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ECONOMICS

Paper 0455/11
Multiple Choice

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Paper 0455/12
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2**, **11**, **15**, **18** and **19**. These questions were answered correctly by 80% or more of the candidates.

The questions for which the fewest candidates selected the correct answer were **5**, **8**, **12**, **24** and **27**. These questions were answered correctly by fewer than 50% of the candidates.

Comments on specific questions

Question 5

Question 5 was answered correctly by 45% of the candidates who chose option **A**. 8% chose option **B**, 22% chose option **C** and 25% chose option **D**. Most resources would not be owned by the government in a market economy (option **D**) and there are no public goods in a free market economy (option **C**). However, in a free market economy there may well be a lack of accurate information for consumers.

Question 8

Question 8 was answered correctly by 45% of the candidates who chose option **B**. 43% chose option **A**, 4% chose option **C** and 8% chose option **D**. This question asked which task is **not** a function of a trade union. The level of a national minimum wage is decided by a government and is the only option that would not be part of a possible discussion with a trade union.

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Question 12

Question 12 was answered correctly by 29% of the candidates who chose option **A**. 5% chose option **B**, 10% chose option **C** and 56% chose option **D**. The question asked what is the average fixed cost of producing 10 000 units. Those who chose option **D** may have mis-read the question and calculated the average total cost, not the average fixed cost. Total fixed cost is given at zero output. It is 50 000. So, the average fixed cost for 10 000 units is option **A**.

Question 24

Question 24 was answered correctly by 39% of the candidates who chose option **D**. 33% chose option **A**, 25% chose option **B** and 3% chose option **C**. Option **C** gave an initial link between low incomes and low investment leading to higher profits. Such a link was probably quickly recognised as being an incorrect answer. The other three options had more likely initial links from low incomes. From the supply-side, the circle is explained by low incomes leading to low savings leading to low investment and low productivity.

Question 27

Question 27 was answered correctly by 29% who chose option **C**. 4% chose option **A**, 58% chose option **B** and 9% chose option **D**. The infant mortality rate is the number of children that die under one year of age in a year, per 1000 live births. Perhaps those who chose option **B** thought that if the infant mortality rate is rising people would be wary of having more children in the family. The infant mortality rate is not as likely to cause the birth rate to fall as the knowledge that because of improvements in medical supplies and healthcare children are more likely to survive.

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ECONOMICS

Paper 0455/13
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **2**, **6**. **9**, **11**, **14**, **20**, **21**, **22**, **26**, **28** and **29**. These questions were answered correctly by 80% cent or more of the candidates.

The only questions that were answered correctly by fewer than 50%of the candidates were **Questions 4**, **15**, **27** and **30**.

Comments on specific questions

Question 4

Option **D** was answered correctly by 10% of the candidates. 54% of candidates chose option **C** and this question proved the most challenging on the paper. The stem provided two statements about the price of a single product, oil. When dealing with the price of a single product it is classified as microeconomics. Those who chose option **C** might have thought that because the organisation can influence the price of oil in several countries it is a macroeconomic statement. Despite this influence the reference is still to an individual product.

Question 15

For **Question 15** options **B** and **C** were roughly equally popular (31% and 33%), with **A** chosen by only 21% of the candidates. **B** was the correct answer. Division of labour allows greater specialisation in the workforce and an increased use of machinery. For the worker, this is often quoted as a disadvantage because the task becomes monotonous. The ability to move between tasks (option **C**) is limited and this is not an advantage. It

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may be thought that high labour turnover occurs (option **A**) but, should this happen, it would be a disadvantage to the firm, not an advantage.

Question 27

33% of the candidates chose the correct option **C** for **Question 27**. 30% chose option **A**. 17% chose option **B** and 20% option **D**. Candidates probably confused the receipt of a dividend with the expenditure on an investment asset. Dividends (option **A**) are not classed in the same way as the investment in an asset such as a house (option **C**).

Question 30

For **Question 30**, 47% chose the correct option **C**. The most popular option selected by those who did not answer this question correctly was **B** (42%). Both options showed an increase in the value of imports which the question asked candidates to identify. However, the question also asked candidates to identify an improvement in the trade balance. In both year 2 and year 3 exports were greater than imports but in year 3 there was a smaller difference between exports and imports than there was in year 2. This meant that the trade balance had not improved.

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ECONOMICS

Paper 0455/21
Structured Questions

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Paper 0455/22
Structured Questions

Key messages

To do well candidates need to:

- Use the time appropriately – approximately 45 minutes on **Question 1** and 30 minutes on each of the optional questions selected.
- Make use of the source material in answering all parts of **Question 1**.
- Consider each word in the questions carefully to ensure that the actual question set is answered.
- Select the three optional questions carefully. Consider the **(c)** and **(d)** parts, as well as the **(a)** and **(b)**, parts before starting to answer.
- Spend time planning answers to the **(d)** parts of the optional questions before starting to write them so that there is a logical structure to the answer.
- To gain the highest level (3) on the **(d)** parts of the optional questions, both (two) sides of the question have to be analysed and evaluated, without repetition. The answer needs depth, with clear and relevant links provided.
- Write in paragraphs on the **(d)** parts. It is particularly useful to start a new paragraph when moving from answering one side to answering the second (other) side of the question.
- Write in relatively short sentences. This will help the clarity of answers. Some candidates write sentences that are too long which can result in links being missed out and points being repeated.
- Draw production possibility curves (PPCs) to the axes and label PPC diagrams appropriately.

General comments

This was the first November session with four rather than six optional questions and Levels of Response marking used on the **(d)** part of the optional questions. Most candidates did select three optional questions. A very small proportion of candidates selected only two questions. A larger proportion, although still a minority of candidates, answered all the optional questions. Answering only two optional questions obviously limits the marks available. Answering four questions limits the time that can be spent on each question and the depth is likely to be less on the **(c)** and **(d)** parts than if three questions had been answered.

As in previous sessions, there was a spread of performance. There were some excellent scripts which made good use of both the stimulus material and economic understanding in answering **Question 1**. They also included precision on the **(a)** parts, both identification and explanation on the **(b)** parts, good analytical links on the **(c)** parts and in-depth exploration of the issues covered in the **(d)** parts of the optional questions.

There was a relatively even spread of the optional questions selected with **Question 4** being slightly less popular than the other questions. A number of candidates who selected **Question 5** did not attempt part **(d)**. Some of the candidates who answered **Question 3** and **Question 4** did not read carefully enough what the **(d)** parts were specifically asking.

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Comments on specific questions

Section A

Question 1

There were some good answers provided to this question. The largest spread of marks was on the **(f)**, **(g)** and **(h)** parts.

(a) Most candidates were able to calculate the percentage of total world output of palm oil produced by Indonesia in 2017. The method was 60 / 36 x 100.

(b) Candidates had to select two *variable* costs out of five costs of producing palm oil mentioned in the source material. Out of the five costs, three are variable and two are fixed. Some candidates gave more than two costs. In this situation, examiners can reward only the first two responses.

(c) The strongest answers here brought out the nature of opportunity cost when considering one opportunity cost of conserving forests in Indonesia. For example, one candidate wrote correctly:

Opportunity cost is the best alternative given up when a decision is made. Here it is the palm oil which could have been grown.

(d) Most candidates were able to identify two external costs of the destruction of forests in Indonesia mentioned in the source material. The strong answers went on to explain how the loss of wildlife habitats could result in the extinction of some species and how air pollution can damage the health of those living nearby.

(e) A high proportion of candidates drew an accurate, well-labelled diagram that shifted the supply curve to the left and clearly indicated the original equilibrium and the new equilibrium. Most candidates, however, wasted time and effort by providing a written explanation of the effects. If a question asks candidates to 'Draw a … diagram…', they only have to draw the diagram. If candidates are required to explore the effect in a written form, they are asked to; 'Analyse or Explain, using a diagram'.

(f) Some candidates showed confusion about the nature of GDP per head ranking and HDI ranking. For example, some thought incorrectly an HDI ranking of 20 meant that Luxembourg had a low GDP while Ethiopia with an HDI ranking of 174 had a high GDP. It is useful when candidates are learning the topic of HDI for them to examine their country's HDI ranking and changes in that ranking. A number of candidates just reproduced the data without any analysis or interpretation. For example:

Luxembourg had a GDP per head ranking of 2 and an HDI ranking of 20. Mauritius had GDP per head ranking of 64 and an HDI ranking of 64. Indonesia had a GDP per head ranking of 99 and an HDI ranking of 113. Cuba had a GDP per head ranking of 134 and an HDI 68. Ghana had a GDP per head ranking of 134 and an HDI ranking of 134. Ethiopia had a GDP per head ranking of 167 and an HDI ranking of 174.

This is not rewarded.

A small proportion of candidates thought that a GDP per head ranking of 120 meant that average income was $120.

Other candidates, however, produced clear and well thought out answers. For example, one candidate wrote:

The relationship between countries' GDP per head ranking and HDI ranking is direct, as higher average income means that people can afford basic necessities such as health and education, improving life expectancy and the number of years in school. Luxembourg has the highest GDP per head and the highest HDI ranking while Ethiopia has the lowest GDP per head ranking and the lowest HDI ranking. However, Cuba is an exception as it has a lower GDP per head ranking than Indonesia but a higher HDI ranking than Indonesia. This could be due to the Cuban government spending more on health and education.

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(g) There was a range of responses to this question. The strongest answers made good use of the source material and answered the question in terms of the Indonesian economy. For example:

Immigration of workers would be likely to benefit the Indonesian economy. Some of the workers are coming to do high-paid jobs. These workers might bring new ideas and skills, increasing productivity. Higher productivity may lower costs of production, increase output and so lower price. This could increase international competitiveness, increasing demand for exports and improving the current account of the balance of payments. They will increase the size of the labour force and, with more earners, there will be higher tax revenue.

However, immigrant workers may take high-paid jobs from the local workers. Also, foreign workers may send their income back to their home countries, worsening the current account of the balance of payments. Also, Indonesia's population is growing, so more people in the country may be inefficient if Indonesia becomes overpopulated.

Other answers were limited and did not develop the points mentioned. For example:

Immigration of workers would be likely to benefit the Indonesian economy because there will be more labour. However, Indonesia could suffer from overpopulation if people come to work.

This answer touched on two of the same points as the first answer but did not analyse/evaluate (establish/develop) why more labour may be a benefit and why overpopulation may occur, or why it might be a disadvantage.

(h) A few candidates wrote about people coming to live in the country rather than people coming to visit the country as tourists. Again, the strongest answers usually made very good use of the source material. Some of these answers were relatively brief but still satisfactory, which is a clear indication that quality rather than quantity is required, for example:

Tourism is likely to increase as the rupiah depreciated in 2017 which means tourists will have to pay less in terms of their currency to visit Indonesia. Indonesia has natural tourist attractions which will lead to an increase in tourism. Tourism could further increase as they are price competitive and they may be able to get in front of their neighbouring countries.

It is also likely that tourism will fall as Indonesia may not be careful about its environment such as pollution and due to deforestation which harms the wildlife that people may like to see.

Section B

Question 2

There was quite a spread of marks on this question with the best performance being on **Question 2(b)**.

(a) There was some confusion shown in the answers to this question. A number of candidates mentioned services and some did not recognise that the trade in goods balance deducts import expenditure from export revenue.

(b) There were some good responses to this question. A number of candidates explained that access to a larger market may enable producers to increase the size of their output and take greater advantage of economies of scale. The ability to purchase cheaper raw materials, due to the absence of import tariffs, and so experience higher profits was also well explained.

(c) The key to answering this question was to recognise that unemployment means that some of the labour force is not used, rather than the size of the labour force declines. Those who had that correct, drew a production possibility curve (PPC) diagram showing the production point moving further inwards from the curve. These candidates also wrote about how an increase in unemployment would mean a rise in inefficiency and a fall in output. A relatively high proportion of candidates incorrectly shifted the PPC to the left - they did not recognise that the unemployed are likely to remain in the labour force.

(d) There were some strong answers which explored how an increase in the rate of income tax might reduce inflation by lowering total demand. Strong answers also analysed why the policy measure

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may not be successful by considering how it might result in a rise in wages and how saving rather than spending may be reduced. An example of a strong answer:

An increase in the rate of income tax is a measure of contractionary fiscal policy to reduce inflationary pressure. As people pay more taxes their disposable income falls and, as it falls, consumption falls. This is because the disposable income is the main factor that determines people's spending. A fall in consumption would reduce total demand and demand-pull inflation. Also, as spending falls, entrepreneurs would be less willing to invest as the return on investment would be lower because profit would fall as sales fall. Falling investment also decreases total demand and demand-pull inflation.

However, people might be confident about the future and reduce their saving, so total demand does not fall. Firms may also be confident and still invest in capital goods. Also, it can help raise more government tax revenue which it can spend on major projects and so raise employment and spending leading to higher inflation.

Question 3

There was a wide spread of performance on all the parts of this question.

(a) The strongest answers gave two characteristics of a demerit good. Some mentioned that a demerit good is not only overconsumed, it also creates external costs. A relatively high proportion of candidates restricted their answers by only mentioning that demerit goods are harmful to health.

(b) There were some good and accurate answers to this question which showed an awareness of how an *extension*, and an *increase*, in demand differ in their cause and how they are represented on a diagram. Some candidates, however, seemed unaware of these different terms. A number thought incorrectly that an extension in demand means a rise in demand that lasts a long time.

(c) The strong answers here started by exploring why an increase in indirect taxes is likely to have more of an impact on the purchasing power of the poor than of the rich. They then went on to analyse that, despite this effect, income might become more evenly distributed if the government spends any extra tax revenue on measures that could reduce poverty. However, some candidates showed confusion between the amount, and the proportion, of income that the poor pay in the case of a regressive tax.

(d) A number of the strongest answers began by defining a maximum price. They then explored how it could help some of the poor by lowering the price paid for a basic necessity. They then went on to examine the possible disadvantages of a maximum price. There were some particularly good comments on how the consumption of all types of food should be not encouraged.

An example of a good two-sided answer with depth:

A government should impose a maximum price on food as if the maximum is below equilibrium, producers are only able to change a price lower than maximum price. The price of food is reduced and as food is a basic necessity, this makes it more affordable by poor and everyone, so increases access to basic necessities, reducing absolute poverty. Poor can now spend more on other necessities, like education and healthcare so increases their productivity, so higher employment choice, lower absolute poverty and lower relative poverty.

Governments should not impose maximum price on food, as if it is above equilibrium it will not be beneficial as producers could still change equilibrium prices, so no effect. Maximum price also leads to a black market where government has no control and cannot tax or regulate anything, so producers exploit consumers. The lower price of food could encourage consumers to buy large quantities of food, increasing wastage and leading to obesity, so harming health of individuals, so lower life expectancy. Maximum prices on food could lead to shortage of food as producers do not want to supply that much as price is too low. Demand for food exceeds supply. It could drive firms out of the market and lower output.

Some candidates, however, confused a maximum price with a minimum price and some wrote incorrectly about imposing a tax on food rather than a maximum price.

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Question 4

A relatively high proportion of candidates did well on the **(a)**, **(b)** and **(c)** parts. There was a greater spread of performance on the **(d)** part.

(a) The two most common functions stated were lending and allowing people to save money in deposit accounts. A small proportion of candidates stated functions of a central bank.

(b) Most candidates were able to explain two relevant reasons. There was some good explanation of how high unemployment and low living standards could encourage some people to move to other countries.

(c) This was a generally well answered question. Most candidates were able to explain a number of possible causes of a rise in the wages of workers. There was some particularly good analysis of an increase in demand for banking services, and so demand for bank workers, and decreases in supply of bank workers due to a rise in the qualifications required. Strong answers made good use of demand and supply analysis and linked it to a number of influences, including higher productivity and higher bank profits. There was also some good analysis linked to changes in trade union power and the measures a trade union may take to increase bank workers' wages.

(d) A number of candidates wrote about what could cause an increase and a decrease in demand for cars, rather than whether demand for cars would become more price-elastic in the future. Some of these weaker answers appeared to think that elastic demand meant an increase in demand and inelastic demand meant a decrease in demand. Other candidates also wrote unnecessarily about the extent to which price might change.

Those candidates who did produce good answers often started by defining price elasticity of demand. This seemed to help them focus on the factors that would influence price elasticity of demand of cars.

An example of good analysis and evaluation of why demand for cars may, and may not, become more price-elastic:

Demand for a good is price-elastic when the quantity demanded is responsive towards a change in price. Price elasticity of demand depends on whether or not a good has a substitute or not, the cost of consuming a substitute, and ease of changing to a substitute. If more substitutes for cars will be available in the future, for example trains, the more price-elastic demand for cars will be. If there is a lack of substitutes, consumers have no choice but to pay high prices for cars as there is no other option.

Price elasticity also depends on the proportion of income spent on cars. The higher the proportion that will be spent on cars, the more price-elastic the demand will be. If GDP per head increases in the near future, it will become more price-inelastic. Also, if people consider a car a necessity, cars will be more price-inelastic. People may have to travel further to work and people may prefer the comfort of a car to buses and trains.

Question 5

The performance on parts **(a)** and **(c)** tended to be stronger than on **parts (b)** and **(d)**.

(a) Most candidates were able to provide an appropriate definition of wages.

(b) Not all candidates paid attention to the words 'other than methods of protection' in the question. As a result, they wrote incorrectly about a rise in import tariffs and quotas. The strongest answers tended to be those which explained how a rise in the exchange rate and a reduction in the quality of exports could result in a fall in exports.

(c) Good understanding of investment was shown in answers to this question. Relevant links were provided to an increase in a country's economic growth rate via increases in total demand and productive capacity. There were good comments about how new capital goods are likely to make use of advances in technology and may raise not only the quantity made but also the quality of output, and so influence international price competitiveness.

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(d) As previously mentioned, some candidates who selected this question did not attempt this part. A number wrote in very vague and confused terms, revealing a lack of understanding of a fixed foreign exchange rate system and a floating foreign exchange rate system. Other candidates produced perceptive and well-informed answers. These provided an in-depth analysis and evaluation of the advantages and disadvantages of the two systems.

An example of a strong answer:

A country should switch from a fixed foreign exchange rate system to a floating foreign exchange rate system as a floating system automatically adjusts exchange rate. The demand of the currency equals the supply of the currency, so moves current account position to current account balance, eliminating any deficit or surplus on the current account. If there is a deficit, floating exchange rate will decrease, price of exports decrease, demand increases, increase price of imports and demand falls. Floating exchange rate also reduces need of central bank to hold reserves of foreign currency, so foreign currency could be used for another purpose. This also stops exchange rate by a policy objective, so government could pursue other policy objectives as it increases the ability to use monetary policy. So, it increases interest rate, for example, to reduce total demand and to reduce demand-pull inflation.

A country should not switch from a fixed to a floating foreign exchange rate system. A floating exchange rate could have more fluctuations, increase uncertainty, create instability, reducing confidence in the economy, so discourages MNCs, discourages investment, so lower GDP and economic growth. Fixed exchange rate has benefit it is maintained by central bank and government by buying and selling the currency, so it could set it low to increase its exports as its price decreases, improve current account of balance of payments, or set high to reduce demand on exports to reduce net exports, so reduce total demand and demand-pull inflation.

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Paper 0455/23
Structured Questions

Key messages

It is essential that candidates take their time to read through the questions and the key words that are in those questions to ensure that the actual question set is answered. Reducing from five to three questions in ***Section B*** allows more time for question selection. There were a few questions in this paper where some candidates did not fully consider what was required in their answer.

Common errors were:

- 1 **(e)** labelling the demand and supply diagram with the price for car parking when the question was about the market for cars
- 2 **(b)** writing about indicators rather than the causes of economic development
- 4**(d)** writing about the impact of trade protection rather than the reduction in trade protection on the current account surplus
- 5 **(a)** including issuing of notes and coins in their answer when the question specified not to use it as an example.
- 5 **(c)** writing about the disadvantages of division of labour when the question only asks for the advantages.

General comments

It was the first time that candidates in these centres had been assessed under the revised syllabus and the reduced number of questions in ***Section B***.

There appeared to be an increase in the number of candidates breaking up their answers within a question and writing their answers out of order of the questions – this can be confusing to Examiners so should be avoided. Candidates should not cross out their work when they decide to switch to another question. If the candidate does not make a second attempt at answering that question, Examiners mark all the responses and there were some instances this year where the crossed-out work gained higher marks than the new question attempted.

Some candidates did not attempt the **part (d)** question in answers to ***Section B***. This suggests more practice of constructing answers for Discuss/evaluation questions is needed.

Comments on specific questions

Section A

Question 1

(a) External cost is the difference between social costs and private costs. To calculate the costs for 2017, candidates needed to subtract the private cost from the social cost, $1.22 – $0.68 = $0.54. However, a significant number of candidates added private costs to social costs to give an incorrect answer of $1.90.

(b) This was generally well answered with candidates identifying economic growth and full employment. A few candidates misunderstood the source material and selected instead the concerns that the government had about reduced growth and reduced unemployment. A few wrongly identified a macroeconomic aim such as low inflation which was not mentioned in the source material.

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(c) The fact that traffic congestion led to workers arriving late to work, feeling tired and stressed was mentioned by most candidates. However, many did not explain how this linked with lower productivity; they just stated that it led to lower productivity. Candidates needed to show an understanding that lower productivity meant a reduction in output due to less working time or days off through illness.

A typical weak response that did not mention output was 'Traffic congestion causes workers to arrive late, reducing their hours and productivity'.

(d) A significant number of candidates did not recognise that this question was about how better geographical and occupational mobility would increase the opportunities for employment. Instead, many wrote about the increased ease of moving around the Philippines with less traffic congestion. Strong answers explained that greater geographical mobility enabled workers to move from areas of high unemployment to areas with vacancies. Greater occupational mobility enabled workers to move to expanding industries such as computer, retail and education thereby reducing structural unemployment.

An example of a very weak response was 'an increase in mobility allows workers to get to their work more easily and reduces the chances of being sacked for arriving late'.

(e) This question required a demand and supply diagram showing a shift to the left in the demand curve resulting in a lower market price and quantity of cars. An explanation was not required. However, most candidates also gave a written explanation which meant that they lost valuable time for answering other questions as marks were only awarded for the diagram. In addition, while many candidates drew a correct diagram, common errors included labelling it as the market for car parking rather than for cars, wrongly labelling the demand and supply curves and shifting the supply curve to the left.

(f) There was a wide range of responses to this data interpretation question. The data is there for candidates to use to analyse and identify the relationship between the two variables. There were a small minority of weaker candidates who did not use any data in their answer and give a purely theoretical explanation of what they perceive to be the relationship between consumer expenditure and imports. Others use the data incorrectly. For example, a few calculated what proportion of consumer expenditure was accounted for by imports and others merely described what was in the table, usually on a country by country basis.

The skill being tested by this question is to use the data to recognise patterns and deduce relationships. The table shows that except for Argentina, there is a positive relationship as countries with higher consumer expenditure import more goods and services. You would expect this to be the case as both would generally rise as income rises. In the case of Argentina, the most probable reason for low imports is that it applies high trade restrictions / is more self-sufficient. Strong answers were able to identify this positive relationship and select countries and the data to support it. Weaker responses did not understand that most imports were consumer goods and services and therefore part of overall consumer expenditure.

(g) Generally, candidates did not provide good answers to this question. This was probably because they did not understand that enterprise is a different factor of production to labour. For many candidates, an incorrect answer applied more to the supply of labour than it did to enterprise, e.g., that a rising population meant more workers. Those that did recognise the distinction, correctly wrote about the young and well-educated population having the skills to set up their own businesses and benefit from the growing economy. On the other side, many recognised that there were factors that could lead to a decrease in enterprise. A typical response was 'Additionally, the high taxes may mean lower profits demotivating people to become entrepreneurs.'

(h) In contrast, this question was well answered by most candidates who were able to give reasonable answers to both sides of the argument. Weaker answers identified that building more roads would reduce congestion and enable greater output, but little else. Strong answers took a more macroeconomic approach about leading to higher employment and economic growth in the country, attracting MNCs. They continued to highlight that more roads could lead to an increase in negative externalities, and that there was an opportunity cost as monies used for road building could have been used for education, which could result in higher taxes to pay for the roads and less land for houses or businesses.

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Section B

Question 2

(a) Some candidates showed a basic understanding of what was microeconomics but had difficulty in explaining the term. A clear answer was 'The study of individual markets such as ice cream'. Other less accurate answers included 'how households behave'. Very weak responses were linked to their understanding of micro e.g., 'microeconomics is a small part of the economy.'

(b) Some candidates read the question wrongly and wrote about the difference in economic development rather than the cause of it. These incorrect answers wrote about the how some countries had higher national income and people lived longer. Many candidates, however, were able to identify two causes, such as the productivity of workers, the availability of resources and better healthcare and education, but often did not explain clearly how that led to economic development.

(c) Candidates generally understood what was meant by poverty. However, some were unclear how a cut in interest rates would affect poverty. A few confused interest rates with taxes and wrote about how this resulted in higher (disposable) incomes and consumers could simply afford more goods and services. Other weak responses took the view that a cut in interest rates made it easier for the poor to borrow and buy necessities. Some stronger answers distinguished between the impact on absolute and relative poverty. Typical stronger answers explained that a cut in interest rates encouraged greater expenditure and resulted in higher demand leading to higher output. Firms would employ more workers which reduced unemployment which was a cause of relative poverty.

(d) This was generally well answered. Candidates understood what a demerit good was and usually gave cigarettes as an example, which was mentioned in the question. A common response made the point that the government could impose an indirect tax to increase the price. Other responses included imposing a ceiling price and better education for consumers about demerit goods. The second side - why the government might not correct a market failure - was less well answered. A reasonable response was that goods were often inelastic in demand and therefore, despite the price increase, goods were still consumed. Stronger answers also referred to the creation of a black market if prices were raised too much.

Question 3

(a) Most candidates had some understanding that privatisation involved the movement of firms from the public to the private sector. However, a key characteristic is that there is a change in ownership, and this was missing from many answers. A strong answer was 'Privatisation is the transfer of ownership of firms and resources from the public sector to the private sector'. Weak answers often confused public limited companies with state-owned companies.

(b) Answers to this question showed that some candidates were unclear what was meant by the term 'birth rate'. Some incorrect answers stated that the birth rate would fall due to poor hospital/health facilities leading to more babies dying, perhaps confusing the birth rate with infant mortality rates. Weaker answers tended to give a cause but then not develop the answer to explain why this led to a lower birth rate e.g. 'Two causes of a fall in birth rate are family planning and women no longer wanting early marriage.' Stronger answers tended to refer to the changing role of women in society with the cause being a rise in the education of women and more women working which often meant later marriage and fewer children.

(c) Candidates gave two contrasting answers to this question. A significant number of candidates, who did well on the paper overall, incorrectly assumed that a decrease in quantity of capital goods simply meant a movement along the existing PPC, meaning fewer capital goods produced but more consumer goods. However, as capital is a factor of production, fewer capital goods means a reduction in factors of production available to the economy. The correct diagram would show an inward movement of the PPC. Some candidates drew a PPC diagram showing a new PPC with fewer capital goods and the same quantity of consumer goods which is also correct.

(d) Candidates understood what was meant by a monopoly and most were able to give several reasons why a government should or should not allow monopolies. Weaker answers gave less depth to their reasons and tended to be stronger on not allowing monopolies. Strong answers gave

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a reasoned discussion of the merits of monopolies with greater depth in their evaluation of the benefits that monopolies bring to consumers and the economy e.g., through better quality goods, through having the funds for research and development, and successfully competing with large firms in other countries. On the downside, strong answers discussed how monopolies may abuse their market strength at a cost to consumers through higher prices, less choice and poorer quality goods.

Question 4

(a) Weaker answers showed an understanding that deregulation was a supply side-policy but were unable to state what it did. The weakest answers showed no idea what the term meant. A common weak response was 'Deregulation is the decrease in regulation'. A simple correct response was that it was the removal of rules and regulations. Some answers explained that it was a supply-side policy and that the outcome was to encourage competition in the market.

(b) A market economic system was understood by most candidates although a few confused it with a system that involved government intervention. Benefits that were commonly identified included, consumer sovereignty, range of choice and low prices. As with other explanation questions, some candidates identified the benefit but then did not explain how consumers gained from it. For example, stating that consumers benefited from low prices but not explaining that this was because firms compete to attract and keep their customers.

(c) Most candidates were able to identify one way in which education and the provision of subsidies by the government would benefit a country. However, this was not always linked to economic growth. For example, candidates wrote about education leading to workers having better skills and being able to earn higher wages but not then looking at the aggregate supply impact of raising quality and quantity produced, leading to greater exports. Similarly with subsidies, weaker responses were limited to stating that it led to lower costs of production. Stronger answers built on that to analyse the impact on increasing supply in the economy. Some strong answers also linked the two and wrote about how subsidies for education (or health) meant there would be a more skilled and productive workforce leading to higher economic growth.

(d) This question required candidates to understand what was meant by both a current account surplus and trade protection. Generally, most knew that the current account consisted of imports and exports and therefore the quality of answers given depended on their understanding of what happened when trade protection was reduced. Some of the weak answers may have misread the question because they wrote about the impact of rising tariffs and quotas or simply explained how tariffs or quotas worked. However, most candidates were able to discuss how the reduction in trade protection would lead to higher imports which would lead to a smaller surplus or possibly a deficit in the current account, but they were less clear about how exports might change. Stronger answers were more balanced, by stating how countries might benefit, for example, if the country were dependent on importing raw materials the removal of trade protection could lead to lower costs of production and lower export prices. Some strong answers also analysed that other countries might respond by reducing their trade protections and countries would all benefit from greater free trade. The last point was included in some weak responses that simply concentrated on writing about the benefits of free trade.

Question 5

(a) Most answers correctly stated two functions of a central bank e.g., 'it acts as banker to the commercial banks as well as controlling the supply of money'. However, a few still gave issuing of bank notes and coins as one of their two functions despite being directed not to in the question.

(b) Candidates generally do not recognise that the main reason for difference in pay is demand and supply of workers for that occupation or sector. All that was required here was to identify one demand and one supply factor and explain how this affected workers in the tertiary and primary sector. Weak answers were limited to stating that higher education and qualifications were required in the tertiary sector but often without explaining why. Good answers referred to how tertiary workers were paid more since they added more value to the product/service and employers could afford to pay them more and that lower supply also meant that employers had to pay higher salaries to attract and then keep them at the business.

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(c) Not all candidates answered the question correctly. Some answers wrote about the impact on individual workers rather than on firms and some wrote about both the advantages and disadvantages when the question only required advantages. It is important that candidates respond to the question set and not simply write the answer they may have mentally prepared for a question on division of labour. There were good answers given explaining how division of labour enables specialist workers with a high level of skills to produce quality products at lower cost. Firms benefit from being more competitive, leading to greater demand, higher revenue, and possibly higher profits as well.

(d) Most candidates understood that deflation resulted in lower prices. However, fewer were able to explain that the cause of the prices being lower affected whether an economy benefited from deflation. For some, a simple answer was that lower prices meant greater purchasing power for consumers and rising demand would lead to greater employment. Others stated that deflation was good because it would stop inflation or in some cases hyper-inflation. However, the strongest answers made it clear that deflation due to low demand or recession was not a benefit as it would lead to low confidence by firms and this could result in high unemployment. Another stronger argument was that deflation could be due to greater productivity leading to lower costs of production making goods competitive globally. Strong answers also discussed how deflation, if it continued for too long, would lead to consumers not spending as they expected prices to fall further, causing lower demand, output and eventually higher unemployment resulting in recession.

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