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ECONOMICS

Paper 0455/11
Multiple Choice

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

General comments

3749 candidates sat this paper. The mean mark was 19.5 which was the same as the mean for June 2019. (The paper was not taken in June 2020).

The questions for which most candidates selected the correct answer were **2**, **5**, **7**, **21**, **11**, **23**, **25**, and **28**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **11**, **12**, **20**, **27** and **29**.

Comments on specific questions

Question 11

Question 11 was answered correctly by 33 per cent of the candidates who chose option **C**. 11 per cent chose option **A**, 12 per cent chose option **B** and 44 per cent chose option **D**. The change in employment is shown by the difference between the level of employment demanded at the original equilibrium and the level of employment demanded at the new wage. Those who chose option **D** compared the demand for labour and the supply of labour at the new wage rate, not the change from the original wage rate.

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Question 12

Question 12 was answered correctly by 50 per cent of the candidates who chose option **A**. 18 per cent chose option **B**, 16 per cent chose option **C** and 16 per cent chose option **D**. Diseconomies of scale occur in the long run when average costs increase. This is option **A**. The other options do not necessarily cause average costs to increase.

Question 20

Question 20 was answered correctly by 46 per cent of the candidates who chose option **D**. 28 per cent chose option **A**, 14 per cent chose option **B** and 12 per cent chose option **C**. The most likely direct result of deflation is that the purchasing power of money increases (option **D**). Deflation is when prices are falling so a given amount of money can purchase more products or services.

Question 27

Question 27 as answered correctly by 33 per cent of the candidates who chose option **B**. 17 per cent chose option **A**, 29 per cent chose option **C** and 21 per cent chose option **D**. International specialisation would result in goods and services being produced by the countries that are most efficient at providing those goods and services. Countries that are less efficient at producing the goods and services would import them. This could result in domestic firms in those countries becoming uncompetitive. Their products would be more expensive, demand would switch to imports and this could lead to unemployment (option **B**).

Question 29

Question 29 was answered correctly by 50 per cent of the candidates who chose option **B**. 6 per cent chose option **A**, 10 per cent chose option **C** and 34 per cent chose option **D**. The change in the exchange rate means that a given amount of dollars would buy 10 per cent more Japanese yen. Conversely Japanese yen would be worth 10 per cent less in terms of dollars. A Japanese car that was priced at US$25 000 would cost 10 per cent less in the US (option **B**). Those who chose option **D** made the calculation as if the US dollar had weakened against the yen.

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ECONOMICS

Paper 0455/12
Multiple Choice

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

General comments

8 987 candidates sat this paper. The mean mark was 20.8 which was practically the same as the mean mark of 20.3 in 2019 and 20.2 in 2018. (This paper was not taken in June 2020).

The questions for which most candidates selected the correct answer were **1**, **3**, **5**, **10**, **15** and **24**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **6**, **12**, **19**, **20** and **29**. These questions were answered correctly by fewer than 50 per cent of the candidates.

Comments on specific questions

Question 6

Question 6 was answered correctly by 47 per cent of the candidates who chose option **D**. 15 per cent chose option **A**, 22 per cent chose option **B** and 16 per cent chose option **C**. A subsidy will encourage the production of a good at a cheaper price so consumers are more likely to purchase the good. If it were a merit good then any underconsumption would be reduced (option **D**). Public goods would not be provided by a private firm (option **A**) and monopoly power would be increased not reduced by a subsidy (option **B**). Overconsumption would be encouraged not reduced if a merit good was provided more cheaply (option **C**).

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Question 12

Question 12 was answered correctly by 47 per cent of the candidates who chose option **A**. 17 per cent chose option **B**, 25 per cent chose option **C** and 11 per cent chose option **D**. Only average fixed cost continues to fall as output increases because larger units of output are averaged over the same fixed cost. The other costs are not averaged over the same total cost whether that cost is total variable cost (option **D**) or total variable plus total fixed cost (option **B**). Average variable cost itself also increases after a certain point (option **C**)

Question 19

Question 19 was answered correctly by 40 per cent of the candidates who chose option **C**. 5 per cent chose option **A**, 28 per cent chose option **B** and 27 per cent chose option **D**. The question asks about the increase in the rate of inflation. This requires a comparison of the change in the rate of inflation over the previous year. The largest increase in the rate of inflation occurred in year 2 (option **C**).

Question 20

Question 20 was answered correctly by 46 per cent of the candidates who chose option **A**. 15 per cent chose option **B**, 18 per cent chose option **C** and 21 per cent chose option **D**. When there is deflation, prices are falling. Consumers might well expect prices to fall even more and would thus delay any spending in the hope of obtaining goods at a cheaper price in the future (option **A**).

Question 29

Question 29 was answered correctly by 49 per cent of the candidates who chose option **B**. 12 per cent chose option **A**, 30 per cent chose option **C** and 9 per cent chose option **D**. If a country exports more than it imports, then the demand for exports and its currency will be high. When demand is high then prices will rise. This includes the currency price so the currency will appreciate in value. This will cause the price of exports to rise (option **B**).

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ECONOMICS

Paper 0455/13
Multiple Choice

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

General comments

31 candidates sat this paper. The mean mark was 20.3 which is slightly lower than the mean of 21.8 in June 2019. (This paper was not taken in June 2020).

The questions for which most candidates selected the correct answer were **1**, **3**, **4**, **12**, **13**, **15**, **21**, and **29**. These questions were answered correctly by 85 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions that candidates found the most challenging were **5**, **7**, **8** and **20**. These questions were answered correctly by fewer than 50 per cent of the candidates.

Comments on specific questions

Question 5

Question 5 was answered correctly by 35 per cent of the candidates who chose option **D**. 32 per cent chose option **A**, 23 per cent chose option **B** and 10 per cent chose option **C**. In a market economy there are no central planners (option **A**), there is no necessity to aim for an equality in distribution (option **B**) and firms do not have to take account of externalities in production (option **C**).

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Question 7

Question 7 was answered correctly by 42 per cent of the candidates who chose option **C**. 3 per cent chose option **A**, 42 per cent chose option **B** and 10 per cent chose option **D**. 3 per cent did not answer this question. A new source of oil would shift the supply curve to S_3 while economic growth would increase demand to curve D_3. This would make the correct answer **C**, the intersection of the new supply and the new demand curve. Those who chose option **B** probably confused the way an increase in supply is represented on the diagram.

Question 8

Question 8 was answered correctly by 42 per cent of the candidates who chose option **D**. 6 per cent chose option **A**, 10 per cent chose option B and 42 per cent chose option **C**. The calculation of the price elasticity of supply relates the percentage increase in supply to a percentage increase in price. Those who chose incorrect options may have inverted the formula or confused the direction of the price or quantity changes.

Question 20

Question 20 was answered correctly by 35 per cent of the candidates who chose option **A**. 29 per cent chose option **B**, 29 per cent chose option **C** and 7 per cent chose option **D**. Deflation is a fall in the general price level. Advances in technology and increases in productivity would be likely to reduce prices (option **A**). Low interest rates (option **B**) are likely to discourage saving and encourage spending or borrowing and this may increase demand and increase prices. Increases in firms' costs (option **C**) are also likely to increase prices, and inflation (option **D**) is the opposite of what is asked.

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ECONOMICS

Paper 0455/21
Structured Questions

Key messages

It was good to see that so many candidates were able to take the exam this summer. The exam format was different to June 2019 as ***Section B*** now includes only 4 rather than 6 questions for candidates to choose from. It also means that each question may have a wider coverage of the syllabus than previously but there is no evidence that this has in itself had a detrimental effect on the performance of candidates. However, there have been two trends that will have had a negative impact on the performance of particular candidates.

Compared to previous years, there was a much larger proportion of candidates that answered questions out of sequence e.g., choosing to answer some parts of a question and coming back to the rest after attempting another question. This may not affect the overall marks of most of the candidates, indeed some of the answers at the end were very good, but it does increase the chances of forgetting to complete all parts of a question and therefore a loss of potential marks. This was particularly true of **Question 4(c)** where 10 per cent of candidates did not provide an answer.

There was also a significant increase in the number of candidates that attempted all 4 questions in ***Section B***. Again, in some cases candidates were not adversely affected and the final question attempted gained higher marks than an earlier question. However, by answering all 4 questions, less time is available for each question, and this could result in lower marks for each of the three question that gained the highest marks.

General comments

The quality of answers to **part (a)** questions in ***Section B*** were generally weaker than in previous years. These two-mark questions are usually based upon knowledge and understanding of basic concepts and economic terms which candidates should know. Therefore, it was surprising that less than 30 per cent of candidates were able to give a correct definition of cyclical unemployment.

There were some misconceptions of economic terms used in questions. For example, many candidates thought that low inflation meant that prices were falling and that purchasing power of consumers increased. This meant that many got low or no marks for **Question 3(c)** as they were analysing deflation. However, answers were generally sound on **5(c)** which was a question about deflation. Answers to **Question 2(b)** showed that some candidates were not clear about the difference between a movement along a demand curve and a shift in the demand curve

Another area where candidates need to improve related to two of **part (d)** questions in ***Section B,*** with candidates broadening the scope of their answers beyond what was asked for in the question. This was particularly the case with **Question 2(d)** where key words in the question were 'countries' and 'consumers'. Many answers focused on individuals or firms specialising rather than countries, perhaps because they knew more about it. In addition, some answers focused on the benefits for the country rather than the consumer. It is important that candidates do read the whole question and the key words within it before starting their answers.

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Comments on specific questions

Section A

Question 1

(a) Most candidates selected the right data of $32.7 bn (import of goods) and $10.4 bn (balance of trade in goods) but a very high proportion made the wrong calculation. If the balance of trade of goods is positive at $10.4 bn that means exports are higher than imports. So, the correct answer is $32.7 bn + $10.4 bn = $43.1 bn; whereas many candidates calculated $32.7 bn – $10.4 bn = $22.3 bn. A few candidates calculated it correctly but then they did not show that it was in billions.

(b) Nearly all candidates were able to identify two of the three capital goods mentioned in the source material – delivery vehicles, machines and office equipment. A common error was either to name capital goods not in the source material e.g., tractors or identify goods such as maize, footwear or oil named in the source material, but which are consumable goods.

(c) Most candidates confirmed that Nigeria had a budget deficit; however, the reason given was often incorrect. The correct answer was that government spending was greater than tax revenue and some candidates stated this and also used the figures set out in the source material. A few correctly calculated the deficit as $6.6 bn. Those that stated it was a budget surplus relied on using the trade data or combined the budget and trade data as evidence. A few simply did not understand what was meant by a budget deficit or deficit and changed their answers several times.

(d) Candidates were generally good at explaining that training would result in workers gaining better skills, higher wages, better job opportunities and becoming more productive. This would lead to higher revenue and profits for firms. However, many answers did not explain why this led to an increase in tax revenue. As the question states that it might lead to a rise in tax revenue, candidates needed to state which taxes would rise e.g., higher salaries resulted in greater income and tax revenue, and higher profits by firms would result in higher revenue from corporation tax. It was insufficient to say that those higher wages would mean higher rate of tax being paid leading to an increase in tax revenue and most importantly stating the specific taxes where revenue would rise, e.g., income tax and sales tax. Too often the response was simply that tax revenue would rise but this was in the question. A typical strong answer included 'as firms increase their output and make more profit, tax revenue from corporation tax will increase.' A typical weak answer was 'there will be more tax revenue for the government as more people will be paying taxes.'

(e) There were some strong answers that showed candidates fully understood the data in Table 1.1 and many candidates were able to gain full marks. A strong answer included 'Life expectancy at birth in Nigeria is lower at 59 years than Ethiopia where it is 63 years, and this could be due to better healthcare in Ethiopia.' Whereas a weak answer was 'life expectancy in Nigeria was 59 years and in Ethiopia it was 63'. The latter was simply description of the data in the table with no analysis.

(f) Most candidates were able to identify one or more of the measures such as lower interest rates, subsidies and reducing corporation tax as mentioned in the source material. The strong answers were able to analyse how such measures would result in encouraging firms to increase their investment. For example, 'lowering corporation tax would increase profits for firms and encourage them to invest to increase their profits further.' Weaker answers did not make the link between the measure and increasing investment. The weakest answers used measures not mentioned in the source material, e.g., lowering income tax. Some used a named measure wrongly e.g., raising interest rates so that firms could earn more by saving.

(g) Stronger answers were from candidates who generally understood that an increase in Nigeria's population was likely to lead to an increase in the labour force and in output but that there could be shortages of food and increased pollution and gave valid reasons for this. Weaker candidates often assumed there would be an increase in output per head, that there would be higher employment or greater unemployment and that imports and exports would rise or fall without justifying why this might happen. Some of the answers given speculated on information about Nigeria that was not in the source material.

(h) Most candidates understood how the imposition of a tariff would increase the price of a good and, in many cases, were able to explain why imposing a tariff could result in an increase in demand for

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domestically produced rice. However, answers were generally weak in analysing why this would lead to an increase in output of rice in Nigeria. The main reason for this was that candidates did not make sufficient use of the source material. The source material indicated that costs of production were higher in Nigeria, so even with higher import prices, imported rice might still be cheaper than domestically produced rice. Strong answers identified this fact and also made comments about the quality of Nigerian produced rice and that if demand was inelastic, which was likely for a basic necessity such as rice, an increase in price as a result of a tariff might not reduce demand of imported rice. Some weak answers made little reference to Nigerian rice production.

Question 2

(a) Generally, candidates correctly identified that private costs (internal costs) and external costs make up social costs. A few did not know what social costs meant and gave other costs such as fixed cost and variable cost or actual examples of social costs e.g., air and water pollution. Some answers were simply guessing, e.g. 'less fish and more pollution'

(b) Strong answers identified and explained two causes of a shift to the right in the demand curve for fish. One common cause identified was a rise in the price of a substitute food, e.g. chicken. A second was an increase in income which made it more affordable to buy more fish. A common error was that the price of fish had increased but this would lead to a movement along the demand curve. A second error was a change in the supply of fish; but this would not cause a shift in the demand curve. A typical weak answer was 'an increase in pollution will decrease the supply of fish which will increase the price of fish and shift the demand curve to the right.'

(c) There was a wide variety of answers given to this question. Some strong answers focused on the impact on individuals e.g., better health, the improved standard of living and job opportunities. Others concentrated on the economy e.g., the reduction in air or water pollution, improvement to the environment, attracting tourists and increase in production and GDP. Some concentrated on the impact on the fishing industry which is a valid response. Weaker answers tended to cover why pollution was bad for the economy rather than how cleaning up pollution benefits an economy.

(d) Most candidates understood what was meant by specialisation. However, relatively few applied this to how it benefited consumers, and instead explained what specialisation meant for an individual or the country as a whole. These were poor answers as they did not answer the question being asked. Where candidates did focus on consumers, the answers to how consumers might benefit was usually well done but even here answers to how consumers might not benefit were weak and were often limited to comments about the cost of imports. Overall, the question was poorly answered as responses lacked both focus and depth.

Question 3

(a) Cyclical unemployment should be one of the best understood types of unemployment, so it was surprising that less than 30 per cent of the answers correctly related it to lack of total demand in an economy due to a recession. A few understood that unemployment meant not having a job but were unable to explain why. Answers included descriptions of seasonal and frictional unemployment and a cycle of employment and unemployment. For example, 'cyclical unemployment happens when people keep losing their job'

(b) Most candidates correctly identified two ways in which a firm could increase the productivity of workers. Common ways included paying higher wages, bonuses and providing fringe benefits such as holidays and better working conditions. However, in quite a few cases, the reason why this led to an increase in productivity was not explained. Weak responses often simply stated that the identified way increased productivity which was the question rather than what caused the productivity to increase.

(c) This was poorly answered by a large number of candidates. Strong answers made clear that with low inflation prices were still rising, but only slowly and then explained the positive impact that this would have e.g., removing uncertainty for firms in investing and increased exports to countries where inflation was at a higher rate. The high number of weak answers started from an incorrect assertion that prices were falling and that this increased the purchasing power of consumers, resulting in higher demand and economic growth.

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(d) Strong answers gave a balanced discussion of whether or not a reduction in unemployment would reduce poverty. Such answers explained that poverty would be reduced because those gaining jobs would have income which could be used to meet basic needs. Increased tax revenue could be used by the government to support the poor. Answers also recognised that absolute poverty might still exist, that incomes might still be very low, e.g. new jobs were at minimum wages or only part-time and that not all those in poverty could work. Weak answers were restricted to just a brief comment on rising income for those now employed. Some answers lacked balance and quite often lacked focus by explaining that an increase in incomes would cause inflation which would lead to loss of jobs or lack of purchasing power for the poor.

Question 4

(a) Quite a few candidates understood that the labour force included both the employed and the unemployed. A strong answer was 'The labour force consists of individual who are able and willing to work and are actively looking for a job' Many answers were only partially correct, e.g. those willing to work or the working population or those who were employed, forgetting that the labour force also includes those unemployed.

(b) Strong answers identified that a low birth rate and a low death rate were the main causes of an ageing population and then explained what caused them e.g., the rising costs for raising children meant families were having fewer children and better healthcare leading to people living longer. Weaker answers either only identified and explained one reason or identified both but did not explain why they were low. A few confused the word 'causes' with 'effects' and wrote about the impact of a low birth rate and/or death rate on the economy.

(c) Strong answers explained that a fall in the value of a currency meant the currency had depreciated and this resulted in exports becoming cheaper and imports more expensive. This meant that the value of exports rose, and the value of imports fell resulting in a reduction of the trade deficit. Weak answers tended to get the impact the wrong way around with exports becoming more expensive and imports cheaper. Other weak answers wrote about the impact on prices within the country with no mention of international trade. Ten percent did not attempt this question.

(d) Most candidates understood that an increase in consumption led to higher demand. Strong answers provided a balanced argument that explained that countries benefited from an increase in demand for goods and services. This led to more job opportunities and more tax revenue for the government to spend on public services and goods such as education and healthcare. They also explained that it could lead to demand-pull inflation and/or greater imports to meet consumption leading to an adverse effect on the current account. Weaker answers provided less depth and, in some cases, were limited to the benefits only. A few of the weak answers stated that the increase in demand would lead to pollution, the using up of resources and little else.

Question 5

(a) The most common correct responses were fishing and mining, but less common answers included felling trees, hunting and oil extraction. A few incorrectly mentioned farming or farm products which were wrong as these relate to agriculture which was in the question.

(b) The strongest answers recognised that there would a shortage of food which might lead to famine and starvation. Their second point often related to less exports/more imports of agricultural products leading to an adverse effect on the balance of payments. A few also mentioned that it could lead to a shortage of raw materials for secondary industries and could result in redundancy of workers. Weak answers often did not make specific reference to agricultural products in their answer, e.g. 'low skilled workers will not be able to find other jobs and will be unemployed.'

(c) The term deflation was understood by most candidates, even by some of those candidates who had given incorrect answers to 3 **(c)**. Strong answers correctly identified that expansionary monetary policy such as lower interest rates and an increase in money supply would lead to more borrowing, rising demand and firms raising prices. Weaker responses fell into two camps. Some correctly identified the role of the central bank, but analysed the effect of a rise in interest rates and a reduction in money supply probably because they confused deflation with inflation. Others correctly analysed how expansionary fiscal policy could reduce deflation, but this was outside the scope of the question as a central bank has no such powers to reduce taxes and increase government expenditure.

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(d) This questioned required a focus on the individual firm and how it might benefit from growth. Strong answers discussed both the advantages of growth in gaining market dominance and gaining economies of scale and the disadvantages often associated with diseconomies of scale. Some explained that growth could be internal or external e.g., through mergers and takeovers. The strongest answers were also able to discuss why firms may have other objectives, such as survival, staying small and serving the community or maximising profits. Weak responses tended not to make any reference to economies and diseconomies of scale and often wrote about the effect of growth on the economy including lower unemployment and the downside of growth leading to inflation and greater pollution.

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ECONOMICS

Paper 0455/22
Structured Questions

Key messages

It is important that candidates:

- Follow the instruction at the start of **Question 1** i.e. 'Refer to the source material in your answers.' For example, in **Question 1b** in this session, candidates needed to identify two disadvantages of a country specialising from the source material. Questions **Question 1a** – **Question 1f** rely heavily on the source material. In answering **Question 1g** and **Question 1h**, candidates also need to take into account the source material but have more scope to build on it.
- Answer only the required three optional questions from ***Section B***. In this, and in every previous session, some candidates waste their time by answering all the questions. These candidates wasted time which could have been devoted to strengthening the three required questions.
- Answer the actual question set. Some candidates try to change the question to one they want to answer. Other candidates seem to forget the question as they are writing. This second group of candidates often write in long sentences. For example, one candidate wrote in answer to **Question 5d**:

When businesses are being kept small it would benefit the people and the country as when it raises the competition the prices would fall and the choices would increase as they would produce more variety of goods to the market and it would improve and raise the GDP of the country as their proportion of output would be included which will be rising it further and so GDP per capita would rise and unemployment would reduce as more people get a job and the government income would raise and expenditure would fall as they charge taxes on all businesses that is being operated and they would be able to have good infrastructure in the country as it would be improved and some multinational companies might be attracted by this and they might be interested in opening a new branch in the country which will raise the exports and less imports would be made where balance of payments surpluses would be created by having good infrastructure so the government will have to spend more in order to attract multinational businesses and in the long run the environment is being affected due to more pollution where they might lose the advantage which will be costlier to regain.

This answer did not make clear why competition would increase and it moved away from the topic of the question into the benefits of higher GDP and the effects of more MNCs being attracted into a country.

General comments

There were approximately 9,200 candidates who sat this examination. There was a full range of quality of answers. There were some excellent answers which showed the ability to apply relevant economic concepts to current issues. Some other answers lacked sufficient economic analysis.

There was a relatively small number of unanswered questions. Most candidates allocated their time appropriately, although a number could have devoted rather more time to the **(d)** parts of the optional questions and a little less time to the **(a)** and **(b)** parts.

As in previous sessions, there was some confusion shown over some key economic concepts. These included productivity, social cost and cyclical unemployment. Stronger understanding was shown of other concepts including merit goods, capital-intensive and foreign exchange rate. The understanding of a recession has increased over time.

Most candidates showed an awareness of the need to consider both sides in their answers to the **(d)** questions. There were some good answers to the **(c)** parts with a high proportion of candidates providing

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good analytical links. In response to the **(b)** parts, not all candidates explained the points they identified. Most candidates were able to answer the **(a)** parts accurately.

Comments on specific questions

Section A

Question 1

As in other recent sessions, the performance on **Question 1** was pleasing, although some candidates did not make sufficient use of the source material.

(a) Most candidates calculated Chile's agricultural output accurately. However, a number of candidates mistakenly gave the answer as $11.78 million. Some other candidates calculated 9.2 per cent (the percentage of the labour force employed in agriculture) of Chile's GDP.

(b) The two most common disadvantages identified were demand falling and supply being harmed by bad weather. Some candidates did not consider the question carefully and wrote about the disadvantages of workers rather than countries specialising. Others did make use of the source material.

(c) This was generally well answered. Most candidates explained how the existence of close substitutes make demand for cherries to be price-elastic.

(d) This was the first time that population pyramid diagrams have appeared in **Question 1**. Most candidates coped well with interpreting the diagrams. For example, one candidate wrote:

Chile has a more ageing population than Haiti. It has a higher proportion of its population in the age range over 60 than Haiti. This means life expectancy is longer in Chile. Chile also has a larger proportion of its population who are of working age and in the labour force. So, Chile has a lower dependency ratio than Haiti. In contrast, Haiti has more of its population under the age of 19 which suggests a higher birth rate.

Some candidates wrote about features of the two countries' population structures but did not compare them. Others wrote about why the population structures may differ but not how they differ.

(e) This was generally well answered. Most candidates were able to identify the two reasons from the source material and to analyse their effects.

(f) With questions on the relative pay of workers, it is always useful to consider the influence of demand for and supply of workers. Here the strongest answers also made good use of the information in the source material about the educational level of astronomers and how most work in the public sector. An example of a good answer is:

Most of Chile's astronomers have a university degree. As a result, they are well educated and very productive. This results in them being highly demanded but in short supply. In contrast to astronomers, farm workers are in higher supply as they need fewer qualifications. Furthermore, most astronomers work in the pubic sector and so are more likely to belong to trade unions which can increase their bargaining powers.

(g) There was a mixed performance on this question. There were some excellent answers which showed a good understanding of the advantages and disadvantages for consumers of more government intervention in the Chilean economy. These drew on the information provided in the source material and built on that in discussing, for example, how a government could reduce the under provision of merit goods but may reduce consumer sovereignty. An example of such an answer is:

Chilean consumers may benefit as the government can reduce market failure by providing subsidies to firms that produce merit goods that give positive externalities. The subsidies will lower price which will increase their consumption as they are under consumed and under provided in a market economy. Private firms are profit motivated. They would not provide public goods such as street lighting. The government will produce public goods so that everyone can enjoy them. The

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government can also put taxes on demerit goods to reduce consumption and production as it increases their cost of production and their price. It can set maximum prices to prevent exploitation by monopolies and to ensure that the poor can afford the goods, reducing inequality.

On the other hand, government regulations can make it difficult to set up a firm. This can reduce competition and stop consumers from enjoying a wide choice. Indirect taxes may reduce profits which can reduce investment and stop the quality of products increasing. Market forces may also be more efficient in the allocation of resources, reacting quicker to shortages and surpluses.

Some candidates did not focus on consumers and a number wandered off the central point of the question.

(h) Some candidates found this a challenging question. Several candidates wrote about the advantages and disadvantages of Haitians working in Chile. Some candidates, who did concentrate on fewer Haitians working in Chile, assumed that productivity would increase without linking this to the possible skill levels of workers who might remain. A number also suggested that the number of the jobs in a country are limited whereas they change frequently with changes in the total demand and total supply in a country. There were, however, some strong answers to the question which explored a number of benefits and harmful effects of fewer Haitians working in Chile. For example:

The Haitian economy may benefit from fewer people working in Chile. Workers from Haiti. Who chose to work in Chile may have high skills and productivity, so if these workers choose to stay in Haiti, the labour force will be more productive, boosting economic growth. A larger labour force will increase productive capacity. Also, a larger number of people staying in Haiti will result in higher total demand, increasing output and tax revenue. With more tax revenue, the government can invest more in education, healthcare and infrastructure.

However, Haiti's economy may not benefit. Those workers who are unskilled may be able to earn a higher wage in Chile. Not working in Chile can reduce the money that their families receive. If Haitian people stop working in Chile, they may work somewhere else. Not necessarily coming back to Haiti.

Section B

Question 2

Candidates performed reasonably well on this question but more accuracy on **Question 2b** and the inclusion of more economic analysis on **Question 2c** and **Question 2d** would have been useful.

(a) The two most common basic necessities identified were food and water. A small proportion of candidates did not read the question carefully enough and, as result, identified housing.

(b) The majority of candidates showed an awareness of the nature of frictional unemployment. A relatively high proportion of candidates, however, showed less understanding of cyclical unemployment. A number confused it with seasonal unemployment, thinking that it refers to unemployment caused by the cycle of seasons. Even more candidates confused cyclical and structural unemployment, writing about unemployment resulting from the decline of an industry.

(c) Some candidates wrote about why the children of the poor tend to become poor adults rather than why the children of the rich tend to become rich adults. Other candidates wrote in very general terms and did not analyse, for instance, why more education usually results in higher wages. There were, however, some strong answers. A number of these were not particularly long but they made clear links between relevant influences on why many of the children of the rich become rich adults. For example:

Children of the rich tend to become rich adults because they can get a good education from private schools, teachers, travelling abroad etc. Children of the rich also grow up in good quality housing and good quality healthcare. They do not have to devote their time to working at a young age and can go to university. This makes them skilled and increases their chances of gaining good jobs and earning high incomes. As rich families have a lot of disposable income, they can buy assets such as houses and businesses which can be passed down to their children. They also set up trust funds and bank accounts for their children.

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(d) The strongest points covered in answers to this question tended to focus on how subsidies to families to spend on housing could improve living standards, enable families to spend more on education and the opportunity cost involved in providing such subsidies.

The answers to this question, as with the other **Question (d)**s which gained Level 3, explored both sides of the question in depth. Example of a Level 3 answer:

Subsidies are a form of financial assistance given by the government in order to encourage the consumption of a public/merit good or improve the general welfare of the people.

Providing subsidies to families for housing makes this basic necessity more accessible, which will likely lead to an increase in the standards of living and reduce poverty. Moreover, subsidies on housing may encourage immigration and may attract more skilled labour into the country, increasing the country's output. Additionally, this can enable families to spend more on education. This can raise the skills and qualifications of their children which can increase their chances of employment.

However, an increase in subsidies involves an opportunity cost in government spending, as the money may be better spent on education or the government directly investing in housing stocks. The subsidy may also be too small to make a difference as housing is a relatively large cost. Subsidies may also go to families that do not need it, such as those who are rich and already own multiple houses, which would not make a difference in relative poverty. Increased housing would also increase noise pollution from construction and would cause habitat destruction which are negative externalities.

Answers which achieved Level 2 explained some of the points made but either lacked depth, or less frequently, were one-sided. Example of an L2 answer:

Subsidising houses could reduce the rate of homelessness for families and increase the standard of living since houses are a necessity.

Subsidising a home for a family means the family does not have to spend a large proportion of their income on housing. So, savings of families could go up and consumers could spend more on other goods.

Subsidising a house may not be enough as house prices may be too expensive, causing the family to still not afford a house. The government may not have adequate funds to provide a subsidy to all poor families and so some families may be left out in the process.

Level 1 answers either defined subsidies or more often just stated points without explaining them. Example of a Level 1 answer:

It might. First housing is a basic necessity. Some people can not afford to buy a house. Some people may have more confidence about the future. However, it might not. First some people may rely on subsidies and do not need to work hard. Second government can not do other things such as education.

Question 3

This was a popular question with **Question 3c** being the best answered part.

(a) A relatively high proportion of candidates referred to decision making and risk taking. A number of candidates confused enterprise with capital.

(b) The majority of candidates defined opportunity cost and most gave an example of a possible choice facing consumers. Not many candidates, however, explained how limited income means that consumers cannot have all they want and forces them to make choices.

(c) This was generally well answered with some good links provided. For example:

The first reason is that the price of capital may fall which may make it more affordable than labour. This could reduce firms' costs of production and increase their profits. Capital can increase the

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quality of products produced which can increase sales, and again increase profits. Also, capital could be more productive. It does not get bored or affected by illnesses. Capital cannot organise industrial action which disrupts production. There may be low availability of labour with more candidates or retired people, making it difficult to find workers.
However, some candidates appeared to think that once purchased, capital equipment does not involve any costs to operate it.

(d) Several candidates did not focus on the effects of inflation on a country's industries. Some candidates made unsupported statements such as it will cause industries to go out of business. Other candidates did make some interesting comparisons between the different effects on industries producing products in elastic demand and those producing products in inelastic demand. There were also some good answers comparing the effects on industries that export a high proportion of their output and those that import a high proportion of their raw materials and capital goods. In addition, there were some interesting comments about the different effects of demand-pull and cost-push inflation on industries.

Example of a Level 3 answer:

Inflation may harm a country's industries in several ways. As the price of goods increase, they are less internationally competitive and will face reduced demand from foreign countries. This will reduce the potential to sell to foreign markets, thus reducing the revenue of the industries. Additionally, as the price level increases, it may make these industries more susceptible to dumping from foreign firms as they are less price competitive. Furthermore, as costs of production increase, firms may lose sales. Cost-push inflation can result in firms losing sales and laying off workers. Industries that produce goods with price elastic demand will be harmed if demand for their products falls by more than the rise in their prices.

However, inflation may not always harm industries. Firms in the industries will find it easier to pay outstanding debts if the rate of interest rises by less than inflation. Moreover, industries that produce price inelastic goods may benefit from their products having higher price as their revenue may rise. While inflation means that, on average prices are rising, not all industries may experience a rise in the price of their products. Industries may also benefit from demand-pull inflation as the higher demand may result in their revenue increasing by more than their costs.

Example of a Level 2 answer:

Inflation occurs when total demand is greater than total supply, causing money to lose its value. Inflation can increase the price of exports, making them less price competitive in the international market. The demand for exports will decrease and revenue will fall. Workers will demand higher wages and may threaten industrial action. Higher wages and industrial action may cause industries' costs to rise, leading to lower profits. This could cause cost-push inflation..

Inflation can benefit industries if they are able to enjoy higher demand for their products. Higher total demand can push up prices and can encourage industries to produce more.

Example of a Level 1 answer:

First the value of money will decrease. People can not use the same value of money to buy the same product during inflation. Second borrowers gain while lenders lose. Third, there will be menu and shoe leather costs that firms will have to pay.

Question 4

This was a well answered question with some particularly good answers being given to **Question 4c** and **Question 4d**.

(a) Some answers to this question lacked precision. For example, *the number of children born in a country,* is too vague. For some reason, some candidates confused the birth rate with a natural increase in population. They wrote that the birth rate is the number of births minus the number of deaths.

(b) Most candidates were able to identify two causes of an increase in the quality of labour but not all explained them. The two most common causes identified were improved education and improved

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healthcare. A small number of candidates did not read the question carefully enough and wrote about causes of an increase in the quantity of labour in a country.

(c) There were some strong answers to this question with good links provided from a higher interest rate to a recession. For example:

A rise in the interest rate will make it more expensive to borrow. This will discourage consumer expenditure because people will not be willing to borrow as much money to make purchases. Also, more people will choose to save their money because the financial return is high. This will result in a fall in total demand. A high rate also discourages investment as it makes it more expensive to take out loans for purchasing capital equipment and because demand for their products has fallen. Lower demand for goods and capital equipment will reduce their output, causing a recession.

(d) Most candidates seemed well informed about the possible effects of multinational companies on their host countries. There were some good points made particularly in terms of the technology MNCs may introduce into the host countries and the effects on local industries. A number of candidates wrote about MNCs exploiting workers by paying lower wages than they pay in their home countries. What they needed to consider was whether the wages paid were higher than those paid by other firms in the host countries.

Example of a Level 3 answer:

MNCs may improve the economic performance of the host countries in which they operate. MNCs may provide job opportunities for local workers, reducing unemployment hence reducing poverty and increasing living standards. They may also pay corporation taxes which increases the government's tax revenue, enabling the government to spend more on e.g. healthcare improving living standards and economic welfare.

MNCs contribute to GDP as it will increase the total output of the country and boost economic growth. Some of the goods produced may be exported, resulting in a rise in exports of the country improving the current account position.

However, MNCs may not improve the economic performance of the host countries. Not all of its profits will be taxed by the host countries' governments. Some profits will be sent back to the home country. They may compete with domestic firms, causing some of them to close down. They may also deplete the resources of the host country, reducing the productive potential of the country in the future. After the resources are used up, the MNCs may move to other countries.

Example of a L2 answer:

Yes they will. Because MNCs will create more jobs for host countries, so it will decrease unemployment. In addition, they will improve consumption and bring more tax revenue to local government so government can use this money to set up infrastructure and benefit citizens. Furthermore, MNCs will increase the GDP of host countries.

However, they would not. Because although MNCs may bring lots of revenue, they may send this back to their home countries. They may merge with local industries and may become a monopoly that will be harmful to host countries. In addition, they may bring pollution to host countries, it will have external costs and decrease living standards for host countries.

Example of a Level 1 answer:

MNCs are friendly to people so people buy their products. They can also improve the performance of the host countries by employing workers, making less workers unemployed. However, it also may not help as most of the profit would go back to the companies, countries.

Question 5

In the case of some candidates' answers, there needed to be more economic content in **Question 5b** and **Question 5d**.

(a) The two most common functions identified were medium of exchange and store of value. A number of candidates identified characteristics of money rather than functions of money.

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(b) There were some good answers to this question. These tended to concentrate on the possible effect of a bank merger on costs of production and market power. Some candidates, however, wrote in too general terms. For instance, some mentioned that a merger will result in a larger bank but did not explain why the banks would want to be larger.

(c) This was generally well answered. A relatively high proportion of candidates were able to provide good links between a fall in a country's foreign exchange rate and an increase in employment. Some candidates wrote about the fall in the value of the currency encouraging some of the country's people to work abroad. Such an approach often did not consider whether these people were initially in employment and whether job opportunities would exist in other countries.

An example of a good answer:

A fall in the exchange rate will make exports relatively cheap. This will increase the value of exports sold, hence the export firms will increase output. This will create more job opportunities, reducing unemployment. Also, a fall in the exchange rate will make imports relatively more expensive, hence the money spent on imports will be reduced and the demand for rival domestic production will increase. So, the domestic firms will increase output, creating more jobs in domestic firms, increasing employment.

(d) There was a range of responses to this question. Some candidates showed confused thinking by writing about small firms having an advantage because their total wage and raw material costs are lower than those of large firms. Those candidates did not consider how small firms' total revenue is likely to compare to those of large firms. They did not recognise the importance of considering the relative average costs of small and large firms. Some also mentioned small firms pay less tax than large firms. What they should have concentrated on was the tax rate paid.

There were, however, some strong answers which provided interesting comments on the ability of small firms to respond quickly to changes in market conditions, supply goods in niche markets and develop good relations with customers and workers. These also explored how small firms are unlikely to take advantage of economies of scale and may experience a number of disadvantages including the risk of being driven out of the market by large firms.

An example of a Level 3 answer\;

Depending on the owners' aims it can be a benefit to keep a firm small. It may operate as a local monopoly, allowing a high level of profit despite it being small. It can provide a more personalised service and experience and have a close relationship with its customers, causing loyal, high spending customers. It can be flexible and can adjust to customers' needs fast as it does not have a complex organisational structure or many high-ranking staff it has to consult with it. It will also not experience other diseconomies of scale including bad relations with its workers.

On the other hand, it can not benefit from economies of scale, such as bulk buying as it does not purchase a large amount compared with a big firm, not allowing it to cut average costs, meaning comparatively higher prices, resulting in lower demand. This will reduce its chance of survival. It is also very hard to get funding compared to a big company as banks will see that big firms are less likely to default and so less risky. They may also have a higher chance of business failure if the owners have less expertise on how to run a business. They may also employ less advanced capital equipment which may mean their average cost is higher than a small firm.

An example of a Level 2 answer:

The advantage of keeping a firm small is that it is easy to manage and is easier to communicate with its workers. It may also be able to operate in a niche market, producing a high-quality product with limited demand. Its good quality may attract consumers. However, if the firm it may not be able to take advantage of economies of scale which means the firm will have high average costs. Another reason can be that if the firm is small, it may be taken over by a large firm.

An example of a Level 1 answer:

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If it has a small size, it is easy to control. And it is flexible. It will only have a few workers so it can keep its labour costs low. It can also pay its workers more which will motivate them to increase output and not to strike. Small firms also pay less tax than large firms.

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ECONOMICS

Paper 0455/23
Structured Questions

Key messages

This is the first June examination since the **part (d)** questions in ***Section B*** of the examination were changed to a levels-based marking system. The key to a good answer when tackling these more extended sections of the paper is to understand the structure required in an answer. Candidates should start by demonstrating their basic understanding of key concepts in the question and then build upon this, for example by defining economic terms. The next step is to develop a reasoned discussion by looking at both sides of the economic argument. Strong answers will be those that explore the question in depth and consider more than just one aspect of the question For example, in **Question 4(d)** a limited answer would simply consider the advantages and disadvantages of profit maximising in healthcare provision, whereas a stronger answer would explore how seeking to maximise profit may could affect the quality and accessibility of healthcare, and examine other issues in addition to these, such as opportunity costs and market failure.

General comments

Precise economic definitions and identifications are very important in economics examinations, not just in the longer **part (d)** questions, but also in the short **part (a)** questions. In this examination, candidates were asked for definitions in three questions (**Question 3(a)**, **Question 4(a)**, and **Question 5(a)**) and good candidates were able to succeed by clearly demonstrating that they had learned these definitions prior to the examination.

Candidates, however, should not assume that these questions require long extended answers and should be aware that short precise answers are often sufficient. For example, in **Question 4(a)** investment can be precisely defined in four words as 'spending on capital goods' and no further development of the answer is required.

Comments on specific questions

Section A

Question 1

(a) Answers to this question were mostly correct but some candidates made unnecessary errors by converting to large numbers of zeros rather than working in billions of dollars. 2 per cent of 109 billion is 2.18 billion and there is no need for candidates to use many zeros to calculate 2 per cent of 109 000 000 000.

(b) Most candidates could identify two macroeconomic aims achieved through the blue economy.

(c) Good answers emphasised the demand for Moroccan fish whereas weaker answers did not specify the country, and so it was not always clear whether they were identifying global demand or demand for Moroccan fish in their explanations.

(d) This question was well-answered overall and most candidates could identify low wages and seasonal unemployment as causes of poverty. Some candidates, however, did not ensure that they covered explanation in addition to identification of the causes of poverty, therefore not maximising their potential marks on this question.

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(e) Answers to this question generally demonstrated good understanding of the data contained in the diagram. Some candidates, however, did not give a straightforward answer 'no' or 'not always' to the question asked (whether GDP always increases) and so missed a potential mark.

(f) There was some confusion amongst candidates about regulation of fishing. Good answers analysed the prevention of over-fishing and the long-term preservation of fish stocks for future generations, but some candidates ignored the longer term altogether and answered in terms of increasing current output and sales of fish.

(g) Most answers demonstrated an understanding that subsidies will decrease production costs but not all were able to link this to the Moroccan economy, such as the possibility of economic growth, instead concentrating on firms alone. There was good understanding of the 'other side' of the answer, however, with candidates able to identify inefficient use of the subsidy and complacency.

(h) Some candidates chose to avoid this question altogether whilst others demonstrated only limited understanding of international trade. The best answers were clear in their use of the terms export and import, whilst weaker answers tried to describe the process instead. Very few answers went on to discuss the labour market, either in giving reasons why trade protection might be beneficial or why it might not.

Section B

Question 2

(a) Most candidates could give two indicators of living standards as required by the question, usually GDP per head and HDI. It is important to note, however, that GDP alone is too vague because it does not take population into account; otherwise Luxembourg, a very small country, would identify as having a very poor living standard, whereas it has one of the highest living standards in the world.

(b) Answers to this question generally demonstrated a good understanding that lower borrowing leads to less consumption. On the other hand, some candidates could not take this idea any further and link it to a reduction in demand-pull inflation. Others tried unsuccessfully to link it to cost-push inflation.

(c) The key to a good answer to this question was a precise use of the terms exports and imports, but many candidates seemed reluctant to use them and thus lacked clarity in their answers. The best attempts at an answer explained that economic growth leads to more employment and higher incomes that may be spent on higher imports, worsening the balance of payments on current account.

(d) Strong answers to this question were rare, mainly because they lacked depth. Most candidates could explain satisfactorily that a lower GDP would imply lower incomes and hence lower living standards. However, they then found it difficult to develop the alternative view that lower GDP can actually benefit an economy in terms of less damage to the environment, fewer demerit goods and less stress amongst workers. It was also unusual to see population considered in answers and yet, if population falls by more than GDP, GDP per head will rise, thus improving living standards. The following example demonstrates a Level 1 answer that shows some understanding of economics with a simple attempt at terminology but does not move to the reasoned discussion required for a Level 2 answer:

'*Why it might? This is because lower GDP means that there is less output. This will lead to wage reductions, unemployment and poverty* **(L1).** *This means that companies will not be able to supply the demand which will lead to a decline in economic growth. A low GDP can also lead to other things. Since people have less incomes companies will lower prices to satisfy customers. This will also result in a more stable balance of payments* **(L1)** *of shipping foreign goods would be too expensive.'* **(L1)**

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Question 3

(a) On the whole, structural unemployment was not well understood by candidates. The most common confusions in answers were with seasonal and cyclical unemployment. Good candidates understood, however, that structural unemployment does not depend upon the time of year, nor does it apply to the whole economy, but relates, as its name implies, to changes in the structure of the economy, e.g. steel workers losing their jobs because of a lack of demand for steel.

(b) There were some good answers to this question, with candidates able to demonstrate a clear understanding of productivity, but some answers were limited to identification only and thus were incomplete as answers. In questions such as this, where two causes are requested, it is important to explain both causes as well as to identify them. So, lack of training can be correctly identified but this needs to be further developed in terms of the lack of skills in the workforce; similarly lack of investment is a cause of low productivity because the capital has now become out of date.

(c) Most candidates found this question difficult, especially because of the need to consider both aspects of the question (government spending and tax) when analysing cyclical unemployment. The key to a successful answer was therefore to carefully create a structure for the answer, looking first at different types of government spending and then at different types of tax cuts – income tax, corporation tax, sales tax. Candidates then had a framework upon which to build an answer.

(d) As with other **part d** questions, lack of depth and/or discussion of both sides of the argument were often apparent in answers to this question. Even good candidates, who could explain how competition can lead to lower prices and thus be an advantage generally, had difficulty maintaining a focus on the actual question – the disadvantages to workers. Workers can also be consumers and take advantage of low prices, but there are many other aspects to this question: efficiency can mean higher wages, higher output and hence more demand for workers but, on the other hand, competition can drive down wages and lead to cost cutting, making workers unemployed.

The following example shows a very good response at Level 2 (5 marks) but the candidate does not develop the discussion sufficiently in order to reach a strong answer on either side of the question. The response mostly concentrates on wages and is fairly repetitive, with the conclusion adding very little to the answer. It is a long answer but is not sufficiently focused for Level 3:

'There are many reasons why competition between firms in the same industry can be a disadvantage. With competition, firms will attempt to stand out by lowering prices **(L1)** *however, to continue making a profit, the costs would have to lower which would mean that workers could have wage cuts which means that they make less money and have to satisfy less of their needs and wants* **(L2)**. *Moreover with a lot of competition, some businesses might struggle to make sales and profit which would force the businesses to reduce wages of workers or simply fire them because less output is necessary and the salaries can no longer be paid.*

However competition can be an advantage. To be more competitive, several businesses might train their employees so that they can be more productive and efficient. This allows workers have better future prospects as they are more skilled. Additionally with fierce competition between firms, some workers might be asked to join competitors for very large sums of money which allows them to satisfy more of their needs and wants. To conclude, competition between firms is not always a disadvantage for workers because some workers can benefit from becoming more skilled and receive higher wages even if, in some circumstances, workers may receive less wages or be unemployed.' **(L2)**

Question 4

(a) Good candidates were able to give a short, clear definition of investment, whereas others gave vague ideas about money and firms rather than precision in their answers.

(b) Unless a diagram is specifically requested in the question, there is no requirement to draw one. No diagram was required here but unfortunately some candidates insist upon drawing diagrams where none are required and do not add to the explanation. In this case, some candidates spent time drawing a diagram that could have been allocated to other questions. It is also important for candidates to have a clear understanding that an increase in price involves a movement along a demand curve, whereas this question referred to a shift of the demand curve, and therefore the two

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causes required were factors other than the price of the product, such as income, price of complements, price of substitutes, and a fall in population.

(c) There was excellent understanding of the shape and movement of a production possibility curve demonstrated by candidates in their diagrams. A correct labelling of the axes, however, should show capital goods on one axis and consumer goods on the other, alternatively with Good A and Good B (two named goods and services) on the axes. The most important thing, however, is for candidates to demonstrate an understanding that an outward shift of the PPC shows an increase in the productive capacity of the economy. The written comments were seldom fully developed by candidates, and the idea of improved health and education leading to greater productivity from an improved workforce was rarely touched upon.

(d) Good candidates were able to compare the competitive nature of the private sector in health with the low prices, or free provision, in the public sector. Most, however, were unable to go beyond this idea and provide a strong, Level 3 answer because they did not explore the question in depth and did not consider any more aspects of the discussion. In simple terms, the answers were too limited in scope and a reasoned discussion of some depth is required to produce an answer that reaches the highest level of response. The following is an example of a reasoned Level 3 discussion in answer to this question:

'*Consumers may benefit from more healthcare being in the private sector as health facilities would have a higher incentive to work* **(L1)**. *This could lead to more efficient care of consumers. Due to there being more competition there may also be higher innovation* **(L2)** *leading to more effective cures to illnesses/better care helping the consumers and increasing life expectancy.*

However healthcare being provided by the private sector could lead to higher prices needed to pay by consumers as healthcare is inelastic firms may push up prices **(L3)** *in order to earn more revenue This would make healthcare unaffordable to many lowering many people's quality of lives. Healthcare being provided by the public sector would allow affordable prices for consumers allowing people to get healthcare.'* **(L3)**

Question 5

(a) The idea of development was not well understood by candidates and answers tended to be vague or tautological ('economic development is development of an economy') rather than precise. The best answers referred to an increase in GDP per head, along with improvements in HDI factors such as education and healthcare. However, development in terms of low income to higher income economies was seldom mentioned.

(b) As with other **part (b)** questions, candidates could usually identify two reasons why rural children may receive less education than urban children, but it was much rarer to see these points explained. For example, candidates would correctly identify a lack of teachers but neglect to explain that this could be because of poor housing or the long travelling distances involved.

(c) The best answers to this question gave a clear definition of price-inelastic demand, either in terms of the percentage change in demand being smaller than the percentage change in price, or in terms of rising revenue when price increases and revenue falling when price falls. Candidates then continued to explain that a PED below one implies a lack of competition, so that firms can increase prices and know that their revenue will increase. Correct examples, such as addictive goods, also helped in the explanations. Weaker answers however were too vague, or confused cause and effect ('price does not easily change').

(d) Good candidates were able to demonstrate a reasonable understanding of the benefits and drawbacks of savings in an economy. This usually involved explaining that savings were important for future living standards (the 'rainy day' motive) but lead to lower consumption and therefore reduce total demand in an economy. As was often the case with answers to other **part (d)** questions however, even better candidates did not produce enough depth of discussion to reach a Level 3 response, and their answers in the end were too limited in scope. The following is an example of a good Level 2 (5 marks) response. There is a reasoned discussion using economic theory (not all of it completely accurate) but it does not constitute a strong response on either side of the discussion because of its limited scope:

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An increase in the level of savings may be beneficial for an economy because it can decrease or lower the rate of inflation, If consumers are opting to save rather than spend it means that the price level will remain the same as demand will fall **(L1)** *and inflation will remain stable. An increase in the level of savings may also be beneficial for an economy because it means that consumers are spending less on imports* **(L1)**. *This will help reduce a current account deficit and therefore aid the macroeconomic aim of a stable balance of payments* **(L2).** *Furthermore an increase in the level of savings may be beneficial, as the banks will earn more of interest and hot money flow.*

However an increase in the level savings may not be beneficial for an economy because it means that there is less consumer spending, aggregate demand will fall as consumption has fallen. Firms may lose motivation to produce the same amount of goods as they are selling less and earning less profit, productivity will decrease. This will therefore decrease economic growth within an economy. Finally, as consumer spending has dropped due to these savings the price of goods may decrease and this can lead to deflation. **(L2).**

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