice was option **B**. It is a common misunderstanding to think that when the rate of inflation falls, prices also fall. They do not. When the rate of inflation falls there is still inflation. Prices still rise but at a slower rate than previously.

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Paper 0455/12
Paper 12 Multiple Choice

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

General comments

The mean mark was 20.3, which was practically the same as the mean mark of 20.2 in 2018.

The questions for which most candidates selected the correct answer were **4**, **5**, **8**, **11**, **21** and **25**. 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 **2**, **18**, **23** and **28**. These questions were answered correctly by fewer than 45 per cent of the candidates.

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Comments on specific questions

Question 2 was answered correctly by 34 per cent of the candidates who chose option **B**. 6 per cent chose option **A**, 54 per cent chose option **C** and 6 per cent chose option **D**. Options **B**, **C** and **D** are on the production possibility curve and would be preferred to **A**, but the question asks which would show the highest potential for long run economic growth. The greatest potential for this would be where there were more capital goods that would allow increased production. Option **B** has the most capital goods.

Question 18 was answered correctly by 43 per cent of the candidates who chose option **A**. 25 per cent chose option **B**, 20 per cent chose option **C** and 11 per cent chose option **D**. The imposition of a tax would shift the supply curve to S_2 and the equilibrium to Q_2. The tax is represented by the distance between the lines S_1 and S_2. The price of the product rises to the intersection of D_1 and S_2 but the quantity sold decreases. The total increase paid by the consumer is U + V.

Question 23 was answered correctly by 32 per cent of the candidates who chose option **D**. 1 per cent chose option **A**, 60 per cent chose option **B** and 6 per cent chose option **C**. In January 2016, the rate of inflation fell from 3 per cent to 2 per cent. The rate of inflation fell but there was still inflation, prices were still rising. The most popular choice was option **B**. It is a common misunderstanding to think that when the rate of inflation falls, prices fall. They do not. When the rate of inflation falls there is still inflation. Prices still rise but at a slower rate than previously.

Question 28 was answered correctly by 32 per cent of the candidates who chose option **C**. 46 per cent chose option **A**, 15 per cent chose option **B** and 7 per cent chose option **D**. The significant statement is that oil is said to be price-inelastic. There will be a larger proportionate fall in price, than any proportionate increase in demand, when the price of oil falls. Therefore, demand for US dollars to pay for the oil will fall (option **C**).

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Paper 0455/13
Paper 13 Multiple Choice

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

General comments

The mean mark was 21.8, which is slightly lower than the mean of 22.0 in June 2018.

The questions for which most candidates selected the correct answer were **1**, **3**, **5**, **11**, **16**, **21**, and **25**. 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 only question which was answered incorrectly by fewer than 50 per cent of the candidates was **Question 14**.

Comments on specific questions

Question 14 was answered correctly by 40 per cent of the candidates who chose option **A**. 19 per cent chose option **B**, 29 per cent chose option **C** and 12 per cent chose option **D**. The fixed costs are shown as a horizontal line. The sloping lines represent variable costs (starting from O) and total costs (starting from the level of fixed costs) and, as these sloping lines are parallel, so the distance between variable costs and total costs (WX) is fixed costs, option **A**. (Fixed costs could also be measured at YZ but that was not an option.)

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ECONOMICS

Paper 0455/21
Paper 21 Structured Questions

Key messages

It is essential that candidates read all of each question and look carefully for the key words that guide candidates in shaping their answer. For example, for **Question 6 (c)** many candidates did not take note that the question was about a *change* in the PED for a firm's products so they wrote a basic descriptive answer about elastic or inelastic demand. Whereas the question required the higher order skill of analysis i.e. how a product which was elastic, but *changed* to become inelastic, would *change* how the firm approached price setting to maximise its revenue. Consequently, many candidates gained low marks for their answer although they clearly understood the concept.

Question 1 often includes a question involving calculation and another on the interpretation of data. Often, where there are two marks for a calculation, there is one mark for a correct method used even if the answer is wrong. Therefore, it can be beneficial for candidates to show their workings. Data interpretation questions require the higher order skill of analysis and candidates need to interpret the data for the key trends. In **Question 1 (d)**, nearly all candidates were able to correctly identify the relationship between GDP and life expectancy, but did not use the data to justify their judgement.

Generally, for Section A, candidates did use information from the extract / source material to form the basis of their answers. There has been clear improvement in this over the last few exams.

Please note the new instructions for this examination paper from 2020:

Section A
Read the source material carefully before answering **Question 1**.
Answer **all** parts of **Question 1**.
Refer to the source material in your answers.

Section B
Answer any **three** questions.
Each question is introduced by stimulus material.
In your answer you may refer to this material and/or to other examples that you have studied.

Essentially, candidates must refer to the source material in their responses to **Question 1** in ***Section A***, but do not have to refer to the stimulus material in their responses to **Questions 2–5** in ***Section B***. The stimulus in ***Section B*** questions provides a focus, guiding candidates towards the relevant areas of economics that will be required in their responses.

General comments

This session there has been an increase in candidates attempting more than 3 questions in Section B and in answering questions out of order which, in some cases, led to candidates not completing all parts of a question. It is better for candidates to take more time to decide which three questions they are best able to answer all parts of, rather than rush to start a question then realise when they get to part **(c)** that they cannot provide a full answer.

In ***Section B***, part **(a)** of each question often asks for definition or identification of a key term, concept or theory. The assessment objective being tested is simple knowledge. Candidates need precise knowledge of all the key terms, concepts and theories in the syllabus which are included in the recommended textbooks available to candidates and their teachers. It would be good to see an improvement in this area as these should be quick, easy marks that are accessible to all candidates.

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Comments on specific questions

Section A

Question 1

(a) Most candidates identified two correct reasons why a person might have a low income. Popular responses were unemployed, old and sick – all from the first paragraph of the extract. A typical correct response was 'A person may be sick or old.'

(b) The fact that Russia has a proportional income tax system was correctly explained by many candidates. A typical correct response was 'Proportional, as 13% of income tax is paid by both poor and rich'. Most incorrect answers thought that it was regressive as 10% of the country owned 87% of the wealth. This is incorrect because the data relates to wealth and not income.

(c) Many candidates correctly calculated that the UBI in Costa Rica was 25% of the annual average income. A common error was 2.08%, which may have been because they missed the fact that the data showed UBI as a *monthly* income and so should have multiplied it by 12 to compare with the *annual* average income in Costa Rica.

(d) This question required interpretation and analysis of the data in the table and use of the data in answers given. Good answers used the data well, contrasting GDP / life expectancy of Monaco and Mali. Quite a few also explained that Russia was an exception to this comparing its data with Cost Rica. Finding, and highlighting, an exception within an analysis is a good technique. Other candidates only stated the correct relationship - that the higher the annual GDP per head, the longer the life expectancy - then explained that people with more income usually had better healthcare. Some went into great detail on this point which showed knowledge but is not what was asked for.

(e) This question was well answered by most candidates who correctly identified the opportunity cost of introducing UBI was the current state benefits and that spending on unemployment benefits generally meant less spending on other things e.g. education, healthcare. Many also gave a correct definition of opportunity cost. The example had to be from the extract and therefore marks were not awarded for references to other forms of government expenditure such as infrastructure and housing. A small number of candidates gave privatising state monopolies in Russia as an example without being clear what the opportunity cost of that action was.

(f) Candidates were generally good at discussing why monopolies charged high prices. Common reasons given included, being the only/dominant firm in the market, being a price-maker and the lack of substitutes. One strong candidate wrote 'A monopoly is when a firm has a very high market share and is able to control the price. As there are no substitutes consumer have no choice'. Candidates were less clear on why they might not charge high prices. Good answers stated that monopolies benefited from economies of scale arising from being large which enabled lower costs of production so they could offer lower prices and still make large profits. Other acceptable answers included being a government monopoly, fear of government imposing price controls and having an elastic good.

(g) Most candidates were able to identify two reasons from the three in the extract e.g. higher prices, higher income tax and colder weather in Finland. A common issue was that candidates often identified higher prices and higher income tax in Finland in the same sentence and then simply stated that this led to lower disposable income. Candidates should try to explain each point made separately to get the identification and explanatory development marks for each point made. Some candidates did not get development marks since they simply stated that higher prices or higher income tax would result in a lower standard of living in Finland, but standard of living was already in the question.

(h) Good responses made a balanced discussion about how unemployment might or might not reduce. At a macro level, good answers explained that higher state benefits would increase total demand resulting in producers employing more people, thereby reducing unemployment. At a micro level, good answers explained that state benefits would enable the unemployed to access training, better health provision and food enabling them to be more successful in seeking a job. A typical response was 'Paying higher state benefits means that the unemployed now have enough money to afford training and basic education. This allows them to gain necessary skills to attain a job.' In some

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countries state benefits go beyond unemployment benefit so such answers are acceptable. Answers on why unemployment would reduce were generally not so well developed. Stronger answers made reference to how close state benefits were to wages available and, if very close, might lead to some existing workers becoming voluntarily unemployed. A typical weak response was that some unemployed would simply live off the state benefits and not seek work. A few weaker answers just explained state benefits without reference to unemployment.

Section B

Question 2

(a) The majority of candidates explained that floating foreign exchange rates were determined by market forces or supply and demand. One good answer stated, 'A floating exchange rate is when the government does not attempt to fix the price of its currency and it is left for demand and supply to fix the price.' Other candidates needed to be more specific, i.e. a textbook style definition, rather than simply state that the rate went up and down a lot.

(b) Most candidates knew what was meant by the private sector but in some cases their answer did not state how governments would benefit. Good answers made reference to higher profits and therefore higher tax revenues for the government. Another popular benefit was that the private sector employed more people which meant the government paying less unemployment benefits. Other candidates needed to develop simple statements further, e.g. private firms offered lower prices or were more efficient, to make the link to the benefit for the government.

(c) Answers to this question would have been improved by analysis as to why low costs of production resulted in a decrease in exports. Some candidates only explained that lower costs meant lower prices so domestic demand rose meaning there was less to export. Good responses related to other changes taking place e.g. other countries applying protectionist policies such as tariffs; firms in other countries having even lower costs; or that low costs were linked with low quality and therefore less demand. Another good point made was that if the home country's exchange rate had risen, the country's exports might not be cheaper as a result of lower costs of production.

(d) Answers to this question required explanation of the impact of a fall in a country's foreign exchange rate related to why a government would want to prevent such a fall. Strong answers discussed the impact on imports and exports and therefore the balance of payments, related to government policy for the current account balance and, in some cases, the impact this has on inflation and employment. Candidates who understood the effect of a rise or fall in currency values for a country gained some marks.

Question 3

(a) Most candidates stated that a market was in equilibrium when demand equalled supply. A typical answer given was 'A market is in equilibrium if its supply and demand are the same e.g. there are no shortages'. Some drew a diagram to show this. Either approach was acceptable. Candidates who made reference to prices and demand without mentioning supply did not achieve both marks.

(b) Candidates need to understand that CPI is a means of calculating inflation and show how higher food prices would lead to an increase in the value of CPI. Answers needed to provide some explanation of CPI linked to the effect of higher food prices.

(c) A significant number of candidates drew a correct diagram and also analysed that supply would fall and prices would rise because bad weather is an important influence on crops. Candidates generally do well on these demand and supply questions but it is essential to correctly label the diagram and to make a written analysis of the outcome.

(d) Candidates showed a good understanding of higher inflation but in some instances did not relate this to producers. Answers tended to be better in explaining how it would benefit producers, especially if demand for their good was inelastic, because increased prices would result in greater revenue and profits. Some candidates recognised that costs would also rise, with many identifying a demand by employees for higher wages. Others correctly explained that exports might fall if prices rose faster than in other countries and that demand might also fall if imports became cheaper than home products. Some candidates needed to link their response about inflation specifically to producers.

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Question 4

(a) A typical correct answer was 'A loss is where total costs exceed total revenue.' Some candidates need to learn the difference between revenue and profit.

(b) Candidates need to be able to explain the difference between internal and external economies of scale. Generally, most candidates were able to explain that internal economies of scale arose from the growth of the firm and gave a correct example. Candidates also needed to explain that external economies of scale relate to growth of the industry, e.g. ancillary services, rather than just saying they are 'outside of the firm'.

(c) This was well answered by many candidates. Other candidates needed to develop their identification of the government action, e.g. spending on education and training, grants and subsidies, to explain how that increased the supply of enterprise. When referring to tax reductions, there is a need to explain which tax would impact upon the supply of enterprise. Quite a few candidates mentioned income tax or indirect taxes, but it is a tax on profits i.e. corporation tax which directly affects the supply of enterprise. Weak answers often confused supply side and enterprise.

(d) The difference between a public limited company and a public corporation was generally understood. Good answers commented on lower prices making goods more affordable and taking into account social costs and the environment. Some candidates discussed how private limited companies offered consumers greater choice and efficiency so were better than public corporations and this was an acceptable approach. Those that looked at the downside of public corporations often commented effectively on how the lack of a profit motive resulted in inefficiency and poorer quality goods. For discuss questions, candidates need to write a relatively balanced argument that addresses the key points of the question, in this instance the benefits to consumers.

Question 5

(a) Many candidates were able to identify two functions. As mentioned in the General Comments, however, it is important for candidates to learn key terms accurately because in some cases the wording used was inaccurate e.g. method of value was used instead of measure of value and means of exchange rather than medium of exchange, and some confused functions of money with characteristics of money. For a 2-mark identification question detailed descriptions are not needed.

(b) Candidates need a clear understanding of the difference between central and commercial banks. Correct answers explained the need to reduce spending so that it reduced total demand and therefore demand-pull inflation. Others correctly stated that less borrowing would reduce imports and therefore reduce a balance of payments deficit.

(c) Strong answers made the point that skilled workers got paid more because employers rewarded them for increasing sales, improving quality and enabling firms to make bigger profits. A few also went on to analyse that skilled workers had stronger bargaining power because they were harder to replace / more productive than unskilled workers. It was difficult for candidates to achieve high marks if their answers did not reference demand and supply.

(d) A typical good response to the first side of the discussion explained that higher interest rates would increase savings and reduce borrowing resulting in lower spending, a fall in total demand and therefore lower output reducing economic growth. Candidates also needed to be able to explain the second part of the discussion - why a rise in interest rates would not reduce economic growth. Some candidates related this to reduced demand causing a reduction in inflation which could lead to increased exports so improving economic growth, but other factors such as how the level of government spending could offset lower consumption and investment were not considered. This is another good reminder to read questions carefully, pick out key words and plan a full response before starting to write answer.

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Question 6

(a) Most candidates gave a correct definition of a multinational company. Where they did not it was usually because they did not state more than one country. Typical responses were acceptably short e.g. A multinational company is one that operates in more than one country.'

(b) This question was answered well by most candidates. Weaker responses tended to focus on boredom, e.g. 'Doing the same task for a long time can be boring for a worker.' Better responses also explained the risk specialist workers face from unemployment and low occupational mobility as they only have a narrow range of skills.

(c) Candidates need to read carefully what the question is asking rather than make quick decisions to write about a concept they have learnt. In this instance, many candidates did not pick up on a *change* in elasticity and therefore simply analysed the effect of having an elastic or inelastic demand. Those who did write about the change in elasticity generally gave good answers although very few mentioned that the effect depended upon the size of the change taking place.

(d) The impact of a subsidy was well understood by most candidates and the majority were able to apply this to the book market. Most recognised that a subsidy would lower costs enabling producers to lower prices and that demand would rise, leading to raising education standards. Some responses were not as strong on discussing why the government should not subsidise books. Most identified that there was an opportunity cost e.g. better spent on education. Others wrote effectively about the effect on the environment if more trees were used to produce paper and whether it would be a waste of money because of the growth of e-books.

Question 7

(a) This question was answered well with most candidates identifying two fiscal policy measures. These were usually government spending and a 'named' tax. A small minority stated expansionary fiscal policy and contractionary fiscal policy as two fiscal policy measures, but these were not accepted as they are types of fiscal policy and not measures of fiscal policy.

(b) This question required reasons why the level of unemployment differed *between* countries. The most common reasons were one country in recession / low demand, compared with the other country resulting in cyclical unemployment, rapid population growth not creating enough new jobs and low education resulting in a surplus of unskilled workers, which was often linked to a distinction between developed and undeveloped countries.

(c) Quite a few candidates recognised that this question related to increasing the productive capacity and analysed a number of ways in which this could be achieved including education and training, subsidies, reducing income tax and unemployment benefits encouraging people to work. A few candidates also referred to privatisation, removal of regulations and trade union reforms all aimed at encouraging firms to be set up and expand. Other candidates needed to focus on developing their examples of supply side measures into an analytical explanation of how each might reduce unemployment.

(d) There were some well balanced and developed answers. Industries which were sunrise, sunset or strategic were often mentioned and good candidates also explained the benefits for individuals e.g. employment. The arguments for not protecting industries was generally less developed but tended to relate to disadvantages for consumers in respect of less competition, less variety, higher prices and reduced quality of goods. Retaliation by other countries and the impact that this would have on exports was also commonly mentioned. Again, some candidates need to learn how to develop their description of types of measures, e.g. tariffs and quotas, into a discussion about the effect of providing protection for domestic firms and how this benefited the economy.

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ECONOMICS

Paper 0455/22
Paper 22 Structured Questions

Key messages

Candidates do best when they:

Allocate their time effectively. Answers to the **(a)** parts only need to be brief. The length and depth of answers would then be expected to increase from 'explain' questions to 'analyse' questions and finally to 'discuss' questions.

Read the questions carefully. It may be useful to underline key words.

Consider their answers before writing them. Some candidates write confused statements that wander off the point off the question.

Recognise it is the quality rather than the quantity of words written that is important. While answers to the 'discuss' questions should be of a reasonable length, candidates should be selective in what they include. For example, some candidates seemed to write all they knew about arguments for and against imposing import tariffs in their answers to **Question 3(d)** rather than focusing on reasons why import tariffs might and might not reduce unemployment.

Give explanations in the 'explain' questions. Some candidates just identify points. For instance, a number of candidates identified two causes of an increase in a country's HDI in answer to **Question 4(b)** but did not explain them.

Provide relevant links in the 'analyse' and 'discuss' questions. For example, 'a shortage of available new workers' provides the link between 'a fall in unemployment' and 'higher wages' in **Question 5(d)**.

Answer 'discuss' questions in a direct and structured way, for example use one paragraph for each point. Some candidates produced good answers which made clear from the start what question they were answering and which examined both sides of the question.

Recognise the difference between total and average variables. For example, in answering **Question 2(d)** what is significant is not whether a larger output will mean higher total costs but whether it will mean higher *average* costs (*per unit sold*).

Use appropriate economic terms accurately, e.g. do not confuse productivity and production.

Please note the new instructions for this examination paper from 2020:

Section A
Read the source material carefully before answering **Question 1**.
Answer **all** parts of **Question 1**.
Refer to the source material in your answers.

Section B
Answer any **three** questions.
Each question is introduced by stimulus material.
In your answer you may refer to this material and/or to other examples that you have studied.

Essentially, candidates must refer to the source material in their responses to **Question 1** in ***Section A***, but do not have to refer to the stimulus material in their responses to **Questions 2-5** in ***Section B***. The stimulus in ***Section B*** questions provides a focus, guiding candidates towards the relevant areas of economics that will be required in their responses.

General comments

The number of candidates who answered more than three optional questions continues to decline. Most candidates answer **Question 1** first and answer the question parts in order which is generally the best approach.

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The use and accuracy of diagrams was generally good and candidates seem confident in their application.

There was an increase in the number of candidates who did not number the question parts they answered or did not number them accurately. For example, some candidates answered **Question 5(a)** and wrote **5(a)** at the start. They then answered **Question 5(b)** but wrote **6(b)**.

There was quite an even spread of optional questions selected. **Question 2** was the most popular and **Question 4** the least popular.

The question parts which candidates seemed to find the most challenging were the **(b)** and **(c)** parts in ***Section B***. In some cases, candidates did not seem to think through carefully enough what the questions were asking.

Comments on specific questions

Section A

Question 1

Most candidates made good use of the extract / source material and most coped well with the 'discuss' questions.

(a) Most candidates were able to identify two factors that influence an individual's choice of occupation. Candidates need to spend their time wisely by not giving more than two factors, not writing a lot about the significance of two factors and not quoting the extract at length without clearly identifying two factors.

(b) Candidates tend to understand opportunity cost and have the ability to apply it in different contexts. All candidates need to understand the idea that something has been given up / forgone in favour of something else.

(c) Some candidates calculated the figure accurately. Others used the right method, but thought the answer was 2560 rather than 2.56 million. A few calculated 4% of the labour force rather than 4% of those in employment. Candidates should be aware that often, when there are 2 marks for a calculation, 1 mark can be awarded for a correct method even if the answer is wrong so it is beneficial for candidates to show their workings.

(d) A number of candidates produced strong answers to this question, showing a good understanding of influences on the size of a country's population. Most candidates recognised that the birth rate had fallen and explained a reason why. Others needed to study the extract/source more carefully because they did not pick up on the reference to 'the fall in the death rate'.

(e) Some excellent answers examined the data to conclude that most of it indicated an inverse relationship between the average hours worked and productivity. Evidence was provided, an explanation given and an exception was recognised. Other candidates need to understand that a descriptive approach, such as 'average hours worked per week were approximately 28 hours and productivity was $65 in France while average hours worked were about 26 in Germany and its productivity was $68' was not appropriate. Some candidates also need to look at the data very carefully so they find trends and exceptions about the relationship asked for, in this instance average hours worked and productivity.

(f) A high proportion of candidates provided good links between a cut in income tax and a change from deflation to inflation. Within these links, there was good use of economic terminology including 'disposable income' and 'demand-pull inflation'. Quite a lot of candidates went on to discuss reasons why a cut in income tax might not be effective in increasing the price level. Particularly good awareness was shown of how confidence can influence consumer spending and saving.

(g) There were a number of perceptive answers with some interesting comments about how both demand and supply of labour had been increasing in line with each other and the impact of low economic growth. Fewer candidates referred to the priority of trade unions, but those who did often explained the impact on wage rises in a clear way. Other candidates needed to develop their

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reasoning as to why wage rises have been low in Japan while demand for labour had been increasing.

(h) There were some strong answers to this question, with candidates exploring the impact of employing more migrant workers on, e.g. the size of the labour force, productivity, total demand and tax revenue. Most candidates considered both the reasons why Japan may benefit and why it may not. There were some particularly good comments on the effect on Japan's balance of payments of migrant workers sending money home to their relatives. A few candidates focussed on possible social impacts instead of the economic impact.

Section B

Question 2

This was the most popular question. Those who answered this question tended to find part **(b)** the most challenging.

(a) Most candidates could identify two relevant types of business organisation that operate in the private sector. Other candidates need to improve their knowledge of the private sector and not only learn names of firms that operate in it.

(b) Good responses recognised that demand would become more elastic because of the effect of more firms on the level of competition, choice and power it gives consumers to switch between substitutes. Some candidates limited their answer to the impact on the number of substitutes, but all candidates need to be clear on the difference between elastic and inelastic demand.

(c) Most candidates drew clear, accurately labelled diagrams and provided strong written analysis. Many candidates correctly recognised that tyres are a complement of cars. Some candidates need to check the focus of the question, the market for tyres in this instance, and some need to practice correct labelling of their diagrams.

(d) There were some strong discussions based on the significance of economies and diseconomies of scale, the impact of greater market power and the possible reasons why small firms may be able to experience more profit per unit sold. Some candidates need to learn to be precise about e.g. economies of scale resulting in lower *average* costs of production and appreciate the difference between total and average costs of production and revenue. The ability to read questions carefully is also essential because some candidates mistakenly wrote about large firms producing more and so having higher total costs and selling more and so having higher total revenue.

Question 3

Candidates performed best on the **(a)** and **(d)** parts of this question.

(a) The two most common methods identified were quotas and embargoes. Some candidates need to revise methods of trade protection other than tariffs.

(b) Those candidates who answered the specific question often provided clear and well-focused answers. Some candidates need to read the question more carefully so the focus of their response is correct because they only wrote about price changes without considering how demand and supply would adjust, or wrote about what causes surpluses and shortages not their elimination.

(c) Most candidates recognised that improvements in education would result in more skilled workers. A number went on to consider the impact on the types of jobs people do particularly in terms of the sectors in which they will work. Again, if some candidates read the question more carefully they would have focussed on the *pattern* of employment.

(d) There were some very strong answers which explored the impact of tariffs on unemployment by considering how these may affect price, demand for imports, demand for domestic products and tax revenue. They also considered the impact on unemployment in infant and declining industries. There was some good discussion of the risk of retaliation, the impact on costs of production arising from more expensive raw materials and capital goods, and the possibility of a lack of domestic substitutes.

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Question 4

This was the least popular question. Candidates found **part (d)** particularly challenging.

(a) Most candidates recognised that capital goods are used to produce other goods and services. A relatively high proportion of candidates gave an example but this was not required.

(b) Most candidates explained how an improvement in education and healthcare could increase a country's HDI. Other candidates could improve their performance after identifying two causes by explaining them precisely, for example referring to an increase in income per head and not a rise in total income.

(c) Many candidates understand production possibility curves and can apply them in different situations; most diagrams were labelled correctly and most curves were drawn to the axes. The accuracy of the diagrams tended to be stronger than the written analysis. A relatively high proportion of candidates need to understand the difference between a decrease in productive capacity and a decrease in output.

(d) A lot of excellent responses discussed differences in demand, education, healthcare and productivity and explored some interesting points, e.g. differences in motivation to increase GDP and how a given rise in GDP from a low basis would generate a faster economic growth rate than one from a higher basis. Some candidates need to revise this topic more thoroughly.

Question 5

This was a reasonably popular question but some candidates did not consider *key* words in **parts (b), (c)** and **(d)**.

(a) Most candidates were able to identify two supply-side policy measures. The three most common measures identified were education, training and a cut in income tax.

(b) There were some good answers. A number of these concentrated on a more progressive tax system and increased spending on state benefits. There were also some good explanations on the effect of introducing minimum wages which actually went beyond the syllabus, but relevant economics is always welcomed and rewarded. Some answers were restricted because they did not specifically relate to *relative* poverty.

(c) Some answers provided clear analysis of the reasons why small shops may be easy to set up. The strongest analysis tended to relate to the relatively low cost involved, the relative ease of raising finance and the possibility of gaining government subsidies. Some answers concentrated on why small shops are easy to run rather than *set up* so included analysis irrelevant to this question.

(d) Strong answers explored the impact on the output of firms, demand for that output, costs of production and the ability of firms to expand. There was some good discussion on how a fall in unemployment may strengthen trade unions in their negotiations with firms. Some candidates need to understand more about the impact of a fall in unemployment on productivity because they confused productivity and production and also suggested incorrectly that a fall in unemployment meant an increase in the labour force. It is important for candidates to recognise that the unemployed are included in the labour force. Again, it is important for candidates to find the focus of a question, in this instance *firms*.

Question 6

The performance on this question was generally good. Most candidates coped better with the **(b)** part than on other questions and there were some strong answers to **part (d)**.

(a) Most candidates were able to identify two reasons why market failure occurs with the existence of external costs and abuse of monopoly being popular choices. The focus of this question was market, not government, failure.

(b) The vast majority of candidates were able to explain how both the private and public sectors allocate resources in a mixed economic system. There were some particularly good explanations about what each sector is seeking to achieve when deciding how to allocate resources.

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(c) There were some good answers which analysed: the increased price of basic necessities; how state benefits may not rise in line with inflation, how the real value of any savings used by the poor to finance healthcare, for example, may decline and how cost-push inflation may result in some low-paid workers losing their jobs. Some candidates could identify some of the consequences of inflation but need to expand their knowledge, or read the question more carefully, so they go on to analyse them in relation to the poor.

(d) Most candidates showed good awareness of government aims for the economy and the effectiveness of an increase in government spending to achieve these aims. There was some particularly good discussion of how an increase in government spending on education and infrastructure could help to achieve a reduction in unemployment and an increase in economic growth. Policy conflicts were also well examined, especially in terms of the risk of creating demand-pull inflation and damage to the environment. Maintaining the focus of a discuss question through to the end of an answer is something that candidates must practice so that they can improve their performance in the future. This can be helped by making a brief plan of the answer. This would not waste time in the examination and might well help a candidate to achieve full marks for a question.

Question 7

This was a popular question. There were good answers but some lack of precision.

(a) A relatively high proportion of candidates gave the accurate formula for PED. Others need to concentrate to ensure they are precise and learn textbook definitions of key terms and concepts so they are able to gain these easily accessible marks.

(b) A number of good answers focused on a decrease in demand due to greater awareness of the health risks of eating sugar and an increase in supply of sugar due to a fall in the costs of production. Again, precision in the use of key terms would have benefitted some candidates as would development of explanations for both reasons.

(c) Some candidates adapted their knowledge of fixed costs well to answer this question and included good analysis of how an increase in the scale of production, greater cost of insurance, a higher interest rate and inflation may increase a producer's fixed cost. Less precise responses were about costs in general and/or variable costs.

(d) There were some excellent and interesting answers with most concentrating on specialisation in sugar. These answers explored reasons why a country might be able to produce sugar at a low average cost and attract a high number of buyers, as well as the disadvantages and risks involved in devoting a high proportion of the country's resources to sugar production. Some candidates need to develop understanding that a country may concentrate its resources on one or two major industries but division of labour may, or may not, be used within those industries.

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ECONOMICS

Paper 0455/23
Paper 23 Structured Questions

Key messages

The key to a good answer when tackling extended questions (**1(e)**, **1(g)** and **1(h)** in Section A, and all part **(c)** and **(d)** questions in Section B) is to have a clear structure from which to work. A systematic approach is much easier to follow and prevents the candidate from losing focus and writing a series of unconnected points. For example, in **Question 7(c)** the best answers were those which considered birth rates, death rates and net immigration one at a time, and developed relevant analysis in relation to different types/sizes of countries/economies and their stage of development. Weaker answers consisted of a series of unconnected points relating to population growth, such as education and healthcare.

Use of the correct terminology is an important contributor to success in economics examinations. Candidates who are precise in their use of economic terms tend to do well because it gives clarity to their answers. For example, use of the terms exports and imports to describe foreign trade is very straightforward and clear, whereas using long descriptions of one country buying from another country often leads to lack of clarity and even confused answers.

Please note the new instructions for this examination paper from 2020:

Section A
Read the source material carefully before answering **Question 1**.
Answer **all** parts of **Question 1**.
Refer to the source material in your answers.

Section B
Answer any **three** questions.
Each question is introduced by stimulus material.
In your answer you may refer to this material and/or to other examples that you have studied.

Essentially, candidates must refer to the source material in their responses to **Question 1** in ***Section A***, but do not have to refer to the stimulus material in their responses to **Questions 2–5** in ***Section B***. The stimulus in ***Section B*** questions provides a focus, guiding candidates towards the relevant areas of economics that will be required in their responses.

General comments

Candidates should not assume that every question requires long answers and should be aware that very short answers are often sufficient for questions which carry less than 4 marks. For example, in **Question 1(a)**, two words, farming and fishing, is all that was required to identify two industries in the primary sector. In 'identify' questions such as this, it is not necessary to develop the answer with an explanation, and it is much better to move on to another higher mark question once the relevant points have been identified.

In **Question 5(b)** many candidates mistakenly gave 'subsidies' and 'trade protection' as reasons for the growth in average earnings, but these were already provided in the stem/stimulus. Better candidates were able to build their answer from the stem, realising that this question requires sound economic theory of the demand for labour - derived from the demand for goods and services.

Section A nearly always includes a question involving calculation where one mark is often available for a correct method used even if the answer is wrong, so it is beneficial for candidates to show their workings.

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Comments on specific questions

Section A

Question 1

(a) Most candidates were able to identify fishing and farming as examples of primary industries. Many then proceeded to explain why this was the case, but this was not required by the question.

(b) It was a straightforward task to identify protection of domestic fishermen and protection of fish stocks as reasons for government regulation, as indicated in the extract. Most candidates were then able to develop the answer and explain that this would preserve jobs and sustain fish for future generations.

(c) Similarly, identification of the greater availability of bank loans and the income of major trading partners were identified by most candidates as reasons for Iceland's high growth rate. Other responses lacked precision and would have benefitted from a clear explanation of export growth.

(d) The best answers were usually the most succinct ones. Converting $17 bn to $17 000 000 000 is unnecessary and can lead to elementary mistakes, whereas doing the calculations in billions removes the need for very long numbers with 9 or 10 zeroes. Using scientific 'power' notation is also over complicated. Quite simply: $17 bn · 1.09 = $18.53 bn.

(e) The trend over the twelve year period shown was the opposite of what might be expected, so it is very important for candidates to examine graphs carefully before coming to conclusions because between 2002 and 2014 both unemployment and economic growth rose. To be able to analyse such data effectively it can be useful to break it down and, in this instance, consider the trends between 2002 and 2008 and then between 2009 and 2014. In both of these time periods, the expected relationship (increased growth and falling unemployment) is true which gave candidates the option to compare those periods with the whole timeframe. This question clearly requires an analytical approach and some candidates need to improve this skill to achieve higher marks than they will for simply describing what happened each year.

(f) Answers to this question were generally good, with most candidates able to identify the supply of fish as price-inelastic, supporting this with evidence from the extract about percentage change of quantity supplied in response to a change in price. Other candidates needed to practice precision in their answers; e.g. a small change in quantity supplied was not sufficient, a smaller *percentage* change was required.

(g) It is the central bank in a country that usually sets national interest rates, on which commercial banks base their interest rates. Strong answers discussed how lending allows consumers to spend and firms to invest, expanding output in the economy but that banks may also encourage saving which tends to decrease consumption and therefore total demand. Some candidates need to better understand the difference between commercial banks and central banks and that saving and investment are different concepts.

(h) There were some excellent answers to this question, with candidates able to discuss a wide range of both advantages and disadvantages of tourism in Iceland. The best answers discussed exports of services, increased demand for Iceland's output and the benefits in terms of employment; contrasting this with the external costs such as pollution and the dangers of inflation caused by the extra demand from tourist consumption. Candidates must remember that a discuss question requires a two-sided discussion so in this instance: reasons why growth in tourism is beneficial to Iceland, but also a well-balanced discussion as to why it might not be an advantage.

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Section B

Question 2

(a) The full definition requires an indication of both trade in goods and trade in services or flows from both primary and secondary income; the more limited 'exports greater than imports' is insufficient for full marks.

(b) Most candidates could identify two possible causes of unemployment but developing the ideas proved more difficult. It is important for candidates to explain, for example, why economic growth may reduce unemployment - because higher output requires more workers and why better education will increase the skills of workers - making them more employable.

(c) Relative poverty is poverty compared to an *average*, such as 60% of the median income in a country. Better answers examined poverty in relation to inadequate healthcare and an inability to provide good education for children. Most candidates need to learn how to give a precise definition of relative poverty.

(d) As indicated in the key comments above, the best responses to this question were those which used the terms exports and imports. This gave clarity to the explanations and subsequent discussion. Once candidates had identified that a surplus would mean greater exports, then it was a straightforward task to link this to greater output and the subsequent derived demand for labour. On the other side of the discussion, the most rewarding approach was to explain that a surplus might raise the exchange rate and thus increase imports, putting domestic workers out of a job.

Question 3

(a) Those who attempted this question were usually able to produce an acceptable definition of supply-side policy in terms of increasing total output in an economy.

(b) Good answers to this question were those that focussed exclusively on the activities of a stock exchange, such as facilitating the selling of shares in order to raise capital for businesses.

(c) There were good answers examining the potential conflicts between low inflation and low employment, and also between economic growth and protection of the environment.

(d) The most popular approach to this question was to examine the benefits of transport infrastructure projects, as illustrated in this extract from a successful answer: 'Investment in improving roads would allow for more efficient transportation of goods, and allow for more trade and people employed. Infrastructure projects also generate jobs which will allow more consumer spending. However investment in infrastructure has an opportunity cost, the government has to divert funds which could have been spent on education and healthcare'. Some excellent answers also contrasted the short run costs (e.g. more congestion while roads are being built) with the long run benefits (e.g. faster travel times).

Question 4

(a) Many candidates were easily able to identify two motives for consumer spending, such as the need for food or the fear of future price rises. Candidates must be taught to appreciate the importance of reading each question very carefully so that in this instance answers focussed on *motives* for consumer spending.

(b) This question proved straightforward for most candidates, with investment and payment for running costs the most popular benefits. It was however, necessary for candidates to develop these answers with explanations of improved efficiency and staying in business respectively, in order to gain full marks.

(c) The key to a good answer to this question was to consider the prices of exports and imports and the subsequent effects upon the current account of the balance of payments. Candidates need to appreciate how important the use of precise economic terms is, e.g. a depreciating currency leads to cheaper exports and dearer imports.

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(d) This is an example of a clear and succinct response to the first part/side of this discussion: 'A fall in interest rates will benefit an economy because borrowing has now become cheaper. Firms can expand by buying more capital, increasing productive potential and the total GDP. Individuals can borrow money cheaper than before so spending is encouraged giving more profits to firms. As firms grow they require more labour so unemployment will decrease'. Such a response would achieve the maximum of 5 marks available for one side of the discussion.

Question 5

(a) Most candidates who attempted this question were able to define a public limited company correctly in terms of its shares traded on the stock exchange and the limited liability condition of its shareholders. Some candidates need to understand the difference between a plc and a public corporation (state-owned company).

(b) Only a few candidates were able to link the growth in average earnings to the demand for goods and services and the idea of labour as a derived demand.

(c) Most answers to this question had accurate diagrams and concise written analysis. Some candidates need to be more precise in their diagrams, correct labelling for example, and remember that subsidies shift the *supply* curve**,** not the demand curve.

(d) The best answers considered how increasing the price of imports and reducing their availability would benefit domestic firms, such as infant and sunset industries, contrasting that with the problems of retaliation and the potential complacency that could occur as a result of protection. Some candidates need to improve the skill of analysis and evaluation for this type of question because simple descriptions do not offer sufficient depth of discussion.

Question 6

(a) Social cost is not simply external costs such as pollution, but are the costs to the whole of society and therefore include private costs, such as those incurred by firms themselves, as well as external costs.

(b) Most candidates who attempted this question could identify that a firm will specialise in what they produce best and therefore increase their efficiency. It was rare however to see answers that identified and explained a second reason, such as the suitability of factors of production: e.g. land for growing crops or labour which has the appropriate skills.

(c) The key to a good answer to this question was to identify economies of scale as a starting point. Once candidates had seen this link, the rest of the question was then relatively straightforward – falling average costs would cause the price of the product to fall, enabling consumers to buy more and improving their living standards. Improved quality of the products cannot be assumed however, and will only improve for consumers if the firm spends more on innovation or research and development.

(d) This question was answered well by many candidates, with the majority concentrating on the problems poor consumers can face in a market economy, along with the potential external costs arising from firms' pursuit of profits rather than wider goals. A few candidates need to be taught that a discuss question requires 2 sides to be discussed/analysed/evaluated but that there is no need for a conclusion because the point made should be evaluative in themselves.

Question 7

(a) There were some very clear, concise answers to this question, defining labour as the human factor of production, but there were also some vague answers which only defined labour as workers or work itself.

(b) Most candidates who answered this question could identify gaining interest as a motive for saving and go on to explain that this would accumulate in their bank accounts. Not all candidates went on to identify a second motive, such as saving for unexpected events.

(c) The best answers to this question used birth rates, death rates and immigration as a basis for their answer, making it a straightforward task to develop these points about different countries.

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Candidates must be encouraged to adopt a clear structure such as this rather than answer with a series of undeveloped points about the effects of education, contraception and health on population growth.

(d) An increase in the working-age population means that the size of the labour force has increased because there are more people of working-age available. Many candidates need to understand this. A few good answers considered the effects on incomes, total (aggregate) demand and economic growth; contrasting this with the problem that no jobs might be available and that the extra workers might have inappropriate skills.

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