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ECONOMICS

Paper 0455/11
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **Questions 3**, **5**, **8**, **9**, **10**, **13**, **14**, **22**, **23**, **26** and **28**. These questions were answered correctly by 75% or more of the candidates.

The questions for which the fewest candidates selected the correct answer were **Questions 6**, **7**, **19**, **20**, and **27**. These questions were answered correctly by 40% or fewer candidates.

Comments on specific questions

Question 6

Question 6 was answered correctly by 21% of candidates who chose option **A**. 27% chose option **B**, 12% chose option **C** and 40% chose option **D**. The original equilibrium price is $7. If supply increases by 200 units at each price it would mean that the quantity supplied at $6 would be 600 units which equals the quantity demanded. The equilibrium price has decreased by $1.

Question 7

Question 7 was answered correctly by 38% of candidates who chose option **C**. 21%chose option **A**, 18% chose option **B** and 23% chose option **D**. Elasticity of supply is the responsiveness of supply to a change in price. Those who chose option **A** confused the cause and effect and reversed the calculation.

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Question 19

Question 19 was answered correctly by 32% of candidates who chose option **A**. 10% chose option **B**, 48% chose option **C** and 10% chose option **D**. The new price would be $60, and the new quantity sold would be 80, therefore option **A** was the correct answer. Option **C** gives the total revenue from the sale of the product, but not all of that goes to the government in the form of tax receipts.

Question 20

Question 20 was answered correctly by 36% of candidates who chose option **C**. 59% chose option **A**, 4% chose option **B** and 1% chose option **D**. Those who chose option **A** may not have noticed that the vertical axis shows a negative amount in the period referred to. The only year when there was a growth rate above zero (positive) was given by option **C**.

Question 27

Question 27 was answered correctly by 37% of candidates who chose option **A**. 38% chose option **B**, 14% chose option **C** and 11% chose option **D**. Those who chose option **B** confused the trade in goods (visibles) with the trade in services (invisibles). Tea in option **B** would be trade in goods. Although in option **A** Ugandan exports are being carried it is the service of transport (invisibles) that is being provided by Kenya.

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ECONOMICS

Paper 0455/12
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **Questions 3**, **10**, **14**, **20**, **22**, **24** and **30**. These questions were answered correctly by 80% or more of the candidates.

The questions for which the fewest candidates selected the correct answer were **Questions 5**, **8**, **27** and **29**. These questions were answered correctly by fewer than 50% of the candidates.

Comments on specific questions

Question 5

Question 5 was answered correctly by 37% of candidates who chose option **C**. 5%chose option **A**, 23% chose option **B** and 35% chose option **D**. High prices and low investment may well occur in market systems, however their existence does not mean that there is market failure. A lack of competition and, as a result, the possibility of a monopoly could well lead to an inefficient allocation of resources. This would be market failure.

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Question 8

Question 8 was answered correctly by 49% of candidates who chose option **C**. 19% chose option **B**, 24% chose option **B** and 8% chose option **D**. Abundant career opportunities (option **A**) would be an advantage, as would earnings related to the level of skill (option **B**). It may be that the candidates who chose options **A** and **B** did not notice that the question asked for a disadvantage.

Question 27

Question 27 was answered correctly by 45% of candidates who chose option **A**. 26% chose option **B**, 21% chose option **C** and 8% chose option **D**. Those who chose option **B** confused the trade in goods (visibles) with the trade in services (invisibles). Tea in option **B** would be trade in goods. Although in option **A** Ugandan exports are being carried it is the service of transport (invisibles) that is being provided by Kenya.

Question 29

Question 29 was answered correctly by 41% who chose option **B**. 32% chose option **A**, 19% chose option **C** and 8% chose option **D**. The question asked about a rise in the deficit on the current account of the balance of payments, that is, what would make the deficit worse. This could happen if payments into the country decreased, or it could happen if payments out of the country increased. Option **B** was a decrease in the payments into the country and would therefore cause a rise in the deficit on the current account of the balance of payments.

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ECONOMICS

Paper 0455/13
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **Questions 1**, **2**, **3**, **10**, **14**, **24**, **26** and **30**. These questions were answered correctly by 80% or more of the candidates.

The questions answered correctly by fewer than 50% of the candidates were **Questions 6**, **21**, **23** and **27**.

Comments on specific questions

Question 6

Question 6 was answered correctly by 27% of candidates who chose option **D**. 4% chose option **A**, 44% chose option **B** and 25% chose option **C**. The question asked about a movement **along** the supply curve. Those who chose option **B** confused that with a **shift** of the supply curve. New technology, which reduced the costs for every unit produced, would be a **shift** of the whole supply curve.

Question 21

Question 21 was answered correctly by 33% of the candidates who chose option **D**. 51% chose option **A**, 5% chose option **B** and 11% chose option **C**. Adult literacy rate was part of the HDI prior to 2010 but it was regarded as an insufficient measure of knowledge achieved by the adult population as it was a binary variable – literate or illiterate. It was replaced by an education assessment based on the expected years of schooling for children or the mean years of schooling for those over 25.

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Question 23

Question 23 was answered correctly by 39% of the candidates who chose option **C**. 8% chose option **A**, 12% chose option **B** and 41% chose option **D**. It was very common for candidates to confuse a slower rate of growth in prices with a fall in prices. All the points in the graph show a positive inflation rate. As long as there is inflation then prices are rising. They may be rising at a slower rate than in previous years but they are still rising.

Question 27

Question 27 was answered correctly by 44% of the candidates who chose option **A**. 21% chose option **B**, 29% chose option **C** and 6% chose option **D**. The question referred to the trade in services (invisibles). Coffee sales would not be classed as a trade in services. The candidates who chose option **C** were confused by the fact that the coffee sales were being promoted by a visiting delegation.

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ECONOMICS

Paper 0455/21
Structured Questions

Key messages

- Candidates should be precise in their answers. For example, a response which simply states that economic growth *affects* the environment is insufficient because there is no indication of the way in which the environment has been affected. Similarly, an answer which states that a lack of skills *affects* the earnings of a worker, without indicating whether it increases or reduces wages, is not satisfactory.

- Candidates should use the marks available for a question as an indication of how much detail to write in an answer. For example, Question **1(a)** simply required a factor of production to be stated with an example from the extract/source, therefore a satisfactory answer would be: land e.g. in Manhattan.

- Questions with the command word Explain are usually worth 4 marks. This indicates that 4 separate parts/points are required to gain the marks. For example, Question **7(b)** requires 4 facts about how the CPI is calculated. Question parts **(b)**, such as **2**, **3**, **4**, **5** and **6 (b)** require identification of 2 types/reasons/ways/causes/functions, and explanations of both.

- When a question asks for analysis of data in a table, e.g. Question **1(d)**, candidates should first explain the expected economic relationship for the data presented in the table. They should then consider the data provided and whether it follows the expected pattern. To answer the question, candidates must analyse how/why the data provided meets, or is an exception to, what is expected. Candidates can provide an example of an expected relationship, an exception, or a trend shown in the data, to help to explain their analysis. They should consider a trend over the time period given, not just describe the yearly differences shown.

- Candidates need a good understanding and knowledge of international trade because it can help to give greater depth to answers to questions concerning general micro and macroeconomic performance, as well as to specific international trade questions.

General comments

Some candidates change their answers either by adding extra comments at the end of the answer booklet or crossing out and re-starting or starting a different question. It is understandable that candidates may make changes to their answers or change their minds, but they should be encouraged to take the time to carefully read and consider the question, *and plan how they can answer it*, before they start to write anything. When a change is necessary, candidates should indicate clearly that there is extra work later in the answer booklet so that Examiners can immediately go to the extra work and take it into account when awarding marks. Should a candidate wish to cross out work, they should simply put a diagonal line through it.

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Comments on specific questions

Section A
Question 1

(a) Most candidates could identify a factor of production (land, labour, capital or enterprise) but not all found an example from the extract/source text.

(b) Most candidates could identify two causes of economic growth from the extract/source. Stronger answers explained the causes identified, for example how good human capital was more productive. Weaker answers needed to develop their explanations.

(c) The extract stated that 80% of workers did not work in finance (1.6 million other workers) so the calculation was 1.6m X 100/80 = 2m.

(d) The expected relationship is that working hours and wages would move in the same direction, because if workers work more hours they would expect to receive more wages. The data in the table did not support the expected relationship because weekly hours worked fell slightly between 2011 and 2017. The logical reason for the exception was that the hourly rate of pay for New York workers had increased so they did not have to work for more hours to receive a higher weekly wage.

(e) Successful candidates linked different skills to different earnings, although few candidates mentioned discrimination e.g. based on gender and earnings in different industries.

(f) Good answers used the extract to explain how environmental problems, such as increased pollution, or the risk of a financial crisis, could have negative consequences for economic growth in New York. Less successful candidates did not use the extract so only explained negative effects of economic growth in general.

(g) The best answers were those which discussed both sides equally. Most candidates were able to discuss how a large tertiary sector could generate economic growth and employment. Fewer candidates were able to discuss the disadvantages. Strong candidates were able to show that a large tertiary sector is likely to lead to congestion and housing problems, rather than pollution from factories.

(h) Good answers emphasised the advantages of free trade in terms of competition from imports reducing prices for consumers, improving quality, and forcing domestic producers to become more efficient. More successful candidates went on to discuss the disadvantages in terms of job losses and the possible effects on the current account of the balance of payments from an increase in imports. The most common mistake was to confuse free trade with a free market. Some candidates changed the question to discuss the effects of protectionism, but they were not successful because their points did not address this specific question. This highlights the negative affect of candidates having pre-prepared answers.

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Section B
Question 2

(a) The best answers to this question were concise: *an industry consists of firms producing the same product.* The key is that an industry is several firms, unless it is a monopoly - but that was not the question asked.

(b) The most successful candidates were able to clearly identify and explain the two types of integration: *Horizontal integration is when firms in the same industry and stage of production join together. Forward vertical integration involves a firm in the same industry joining with another one in the next stage of production.*

(c) Candidates understood that MNCs usually have cost advantages over domestic firms, especially due to the economies of scale provided by their greater size. Successful candidates analysed the advantages provided by the larger markets to which MNCs have access and the resulting higher profits.

(d) Some candidates focussed on the benefits to monopolistic firms, rather than the economy as a whole. Stronger candidates considered the macro-economic aspects of monopoly and discussed key factors affecting the whole economy, such as growth, employment, productivity and inflation and whether or not these are beneficial.

Question 3

(a) Most candidates were able to identify an example of a direct tax, such as income tax, and an example of an indirect tax, such as sales tax. Straightforward definitions like this are fundamental to candidates' learning so that they can write them quickly and easily in an examination.

(b) Most candidates could identify the cost savings arising from a firm becoming more capital-intensive. Less successful candidates needed to develop their explanation of reasons, such as cost reductions or greater output.

(c) Stronger candidates were able to label the axes with good A and good B and show economic growth by the PPC shifting to the right. Many candidates need to be able to draw a production possibility curve (PPC) satisfactorily. Candidates should remember that the axes on a PPC must be labelled with two different goods or services.

(d) The best answers considered the benefits of less bureaucracy and more competition, with examples, and then discussed the problems caused by deregulation, such as exploitation of workers, monopolies, and damage to the environment. Candidates need to be clear that government regulation involves controlling the economy by use of laws and regulations whereas taxation is a financial disincentive, designed to influence economic behaviour, such as taxes on petrol which may be designed to reduce carbon emissions.

Question 4

(a) Most candidates could identify two non-wage factors that influence an individual's choice of occupation, such as job satisfaction and fringe benefits.

(b) The best answers identified demand-pull and cost-push as causes, then explained each in turn. Less successful candidates limited their answer by considering other causes, such as a fall in the value of a currency. It is important that candidates do not confuse microeconomic price rises with macroeconomic inflation. Answers which explained the increase in demand for a product were insufficient as an increase in total (aggregate) demand was required.

(c) Most candidates identified lost production and reduced economic growth as impacts of strikes. Many candidates gave personal opinions about the unacceptability of strike action, often with long descriptions of transport disruption preventing children getting to school, or violent conflicts. It is perfectly acceptable, even encouraged, for candidates to use examples from their own experience but they must be relevant to the question, and objective, rather than just expressions of personal opinion.

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(d) The following is an example of a strong answer worthy of maximum reward: *An increase in wages will reduce a firm's profit because its cost of production is higher and if it puts prices higher and demand is elastic the revenue of the firm will be reduced. On the other hand, an increase in wages will not reduce a firm's profit because workers are more motivated, so they are more productive, therefore, firms can produce more and the costs of production would be less or the same, so they will finish with more profit.* The important concept here is to link costs with revenue, to understand what happens to profits.

Question 5

(a) Most candidates were able to define monetary policy, usually in terms of changes to interest rates and the money supply of a country.

(b) Some answers were too vague stating that money provides the ability to buy goods and services, rather than identifying two of the four functions of money: medium of exchange, unit of account, store of value, standard of deferred payment. This reinforces the importance of candidates learning precise definitions of key terms and reading the question carefully.

(c) Successful candidates used the terms exports and imports in their analysis whereas weaker answers were too vague. Strong answers defined an appreciating currency as a rise in its value, then analysed how that implied higher export prices and lower import prices which, in turn, could reduce demand for exports and increase demand for imports, leading to a potential increase in the current account deficit. Some candidates analysed even further that the outcome would be affected by the price elasticity of demand for exports and imports, which was rewarded but not expected.

(d) Strong arguments for and against reductions in taxation were made, especially the argument that it will motivate firms to invest and consumers to spend, contrasting this with the problems governments will face from reduced revenue and the harmful effects of less tax on some (demerit) goods. Less successful candidates lacked clarity, discussing taxes in general rather than identifying specific taxes such as income tax, corporation tax, or indirect taxes on goods and services such as VAT. Reduction in taxes can also stimulate total (aggregate) demand in an economy, but it was rare to see this in responses.

Question 6

(a) For such questions, a simple definition such as: *total output of a country* is sufficient.

(b) Most candidates were able to relate more affordable medicines to improved health and increased life expectancy but there was a tendency for some candidates to be repetitive. More successful candidates were able to relate their answers to higher incomes and improved productivity as a result of better access to more affordable medicines.

(c) A number of candidates confused R&D (research and development) with market research. The key to this question is that the purpose of R&D is to innovate. Good answers explained that innovation can increase productivity, cut costs of producing new products, and increase demand.

(d) The best answers to this question considered both sides of the argument equally. Most candidates identified improved domestic output, reduced unemployment and a better current account position as benefits of reduced imports. Other candidates needed to provide balance through discussion of, for example, a reduction in choice, lower quality products, and higher prices for consumers.

Question 7

(a) Most candidates could define choice in terms of alternatives available to consumers. Other candidates needed to read the question carefully and provide an example of choice.

(b) Some candidates confused the CPI with GDP and the majority were only able to identify one or two elements of the index, such as a basket of goods and services or it uses a base year. A common misconception was that the index related to the purchase of a single product or a single household rather than a weighted average of product*s* typically bought by household*s*. The best answers explained the use of weightings in the CPI.

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(c) This question produced some excellent answers. There was good use of economic terminology with candidates analysing how helmets were complements to bicycles and how bicycles were substitutes for other forms of travel such as buses and cars. Candidates also demonstrated impressive understanding of current issues such as increased environmental awareness and the growing trend of cycling as a method of transport in recent years.

(d) The key to a good answer was linking increasing sales to revenue and price elasticity of demand (PED). If increased sales have been achieved by reducing prices and PED is elastic, then a firm's revenue will increase because demand will rise by a greater proportion than price. Similarly, increasing sales implies that the firm may experience economies of scale. Very few answers used these concepts. Candidates then needed to discuss the other side of the question in terms of possible diseconomies of scale and increasing average costs.

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Paper 0455/22
Structured Questions

Key messages

- Candidates need a good understanding and knowledge of international trade because it can help to give greater depth to answers to questions concerning general micro and macroeconomic performance, such as Question **4(d)**, as well as to specific international trade questions.

- Candidates can provide short answers to the **(a)** parts of questions. For all other questions, it is important that candidates explain the points they make. For example, a good response to Question **3(b)** is: *Better quality of education provided* (identification) *makes people more skilled so able to produce more in a given time* (explanation). *Technical advances* (identification) *make machines more efficient so can produce more output in less time* (explanation). In contrast, a weak answer is: *Productivity may increase because of specialised workers* (identification) *and higher wages* (identification). There can be no reward for explanation in this answer.

- Lack of explanation is even more significant in answers to the **(c)** and **(d)** parts of questions. An example of a poor response to Question **1(h)** is: *People who become unemployed will not get another job*. This may or may not be true, but the point must be established by *explaining*: *some people who become unemployed may find it difficult to get another job as they will become deskilled*.

- Candidates must consider the stimulus to each question in ***Section B*** because it gives context, e.g. 'most of Mali's workers are employed in agriculture' provides context for an answer to Question **4(b)**.

- It is also important that candidates apply their knowledge and understanding to answer the specific question set. For example, in response to Question **4(d)**, a number of candidates wrote about the advantages and disadvantages of a country specialising. Greater specialisation might or might not have resulted from an increase in the size of a country's gold mining industry increasing but this is only one possible consequence. In answers to Question **7(d)**, some candidates focussed more on how supply-side policy measures could increase economic growth, rather than specifically on how they might or might not lower average costs of production.

- When a question asks for analysis of data in a table, e.g. **Question 1(e)**, candidates should first explain the expected economic relationship for the data presented in the table. They should then consider the data provided and whether it follows the expected pattern. To answer the question, candidates must analyse how/why the data provided meets, or is an exception to, what is expected. Candidates can provide an example of an expected relationship, an exception, or a trend shown in the data to help to explain their analysis. They should consider a trend over the time period given, not just describe the numeric differences shown.

General comments

Some candidates change their answers either by adding extra comments at the end of the answer booklet or crossing out and re-starting or starting a different question. It is understandable that candidates may make changes to their answers or change their minds, but they should be encouraged to take the time to carefully read and consider the question, *and plan how they can answer it*, before they start to write anything. When a change is necessary, candidates should indicate clearly that there is extra work later in the answer booklet so that Examiners can immediately go to the extra work and take it into account when awarding marks. Should a candidate wish to cross out work, they should simply put a diagonal line through it.

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Comments on specific questions

Section A
Question 1

(a) Many candidates identified two pairs of substitutes from the extract such as driverless cars and bus travel. Less successful candidates identified pairs not in the extract and/or explained why the pairs were substitutes, which was not required.

(b) Most candidates recognised that supply was expected to exceed demand and were able to relate this to the market not being in equilibrium.

(c) Most candidates were able to calculate the PES of 2.5 as 20% / 8%. Some candidates got the wrong answer because they used the formula for price elasticity of supply the wrong way round. It is important for candidates to learn basic formulas and definitions.

(d) A number of candidates did not read the question carefully enough so wrote about benefits not costs. The majority who answered the specific question only identified two external costs so did not gain marks for explanations. The best answers provided clear explanations, particularly of the reduction in pollution and accidents.

(e) Strong candidates used the correct approach and provided clear analysis of the relationship between educational spending and unemployment rate. A number also mentioned other influences on unemployment. Less successful candidates needed to refer to Table 1.1 and/or go beyond listing the figures from the table without any interpretation.

(f) Good answers discussed both sides of the question. There was some particularly good analysis of the possible impact on employment, economic activity and the environment. Less successful candidates needed to use a wider range of social effects and apply economic theory.

(g) Some candidates were able to explain how two of the reasons referred to in the extract could reduce the power of trade unions. Other candidates needed to explain the reasons they used and the government reducing the power of trade unions needed to be better explained.

(h) Most candidates considered first why a rise in unemployment may be harmful and then why it might not. This gave a clear structure to their answers. There were some particularly good comments on the effect of unemployment on the government's budget, worthy of maximum marks on one side of the discussion, for example: *A rise in unemployment is harmful because the government will have to give out more state benefits. The government will spend more and receive less, since they would earn less tax revenue. This could lead to a budget deficit.*

Section B
Question 2

(a) Most candidates identified two relevant reasons. Weak answers simply stated: *They have high life expectancy.* This was not rewarded as it is just rewording the question.

(b) Many candidates identified and explained two relevant reasons. A small proportion of candidates mistakenly wrote about the reasons why people may emigrate.

(c) Most candidates understood what is meant by fiscal policy and some produced perceptive answers, analysing both the impact of lower taxation and higher government spending. Strong links were provided to total demand and total output/GDP. Some candidates needed to be clear about the difference between fiscal policy and monetary policy.

(d) Candidates made some good points based on sound economics which linked concepts such as improved healthcare with longer life expectancy. An example of a strong answer to one side of the question was: *Low income countries have high birth rates because people want children so they can work and contribute to the family's income. They can help their parents when they are old if no welfare payments are provided by the government.* Other answers were too vague and needed to include economic analysis.

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Question 3

(a) A number of candidates were confused about the effects of increases in income tax and cuts in wages on saving. These candidates needed to recognise that if disposable income falls, both consumer expenditure and saving are likely to fall.

(b) Candidates need to understand the difference between productivity and production: these are key terms.

(c) The most successful candidates produced clear analysis, exploring the impact on both demand-pull inflation and cost-push inflation. Some candidates analysed higher savings rather than investment, reinforcing the need to learn the difference between such key terms.

(d) There were some interesting and well-argued answers based on a good understanding of the possible causes of the wage differential between young and older workers. Only weak answers contained personal opinions of older and younger people.

Question 4

(a) Most candidates were able to identify the education (mean and average years of schooling) component of HDI. Some candidates needed to be clearer with their second component of HDI, for example stating GDP per head rather than just GDP.

(b) Most candidates showed a good awareness of how resource allocation is likely to change as an economy develops. There were some good comments on the influences of technology and education on resource allocation.

(c) Strong answers produced clear and accurately labelled diagrams and relevant written analysis on the reasons for and effects of the increase in the supply of cotton shirts. Some candidates made errors on the diagram and a small number of candidates did not draw a diagram or analyse why supply would increase.

(d) Strong answers used references to living standards, economic growth, employment and the current account of the balance of payments. There were also some interesting comments about the possible external costs that might arise and the poor working conditions which might exist in the industry. Some less successful candidates gave only brief answers.

Question 5

(a) Soil and water were the two most common examples given. Some candidates were unable to give two relevant answers.

(b) Some candidates discussed price elasticity of demand rather than price elasticity of supply while others confused elastic and inelastic supply. A number of candidates wrote in general about price elasticity of supply which did not answer the question. It is important for candidates to read the question set carefully and then use the key concepts that they have learnt accurately.

(c) Most candidates could relate the influences on demand to why demand for a product may be higher in one country than in another country. Some candidates need to be clear about the differences between influences on demand and influences on supply, and appreciate whether a given supply is accompanied by a high or low demand depends on the influences on demand.

(d) Some answers recognised the importance of the price of basic foodstuffs for the poor and other arguments for and against government intervention in the market. The main form of government intervention discussed was a subsidy. A good answer to one side was: *Food like rice (necessity) is bought in higher proportion by the poor in comparison with the rich. Government should give subsidies to firms producing these types of food. Firms with lower cost of production could increase output and lower prices so more people can afford it.*

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Question 6

(a) The majority of candidates accurately identified the differences between an export and an import.

(b) Only some candidates realised that demand would probably increase but they needed to go on to relate the rise in demand to the country's trade in goods balance.

(c) A relatively high number of candidates need to understand how a rise in a country's foreign exchange rate would affect export and import prices. More successful candidates appreciated that export prices would rise and import prices would fall and went on to provide strong links to a change in the unemployment rate.

(d) The strongest answers considered the impact on both the external and internal economy. There was some good discussion on why a reduction in the price and a rise in the quality of a country's products do not guarantee a rise in exports. Less successful candidates needed to expand their answers by making it clear why this might be the case: *Government should not subsidise its exports as they will gain less than they intend to,* is insufficient.

Question 7

(a) Most candidates could identify two relevant characteristics. Some less successful candidates need to be clear in their identification of characteristics, for example no barriers rather than low barriers to entry and many sellers rather than several sellers.

(b) The three main goals referred to were profit maximisation, growth and survival. Most candidates explained the goals they identified.

(c) There was some good analysis, particularly of the influence of the motives of the owners and the size of the market. Less successful candidates needed to analyse the causes of differences in size, rather than how the size of the firms is measured.

(d) More successful candidates discussed how a range of supply-side policy measures could reduce average costs of production. They went on to assess whether these measures would always be successful. Less successful candidates needed to provide more links between the supply-side policy measures and average costs of production, rather than just stating they would reduce costs of production, and then discuss how this would affect the macro economy. A few candidates only discussed the effects of lower costs of production and did not mention any supply-side policy measures.

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Paper 0455/23
Structured Questions

Key messages

- Candidates' scripts this series show a gradual improvement in their ability to answer questions with the command words Analyse and Discuss. Candidates also show improved skills in extracting relevant information and applying it to their answers to *Section A* Question **1**.

- Some candidates are missing the key words in questions. For example, in Question **5(d)** the focus was on the economy, **7(b)** on population problems and **7(c)** on producers. Some candidates appeared to write generic answers which can only achieve limited marks because they do not answer the specific question set.

- Questions such as **1(e)** in *Section A* require candidates to analyse the data given in a table. Candidates should consider:
  - What is the expected economic relationship for this data?
  - What evidence is there to support any expected relationship?
  - If there is an unexpected relationship shown, how can it be explained?
  - Is there a trend?
  - Are there any exceptions?

  Many answers simply described the change in numbers from year to year rather than identifying a relationship, similarity, exception or trend and then going on to analyse them.

- Candidates need a good understanding and knowledge of international trade because it can help to give greater depth to answers to questions concerning general micro and macroeconomic performance, as well as to specific international trade questions.

General comments

Some candidates change their answers either by adding extra comments at the end of the answer booklet or crossing out and re-starting or starting a different question. It is understandable that candidates may make changes to their answers or change their minds, but they should be encouraged to take the time to carefully read and consider the question, *and plan how they can answer it*, before they start to write anything. When a change is necessary, candidates should indicate clearly that there is extra work later in the answer booklet so that Examiners can immediately go to the extra work and take it into account when awarding marks. Should a candidate wish to cross out work, they should simply put a diagonal line through it.

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Comments on specific questions

Section A
Question 1

(a) Most candidates correctly identified two of the three primary sector industries named in the extract. Common errors included naming banking as a primary industry and referring to mining industries in general rather than the specific industries of copper and emeralds that are included in the text.

(b) This was well answered with most candidates calculating that 60% of 15 million was 9 million. Where an incorrect answer was given, this was usually because the candidate used a figure other than 15 million.

(c) Many candidates correctly used the data on birth rate and death rate stating that the high rate of population growth was due to the birth rate being higher than the death rate. A significant number of candidates who identified the data also needed to explain that population would rise if the birth rate was higher than the death rate. A few candidates wrongly used other information about Zambia, e.g. inflation and poverty, as an explanation of the high growth rate of the population.

(d) Many candidates correctly linked the depreciation of the kwacha to information in the extract on the high inflation rate and the fall in the economic growth rate. A common correct answer was: *Because of the depreciation of the kwacha, the country's inflation rate rose from 10.1% to 20.6%.*

(e) The expected relationship would be a direct relationship e.g. output goes up, so revenue rises. The data did not show that. Instead a clear negative or inverse relationship was shown, but relatively few candidates identified this. Whilst a few did identify that between 2010–14 revenue rose when output fell with the reverse happening in 2014–17, there was very little analysis. A few did state that copper was likely to have an inelastic demand. Less successful candidates tended to just describe the changes in output and revenue often on a year-by-year basis or describe the changes in output first and then revenue, with no attempt to link the two and analyse a relationship.

(f) Successful candidates explained the effect on expenditure and demand which could reduce demand-pull inflation and imports if lending by commercial banks was too high. They also explained that this should not happen if the economy was in a recession as it could lead to more unemployment and low growth. A significant number of candidates wrongly interpreted the question in terms of the central bank lending to commercial banks, rather than the correct relationship of a central bank exercising control over commercial bank lending to households and firms as part of its monetary policy.

(g) Most good answers related to the cut in government spending on training which left workers less skilled and lack of roads and infrastructure which led to delays in moving goods. Poverty, low investment and life expectancy were also correctly identified but not always explained. Less successful candidates needed to understand the difference between productivity and production. Incorrect answers often related to high inflation or low growth rate in Zambia which may affect output but not productivity.

(h) Successful candidates focussed on the benefits a new city would bring. Popular responses included jobs being created, raising income and economic growth. Answers also discussed improvements to housing and living standards. Candidates were less successful in discussing why it might not bring benefits to an economy, although better answers referred to the opportunity costs for resources used and possible external costs such as pollution.

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Section B
Question 2

(a) Most candidates understood that the tertiary sector is about service provision and common examples were banking, retail and education. A typical good answer was: *Tertiary sector produces services, e.g. financial services/banking.* Some candidates confused tertiary sector with the secondary sector and so gave incorrect examples such as manufacturing.

(b) This was a straightforward demand/supply question and most candidates wrote about high supply due to low skills required and low demand because labour could be replaced by capital. The strongest answers went on to explain that wages were low because of the low value of products produced in agriculture and farmers could not afford to pay higher wages.

(c) Successful candidates were able to analyse how low unemployment raised incomes leading to higher spending causing a rise in demand which resulted in demand-pull inflation. A few went further to analyse that low unemployment could mean a shortage of labour leading to wages being pushed up by employers, raising costs and causing cost-push inflation. A typical answer was: *When there is low unemployment more people have jobs and earn income. This leads to more spending and higher demand which leads to higher prices.* Less successful candidates needed to be able to explain how unemployment could affect inflation.

(d) A few candidates were able to discuss how it was possible to have high wages and high unemployment, but the majority of candidates struggled to show a link. There was stronger discussion of why they might not e.g. that high wages meant high demand and firms took on additional workers to increase output therefore keeping unemployment low. Another common point made was that if wages were high it encouraged people to take a job rather than be voluntarily unemployed and relying on benefits.

Question 3

(a) The difference between a tax and a subsidy was well understood by most candidates with a wide range of examples given. Some described the comparison in terms of the effect on prices or treatment of merit and demerit goods. A typical answer was: *A tax is an amount of money paid to the government by consumers and a subsidy is an amount of money provided by the government to producers.*

(b) Nearly all candidates understood inelastic demand and could give reasons why a product would be inelastic. The most common reasons were that the product was a necessity, did not have close substitutes or might be addictive. The reasons why it made the product inelastic were less well explained and not all examples given were correct.

(c) The analysis of a favourable report for eating tomatoes was well answered by nearly all candidates who were able to correctly use a demand and supply diagram and analyse why this resulted in a rise in both demand and price. Less successful candidates did not show the change in equilibrium or in some cases did not label the demand and supply curves correctly. A few did not state that price would rise.

(d) Most candidates were able to explain that by becoming more capital-intensive a firm could increase production and revenue and reduce costs which would lead to higher profits. Lower labour costs was commonly given as a reason for the reduction in costs. Reasons why it might not increase profits was less well answered. More successful candidates discussed the high initial cost of purchase, the possibility of high maintenance costs and that it was not suitable for personalised products.

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Question 4

(a) Candidates need to be able to explain the difference between economic growth and recession. A common error was to refer to recession as falling prices and many made no reference to GDP. A typical correct answer was: *Economic growth is an increase in national output level whereas recession is a decrease in national output level.*

(b) Candidates generally understood that a higher HDI ranking meant a higher standard of living and most understood that HDI uses several indicators relating to income, education and health, although examples of these indicators were not always correct.

(c) Most candidates did not differentiate between the short-run and long-run and many confused short-run and long-run effects. More successful candidates analysed points such as fewer women working, an increase in the dependency ratio and greater expenditure by the government on health and primary education in the short-run. Long-run effects included a larger working population and increased output. A few candidates also analysed an increase in the total population and the impact this might have on resources.

(d) This question is about resource allocation and the impact for parents and the economy rather than schools. Strong responses highlighted the extra resources that might be available for schools enabling the government to allocate resources elsewhere i.e. an opportunity cost. Many candidates wrote that for low-income families paying school fees might not be possible and their children might not attend school. A popular analysis point was: *The government should pay for education given the benefits for an economy of a well-educated workforce.* Less successful candidates thought the question was about whether the government should introduce fees and/or the pros and cons of state education versus private education.

Question 5

(a) Savings was correctly defined by most candidates. Less successful candidates needed to provide a full explanation.

(b) Successful candidates explained that stock exchanges were a source of finance for firms and the government, enabling the growth of firms and government expenditure. Less successful candidates need to be able to explain what a stock exchange is and understand how a country can gain from having a stock exchange.

(c) A good answer stated: *A rise in interest rates would reduce consumer spending resulting in lower demand for goods and services which would mean less revenue and less profit for firms*. Some candidates went on to explain that a rise in interest rates could also reduce investment by firms which could make them less efficient.

(d) This question was generally well answered. Economies and diseconomies of scale arising from growth of a firm were relevant, but stronger answers related this to the impact on employment, output, international trade, prices and inflation. Most answers had better developed discussions on how it might benefit an economy than how it might not. Less successful candidates needed to include how the economy benefitted rather than concentrating solely on how firms benefited from getting bigger.

Question 6

(a) An example of a good answer is: *Wages are the money we receive from working.* There were few incorrect answers, although a few candidates needed to explain how the income was earned.

(b) Successful candidates were able to indicate that one worker may have a higher wage than another before becoming a teacher and therefore changing jobs to become a teacher had a higher opportunity cost for them. Less successful candidates had some understanding of the concept of opportunity cost, but they could not apply it to becoming a teacher. Answers often incorrectly referred to why one teacher earned more than another, rather than why one person would give up more to become a teacher than another person. The question simply required candidates to recognise that in changing jobs to become a teacher you could be better off or worse off.

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(c) This question was about how age-related factors affect earnings rather than factors that affect earnings over time. Most candidates stated that earnings would rise over a lifetime but not all were clear why this was, although many did mention key factors such as training, experience, promotion and value-added.

(d) The majority of candidates were able discuss the benefits of working for an MNC rather than a sole trader. These included higher salary, more fringe benefits, greater promotion, opportunities to work abroad and stability of employment. Few candidates identified benefits of working for a sole trader, such as flexibility of working, ability to show greater initiative and closer working relationship with boss/employer. In many cases, candidates wrote about the benefits of being the sole trader which was not asked for. Some candidates misunderstood the question and wrote mainly about whether an MNC was beneficial to a country rather than to people being employed by the MNC.

Question 7

(a) Most candidates correctly stated that imports of services were greater than exports of services. Less successful candidates showed an understanding of the term deficit but needed to relate this concept to international trade.

(b) Many candidates explained the impact of an ageing population and a decreasing population with a fall in birth rate. A few candidates mentioned net immigration. Less successful candidates needed to ensure that the problems explained were population problems rather than general features of a rich and developed country such as pollution.

(c) Successful candidates correctly recognised that benefits for producers include cheaper sources of raw materials and that without tariffs they were able to sell more products at lower prices overseas. Most candidates understood the benefits of free trade, but a significant number answered in terms of the benefits for the country rather than for the producer e.g. more choice for consumers. In addition, some candidates wrote about disadvantages for producers, e.g. greater competition in the home market which was not the focus for the question.

(d) Typical responses referred to higher income, better education and health, and better provision by governments. More successful candidates recognised that there might be less pollution and less stress and that, even in undeveloped countries, there were people with high incomes. Fewer candidates were able discuss why standards of living might not be higher than in developing countries. In some cases, candidates simply wrote why standards of living might be lower in undeveloped countries but they should remember that the reverse (opposite) of previously made points is not rewarded.

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