

ECONOMICS

Paper 0455/01

Paper 1 (Core)

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	21	B
2	C	22	C
3	D	23	C
4	D	24	A
5	C	25	A
6	D	26	C
7	C	27	A
8	C	28	C
9	C	29	D
10	B	30	A
11	B	31	A
12	D	32	D
13	C	33	D
14	C	34	C
15	B	35	B
16	A	36	B
17	D	37	A
18	B	38	B
19	A	39	D
20	B	40	B

588 candidates took this paper and the mean mark was 22.6 which compares well with the mean of 19.3 in June 2007. The mean mark for June 2006 was 21.7, for 2005 it was 20.6 and in 2004 it was 20.1. This, therefore, is the highest mean mark in recent years and candidates are to be congratulated on their understanding of the subject and the scores achieved.

The most difficult questions proved to be 13, 24, and 27 with fewer than 30% of the candidates choosing the correct option.

Question 13 was answered correctly by 26% of the candidates who chose option **C**. Option **A** was chosen by 15% of the candidates, option **B** was chosen by 27% and option **D** by 31%. The crucial point in this question is that the tickets are fixed in supply. This is shown by a vertical supply line. The distribution of the percentages of candidates choosing the incorrect options may well indicate that the candidates were guessing and randomly choosing an option.

Question 24 was answered correctly by only 15% of the candidates who chose option **A**. 12% chose option **B**, 60% chose option **C** and 13% chose option **D**. Those who chose option **C** confused the concept of total fixed cost with average fixed cost. The total fixed cost would remain constant, at least in the short run, but the average fixed cost would fall as output increased.

Question 27 was answered correctly by 25% of the candidates who chose option **A**. 29% chose option **B**, 20% chose option **C** and 26% chose option **D**. It is recognised that this is not an easy topic for core candidates and it is probably the case that the candidates were guessing, as with **Question 13**. An increase in expenditure is likely to increase employment and incomes, and lead to a growth in the economy.

Question 17 was also one of the more difficult questions and was answered correctly by 32% of the candidates who chose option **D**. Option **A** was chosen by 12%, option **B** was chosen by 48% and option **C** by 3%. The 48% who chose option **B** must have thought that the fall in output was because of a failure of staff to produce products. The idea behind option **B** was that there was a fall in demand which resulted in a fall in output. The more likely explanation for a firm to offer higher wages, other things being equal, was that there was a continued demand for the product or service but an inability to obtain the labour to provide it because of a scarcity of workers due to a fall in unemployment (option **D**).

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Paper 0455/02

Paper 2 (Core)

Question 1

- (a) The idea that a substitute good is an alternative product or service was explained by most candidates. Examples from the text could have included any combination from train, coach, air, and car.
- (b) The concept 'in real terms' is a difficult one for most Core candidates although within the syllabus. The extract says that fares were cheaper for 10% of travellers in real terms. The actual cost was probably higher but inflation was greater than the increase in cost. However, for 90% of travellers the fare was more expensive.
- (c) Candidates were usually able to define fixed cost with reference to output. Simply stating that the fixed cost remained constant was insufficient. Most of the candidates, however, did not refer to the part of the question which mentions every journey. Overall, from the information given, we know that 50% of the revenue went to the fixed track cost and government charges. This is not necessarily the case for each journey. It is an average overall.
- (d) The idea of a subsidy was explained by most of the candidates who did not find any difficulty with this question.
- (e) From the information we know that passenger numbers increased by 40%, but some had a fare reduction in real terms. We do not know what happened to costs, we only know that profits are 4% of revenue in 2006, but we have no comparable figure for 1996. We also know that GNER has to give subsidies to other companies, but again we do not know the comparable figures for 1996. Further we are told that competition has increased but we do not know the effect of this on revenues and costs and profits. It is not possible, therefore, to conclude that profits have risen 40%. The answers to this question varied considerably, some making good use of the information but others scarcely making any reference to it.

Question 2

- (a) The majority of candidates were able to make reference to a union being a group of workers which are independent of the management of the company. They are often, but not always, linked by a common occupation with the aim of improving or monitoring the welfare of the group, negotiating working conditions, wages, terms of employment and safety practices.
- (b) This question was poorly answered. What was required was a discussion of the factors that influence choice of occupation, with a comment on the relevance and significance of the existence of a union. Any factors that might influence a choice of occupation could be mentioned. For example, the distance travelled to work, wages, working environment, chances of promotion, closeness to friends and family. What was required was a suggestion of how important these factors might be compared with the need to belong to a trade union.

Question 3

- (a) Candidates dealt with this question well. The factors mentioned are land, labour (farmer), capital (machines, fertilisers), entrepreneurs who take risks (exporters). Candidates often incorrectly stated that the factor capital was the sum of money required.

- (b) Two diagrams were required. One diagram needed to show an increase in demand for the new pineapple and one diagram needed to show a decrease in demand for the old pineapple. Marks are given for correct labels on the diagrams and clear shifts of the curve. Some candidates did not label the diagrams correctly, did not show the equilibrium positions, and confused the demand and supply curves.

Question 4

- (a) This was not well answered. Candidates did not seem to realise that there is no information of the absolute value of the income and that, therefore, it cannot be concluded that the actual amount spent by rich households is lower than the actual amount spent by poor households. Some candidates did, however, grasp this point and gave very clear examples of hypothetical incomes which they used to prove the inaccuracy of the conclusion that the richest households spent less on food than the poorest households.
- (b) For this question candidates needed to state the assumption on which they based their answer. The most likely, although not universal, assumption is that the senior post has a higher income. There could then be a discussion of changes in expenditure patterns which might occur as income rises, for example the change to a different type or quality of good or service. The importance of essential and non-essential items could be mentioned. Candidates could also have discussed the need for savings for the future especially in the case of the new job. They could also have mentioned that spending might be based on assumptions about changes in potential earnings, likely changes in employment, tax changes or interest rates. Most answers were very brief and lacked development. Some marks were awarded but they were insufficient to merit the full mark allocated to the question.

Question 5

- (a) Candidates were expected to define the type of tax and give an example of each type of tax. This question was well done but some candidates, as with the demand and supply curves in **Question 3**, got the types of tax inter-changed.
- (b) Candidates could identify any two aims and relate them to a fall in tax. Falling taxes might help change income distribution, might increase disposable income and spending and thus growth, they might help production and thus move towards full employment.

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Paper 0455/03
Paper 3 (Extended)

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	21	B
2	C	22	C
3	D	23	D
4	C	24	B
5	C	25	A
6	C	26	C
7	A	27	A
8	C	28	C
9	D	29	D
10	B	30	A
11	C	31	C
12	D	32	D
13	B	33	D
14	B	34	A
15	B	35	B
16	A	36	D
17	D	37	D
18	B	38	B
19	D	39	D
20	B	40	D

3,772 candidates took this paper and the mean mark was 28.7 which was higher than last year's mean of 26.5.

The easiest questions proved to be numbers 3, 4, 15 and 29 with over 90% of the candidates choosing the correct answer. These questions were on different sections of the syllabus and tested different skills. **Questions 2 and 3** tested knowledge, **Question 15** tested application and **Question 29** tested analysis. There is no one skill or one section of the syllabus, therefore, that the candidates find easier than others.

None of the questions proved to be more difficult than the limits expected by the examination. The most difficult questions were 17 and 37 but even these were well above the 'guessing rate' with 38% choosing the correct answer for **Question 17** and 41% choosing the correct answer for **Question 37**.

Question 17 was answered correctly by 38% of the candidates who chose option **D**. Option **A** was chosen by 8%, option **B** was chosen by 47% and option **C** by 6%. The 47% who chose option **B** must have thought that the fall in output was because of a failure of staff to produce products. The idea behind option **B** was that there was a fall in demand which resulted in a fall in output. The more likely explanation for a firm to offer higher wages, other things being equal, was that there was a continued demand for the product or

service but an inability to obtain the labour to provide it because of a scarcity of workers due to a fall in unemployment (option **D**).

Question 37 was answered correctly by 41% of the candidates who chose option **D**. 22% chose option **A**, 6% chose option **B** and 31% chose option **C**. Those who chose options **A** and **C** may have misread the question and thought that it asked for a factor which was a barrier to international trade, rather than a factor which was not a barrier. It is, of course, not certain that this misreading was the reason for the choice of options **A** and **C**. The choice may have been because of a misunderstanding of the analysis.

Overall the results that the candidates obtained on this paper were very commendable and they should be congratulated for their efforts.

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Paper 0455/04
Paper 4 (Extended)

General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates who demonstrated a sound understanding of Economics and a sensible and mature ability to discuss, analyse and evaluate key economic concepts and issues. There were also, however, a number of relatively weak answers where the candidates failed to demonstrate very much knowledge or understanding.

There were relatively few rubric errors, although some candidates did answer all seven questions on the examination paper when the requirement was to answer just **Question 1** and three other questions. This meant that a great deal of valuable time in the examination was wasted.

Candidates need to pay close attention to the precise instruction in the question and they need to look at the number of marks given to each part of a question. These two factors give a clear indication of how much detail is required and how much time should be taken. For example, if the question asks the candidate to explain what is meant by something and then identify an example, as in **Question 1 (a)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to analyse something, as in **Question 4 (d)**, or discuss something, as in **Question 1 (e)** or **Question 6 (d)**, he or she needs to go into much more detail, often giving two sides of an argument and then coming to a logical and reasoned conclusion.

Comments on specific questions

Question 1

- (a) Most candidates were able to explain what was meant by a substitute good, in terms of it being an alternative product or service, and most were able to identify an example from the information provided, such as a coach being a substitute for a train. Some candidates, however, got confused with complimentary goods, writing about two things in joint demand, such as trains and tickets.
- (b) This proved to be quite a difficult question. The information stated that in 2005 10% bought tickets that were cheaper than the cheapest available in 1996, but this was in real terms and candidates needed to explain what was meant by the term 'real'. They also needed to point out that if 10% bought cheaper tickets, this meant that the other 90% must have bought more expensive tickets.
- (c) Most candidates were able to explain what was meant by a fixed cost, i.e. one that did not change when there was a change in output. There was some uncertainty, however, as to which of the costs in the extract were fixed and which were variable. The fixed costs were the track costs and government charges and, at 50%, this was higher than the variable costs of operating the trains which were only 46%. The question did ask candidates whether the fixed costs were higher than the variable costs on every journey and many candidates either ignored this part of the question or assumed that it would be the case for every journey; many of the better candidates, however, pointed out that although this would be the case in general, it might not always apply to every journey.
- (d) Many candidates were able to explain what was meant by a subsidy in terms of money being allocated to help a business cover its costs. In this case, candidates needed to point out that some parts of the railway service were less likely to make profits than other parts, such as in rural areas where the population would be much smaller in size.

- (e) A number of candidates assumed that if GNER carried 40% more passengers in 2005 than in 1996, its profits would be likely to have risen by 40% over this period. The better candidates, however, pointed out that the calculation of profits came about by studying the difference between revenue and costs. We do not know that GNER's revenue increased by 40% and, even if it had, we are not given any information about the size of costs. It would, therefore, be very difficult to make a judgement about profits on the basis of the information provided.

Question 2

- (a) Most candidates were able to explain what was meant by a trade union in terms of a group or combination of workers joined together with a common purpose. They then went on to successfully describe its functions, such as improving working conditions, increasing the real rate of wages and/or salaries, improving the terms and conditions of employment or enhancing the health and safety aspects of a job.
- (b) This part of the question was concerned with the factors which might influence someone in choosing to work for a small enterprise. The existence of a trade union may be a possible influence but candidates correctly considered that there might be many other possible influences, such as pay and working conditions. The significance of the existence or non-existence of a trade union in a small enterprise was, therefore, likely to be relatively limited for most people.
- (c) There were some very good answers to this part of the question. Many candidates were able to explain why small enterprises continued to exist as an economy developed and expanded because of their specific advantages, such as providing a personal service or because there was a relatively small, niche market.
- (d) Many of the answers to this part of the question were very one-sided, usually stressing the negative effects that trade union activities might have on an economy, such as the disruption caused by industrial action. The better answers, however, were much more balanced, taking into account the fact that trade unions could also have positive effects in an economy, such as improvements in working conditions which could lead to enhanced productivity. The responses which gave both sides of the argument were the ones which gained the highest marks.

Question 3

- (a) The majority of candidates were able to correctly identify and explain the factors of production mentioned. These included land (small plots of land for subsistence farming), labour (local farmers), capital (machinery) and enterprise (the exporter).
- (b) Answers to this part of the question varied a great deal. Many candidates drew two correct diagrams, one showing a leftward shift of the demand curve for the original pineapples, leading to a fall in the equilibrium price, and one showing a rightward shift of the demand curve for the new, sweeter pineapples, leading to a rise in the equilibrium price. Some candidates, however, produced some poorly drawn diagrams, often with incorrect labelling of both the curves and the axes. Again, the explanations varied widely in terms of the quality of the answers.
- (c) The majority of the candidates recognised that farmers would be likely to benefit from an agreed, fixed price, particularly in terms of the certainty it would provide. Relatively few candidates, however, went on to say that the extent of the benefit would depend on whether the fixed price was higher or lower than the equilibrium, free market price.
- (d) The key word in this part of the question was 'always'. The better candidates recognised that although there were a number of advantages of subsidies, such as in terms of supporting industries which might otherwise decline or collapse, causing a large increase in unemployment, there were also a number of possible disadvantages, such as in terms of creating a situation of dependency where the producers came to rely on the subsidy, becoming less efficient as a result. The better answers looked at the idea of subsidies from both points of view and these were the ones which gained the higher marks.

Question 4

- (a) Some candidates assumed that if richer households spent a smaller proportion of their income on food, this meant that the actual amount spent on food would be smaller than that spent by the poorest households. The better candidates, however, correctly recognised that there was a difference between the percentage and the actual amount spent, pointing out that as the richest households had a much larger income, they would spend more on food but this would represent a lower percentage of expenditure compared to the poorest households.
- (b) There were some very good answers to this part of the question, with candidates explaining that Samira would be able to spend more, especially on luxury items, and would also be able to save more. Daniel, on the other hand, would be more likely to spend a higher proportion of his income on basic necessities and would be likely to save less. Some candidates failed to appreciate that the focus of the question was on expenditure and wrote about the likely differences in their incomes.
- (c) This part of the question was answered reasonably well by the majority of candidates. They pointed out that a general increase in the level of consumer spending in an economy would be likely to lead to an increase in aggregate demand, a higher rate of economic growth and a lower rate of unemployment. It might also, however, lead to an increase in the rate of inflation and possibly a worsening of the balance of payments position if much of the consumer spending involved the purchase of imports.
- (d) There were some good answers to this part of the question, especially in relation to training, skills, education, qualifications, experience, geographical area, gender, public versus private sector and primary/secondary/tertiary sector. However, a number of answers were limited to this more 'descriptive' approach. The better answers went further and related the variations in earnings to demand and supply factors, often bringing in relevant and accurate diagrams to support the points being made.

Question 5

- (a) This part of the question was answered reasonably well by the majority of candidates. They described the differences in terms of direct taxes being taxes on income or profit, such as income tax or corporation tax, and indirect taxes being taxes on expenditure, such as value added tax.
- (b) This part of the question was also answered well by many of the candidates who linked a reduction in taxation to two macro-economic aims of a government. For example, a fall in income tax would be likely to lead to greater spending which would stimulate economic growth and lead to a lower rate of unemployment.
- (c) The majority of candidates were able to consider why a government might wish to increase employment opportunities. Unemployment is seen as a waste of valuable resources and so governments would want to have as many people working as possible to increase GDP and the rate of economic growth. It would also lead to a reduction in public expenditure on benefits for the unemployed.
- (d) Candidates were generally able to discuss what might be the consequences of unemployment, such as a slowing down in the rate of economic growth, an increase in public expenditure on support for the unemployed, and possibly an increase in the level of crime in a country.

Question 6

- (a) Most candidates were able to explain what was meant by specialisation in terms of workers concentrating on particular parts or operations of a production process, such as in relation to the division of labour. They then went on to consider the circumstances in which it might occur, such as at plant, regional, national or international level.
- (b) This part of the question was answered well by the majority of candidates. They generally demonstrated a sound knowledge and understanding of the methods of protection, describing how three of these would work, such as tariffs, quotas and embargoes. A number of candidates, in their descriptions of tariffs, included useful diagrams to support the points being made.

- (c) Most candidates had some idea of what was meant by a natural resource of a country, i.e. those commodities which are found in nature as opposed to commodities which are the result of a production process. They were usually able to provide one example, such as oil.
- (d) Some of the answers to this part of the question were very one-sided, with candidates arguing that natural resources needed to be exploited by a country to provide employment and an increase in economic growth and standards of living. The better answers, however, offered a more balanced perspective, arguing that although the exploitation of natural resources might have economic advantages, this would need to be contrasted with the possible depletion of non-renewable resources which would dramatically affect the standard of living of future generations. The better answers, therefore, were the ones which attempted to look at the issue from both points of view, contrasting the themes of exploitation and conservation.

Question 7

- (a) Most candidates were able to identify three indicators that might be used to compare the standard of living between countries, such as GDP per capita, the literacy rate and the standard of education, and the quality of health provision. Some candidates, however, did not go on to offer a really convincing consideration of why one of these might be more reliable than others.
- (b) The majority of candidates assumed that there was always greater poverty and a lower standard of living in developing countries compared with developed countries. The better candidates, however, offered a more sophisticated discussion, pointing out that while this may often be the case, it was not always necessarily true. For example, there are some very rich people living in developing countries and many poor people living in developed countries.
- (c) The majority of candidates recognised what would need to be done to improve the standard of living in a developing country, such as improvements in education, infrastructure, housing and health. Many of the answers, however, simply offered a list of these and did not address how these could be improved. The better candidates went further than this and discussed what would need to be done to bring about an improvement in such areas, such as providing subsidies out of public finance and encouraging multi-national companies to locate there.

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Paper 0455/06
Alternative to Coursework

General Comment

For this paper, the quality of the answers varied a great deal, as is likely to be the case with a paper taken by both Core and Extended candidates. There were some very good scripts that scored high marks but sadly there were also a number, obviously Core candidates, who scored very few marks.

Question 1

- (a) Most candidates were able to give an answer which indicated that the company produces or owns facilities in another country.
- (b) Candidates were asked to remember the reasons which determine whether a firm is large or small such as the size of the market, the area covered, and whether the company was able to raise the necessary finance. They were then expected to try and apply these factors to the situation in the extract. It is not expected that they would give a definitive answer, only that they might surmise what might be the case. Many candidates were able to do this and scored well.
- (c) The reasons given were that its deliveries were mainly to rural areas (89%) and, on average, these covered only 15% of the costs. The implication in the extract is that the government wishes to gain more revenue. Candidates were usually able to score at least one mark on this question and many mentioned both points.
- (d)(i) It is usually the case with diagrams that some candidates do not present them clearly. This summer was no exception. Candidates are rewarded for labelling the diagram properly as well as for showing the shifts in the curves. The tax would cause the supply curve to shift to the left, or upwards, and the subsidy would cause the supply curve to shift to the right, or downwards. It is useful if candidates also show the original equilibrium point and the final equilibrium point.

As well as those who do not label the diagram properly, there are always candidates who confuse the supply and demand curves. The concept of demand and supply and market equilibrium is such a fundamental part of the syllabus that candidates would be well advised to be sure that they can reproduce the appropriate diagrams accurately and to practise drawing them until they are certain of them. They should also note that when a question asks for a diagram, an explanation without a diagram will not enable them to gain full marks. Sadly there were many scripts with only an explanation and without a diagram.

- (ii) From the information it may be surmised that firms may not lose business as they may operate in a different area. But even if they keep their business they are likely, initially, to be worse off unless their revenue increases. The firms may, however, have power to increase their charges and revenue will increase. Whether this happens could depend on the extent of the competition in the industry. It is said that there is competition and so increases in charges might not be very high.

However, there are also proposals for greater regulation, and for allowing India Post a monopoly over some letters. If these proposals are also implemented then the private firms are likely to be worse off. Candidates did try to use the information and mentioned these points. Many, however, ignored part of the question. There were two parts, clearly differentiated by the use of the words firstly, and secondly. For this type of question, candidates should always try to form a conclusion even if the conclusion is that there is not enough information to be certain.

Question 2

- (a) Candidates were asked to explain the link between GDP and income per head. A rise in GDP might mean a more even distribution of income, but could well mean some groups have a higher income. Most candidates were able to attempt this question although some reversed their argument and explained how a rise in income might affect GDP.
- (b) The crucial point in the table which so many candidates missed is that the figures are not per head, the population is not given. Despite this, it is unlikely that people in China will have a higher income per head. It can be seen that the GDP is not much different but the population of China is much greater than that of the UK. Candidates were not expected to know the actual population levels.
- (c) (i) The significant point about the definition is that it must make reference not only to a general rise in average prices but that this rise is persistent or sustained. Many omitted to mention that there has to be a persistent rise and did not score the full marks.
- (ii) This was not an easy question but the information was used well by candidates. The information states that China has the highest growth rate but the lowest inflation rate. India has the second highest growth rate but the highest inflation rate. The two countries with the lowest growth rates (Germany and France) do have low inflation rates. So, the same link between growth and inflation does not appear in all cases and the evidence is inconclusive.
- (d) This question required a careful use of the statistics. Some used the absolute amounts in column one rather than the percentages in column two when talking about growth. Some made only a brief attempt at the question. In some of the questions on Paper 6 which require the use of information, there is not necessarily a clear answer and candidates should be aware that they are likely to find contradictions in the information, just as they would if they collected their own information. Highlighting the contradictions and stating that they exist in their conclusion is a valid approach to answering such questions.

In Germany and France there are relatively low GDP growth rates and relatively high unemployment rates. However, these figures are only for one year, although the figures do compare a change in that year. The UK's growth rate is also relatively low but the unemployment rate is not comparable to that of France and Germany. Confusingly though, there is a high growth rate in India but also a high unemployment rate, and also China has the highest growth rate but not the lowest unemployment rate.

Overall, there are no figures for other years which are necessary for a full picture. Even the figures that are given show the change in one year, but do not necessarily support the idea that high GDP leads to low unemployment.