

ECONOMICS

Paper 0455/11
Multiple Choice

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

General Comments

The questions for which most candidates selected the correct answer were 2, 6, 8, 11, 20, 21, 24 and 26. These questions were answered correctly by 80% 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 4, 10, 18 and 30. These questions were answered correctly by 40% or fewer candidates. The rest of the questions gave results which were well within the levels expected except for **Question 13** which is discussed later in the report.

Comments on Specific Questions

Question 4 was answered correctly by 39% of candidates who chose option C. 12% also chose option A, 9% chose option B and 39% chose option D. The curve shows the possibilities of production. Some events might make it unlikely that the full potential of an economy will be reached but they do not change the possibility that at some point it may be reached. Only one event, the earthquake, would change the availability of resources and shift the boundary of the curve.

Question 10 was answered correctly by 29% of candidates who chose option D. 30% chose A, 22% chose B and 19% chose C. A decrease in demand (**A**) would be unlikely to increase total revenue, an increase in demand (**B**) was not what happened, a fall in price elasticity (**C**) would be unlikely to increase revenue when prices were reduced. The most likely explanation would be D.

Question 18 was answered correctly by 33% of the candidates who chose option C. 15% chose option A, 33% chose option B and 14% chose option C. Increasing expenditure **(A)**, raising indirect taxes **(B)** or increasing wages **(C)** would be likely to increase prices either immediately as in the case of the indirect tax or through increases in demand. Increases in the rate of interest would be likely to reduce borrowing by consumers or firms and thus not put pressure on demand and prices.

Question 30 was answered correctly by 37% of the candidates who chose option A. 28% chose option B, 22% chose option C and 11% option D. When the exchange rate falls the foreign price of US exports will decrease (not increase as in B), there are likely to be more exports and any trade deficit is likely to be reduced.

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Paper 0455/12
Multiple Choice

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

General Comments

The questions for which most candidates selected the correct answer were 1, 2, 5, 8, 9, 21, 24 and 27. These questions were answered correctly by 80% 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 3, 11, 20, and 28. These questions were answered correctly by 28% or fewer candidates. The rest of the questions gave results which were well within the levels expected.

Comments on Specific Questions

Question 3 was answered correctly by 36% of candidates who chose option C. 17% also chose option A, 11% chose option B and 37% chose option D. The curve shows the possibilities of production. Some events might make it unlikely that the full potential of an economy will be reached but they do not change the possibility that at some point it may be reached. Only one event, the earthquake, would change the availability of resources and shift the boundary of the curve.

Question 11 was answered correctly by 34% of candidates who chose option D. 23% chose A, 23% chose B and 20% chose C. A decrease in demand (**A**) would be unlikely to increase total revenue, an increase in demand (**B**) was not what happened, a fall in price elasticity (**C**) would be unlikely to increase revenue when prices were reduced. The most likely explanation would be D.

Question 20 was answered correctly by 37% of candidates who chose option D, 28% chose option A, 27% chose option B and 7% chose option C. The question asks what **must** be a consequence of deflation. The only certain thing with deflation is that prices are falling and therefore the real value of money is increasing.

Question 28 was answered correctly by 39% of the candidates who chose option A. 21% chose option B, 28% chose option C and 12% option D. When the exchange rate falls the foreign price of US exports will decrease (not increase as in B), there are likely to be more exports and any trade deficit is likely to be reduced.

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Paper 0455/13
Multiple Choice

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

General Comments

The questions for which most candidates selected the correct answer were 1, 4, 7, 8, 9, 13, 16, 20, 22, 24, 26, 27, 28 and 29. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The only questions which were answered correctly by fewer than 45% of the candidates were **Questions 11** and **21**.

Comments on Specific Questions

Question 11 was answered correctly by 42% of the candidates who chose option D. 2% chose option A, 13% chose option B and 44% chose option C. An increase in economic activity in Dubai would be likely to increase the wages of construction workers in Dubai, a decrease in activity in Dubai would not be likely to do that. The choice, therefore, becomes between option C and option D. A decrease in activity in India (**C**) would mean that there would be less work and the possibility of more migrant workers moving to Dubai. The supply of workers in Dubai would increase and there would not be the need to raise wages.

Question 21 was answered correctly by 40% of the candidates who chose option C. 8% chose option A, 48% chose option B and 4% chose option D. Deflation may be caused by a decrease – not an increase – in consumer demand, and when there is deflation both consumers and firms may have expectations that there will be further price falls and postpone expenditure. Confidence of investors would not increase (**A**). Deflation is not the same as a fall in price of a single product which may increase demand as indicated in B.

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Paper 0455/21
Structured Questions

Key Messages

Good structure is always important when answering a “discussion” question but an introduction which simply summarises, or repeats the terms of the question, is not serving any purpose. More importantly, conclusions will only be rewarded if they add something to the argument already presented and do not merely summarise what has gone before. For example, in **Question 3c**, responses that concluded by summarising the arguments for and against transport being provided by the public sector could not gain any extra marks, because they were merely repeating points they had made earlier. On the other hand, responses which concluded by noting that transport might best be provided by a combination of the two, such as governments subsidising private bus companies, were able to add to their score. Conclusions, if provided, must always be based upon evidence, such as the data provided in **Question 1** or by applying the appropriate economic theory. Answers which make unsubstantiated assertions will not be given credit.

The most successful candidates were generally those who demonstrated good time management, with time allocated in proportion to the marks available for each question. Those who had poor time management skills however, tended to under-perform, and it was not unusual to see candidates with good ability in economics losing marks because they wrote far too much on some questions, but not enough on others. This was particularly noticeable in **Question 1**, where parts **a** and **b** (2 marks each) often attracted answers which gave far too many details about the composition of GDP.

The use of correct terminology is very important in a structured question examination such as this, and those who demonstrate clear understanding of economic terms generally tend to score well. By contrast, the inexact use of economic terms can obscure the meaning of an answer and it is good practice to learn precise definitions of terms before taking the examination. The two terms most commonly misused in this way are “profit” and “money”. Firms can only make profits if revenues exceed costs, but large numbers of candidates ignored the cost element, while “money” should not be used as a multi-purpose tool for all possible financial circumstances – for example workers earn income and economic growth increases output, not money.

General Comments

Rubric errors were rare in this examination, with very few candidates attempting all seven questions. There were some candidates who misunderstood the instructions with regard to the two parts of the examination and whom answered three questions in total rather than three from Part **B**. It is therefore extremely important for candidates to read the instructions on the front page of the paper very carefully before beginning their answers.

Comments on Specific Questions

Section A

Question 1

- (a) Most candidates understood that GDP refers to output, but many did not indicate that “gross” refers total output. It was also common to see no reference made to either country or time in answers.
- (b) A frequent problem with this question was an inability of candidates to deal with large numbers, and the answer \$8.7million was surprisingly frequent, as was \$8.70. A billion US dollars is now universally accepted to be \$1,000 million and so \$11.31 billion divided by \$1.3 million gives an answer of \$8,700. It is good practice to consider the practical reality of any answer and, in this

case, average incomes of millions of dollars or single dollars are highly unlikely to be correct. It is also important to show working on such a question because an incorrect answer can only be given zero marks if no calculation is shown.

- (c) Good answers to this question considered both the disadvantages as well as the advantages of economic growth, with approaches using pollution and resource depletion to produce successful responses. Very few candidates looked at the opportunity costs of growth in terms of leisure time and stress, for example.
- (d) This question required candidates to find two functions of the Mauritian stock market from the extract. However, many candidates, having identified, for example, that it provides for the buying and selling of shares, did not develop this point by indicating that this is how companies can raise finance. A common mistake in this question was to assume that the stock exchange in Mauritius was a currency exchange, indicating the need to read the extract very carefully before answering a question.
- (e) Answers to this question were generally good, with most candidates able to identify at least two reasons for taxation. Weaker answers, however, did not sufficiently develop the issues which they had identified, such as the way in which indirect taxation raises prices and how this discourages consumption of certain products.
- (f) This question was not well answered on the whole, which would seem to indicate an imperfect understanding of the composition of the tertiary sector. The most frequent error was to assume that only the final three items were included, thus ignoring transport and communication.
- (g) As with **Question 1d**, utilising information from the extract was usually done well. Most candidates could identify a skilled labour force as a reason for investment by foreign firms and they were then able to link this to the potential improvement in productivity.
- (h) The best answers to this question identified the risks inherent in relying on a small number of industries. Less successful, however, were attempts to look at both sides of the question, and those candidates who did discuss the disadvantages still tended to concentrate on the advantages of specialisation, rather than the disadvantages of less specialisation.

Section B

Question 2

- (a) It was pleasing to see that most candidates clearly understood the nature of the economic problem and were able to identify both limited resources and unlimited wants.
- (b) Identification of two features was reasonably straightforward for the majority of candidates, but development of these features was often more problematic. In particular, profit as the reward for risk taking was not covered as frequently as might have been expected.
- (c) Most candidates could draw a production possibility curve satisfactorily, but a clear explanation of resource allocation proved difficult for a number of candidates. The idea of opportunity cost was often mentioned but seldom linked to the changes in resource allocation needed to change the output of the goods on each axis. Of greater concern was the tendency of some candidates to shade in areas under the curve in order to illustrate this concept. These shaded areas are conceptually flawed because to multiply the output of Good A by the output of Good B is meaningless.
- (d) The most productive approach to this question was an examination of the ways in which increased education spending could improve the quality of the workforce and thus lead to economic growth. It was pleasing to see a wide use of the concept of opportunity cost as a reason to oppose this extra spending, and there were some excellent answers which contrasted the long term costs and benefits, often in a concluding paragraph.

Question 3

- (a) Correct labelling of diagrams is very important in questions such as this. Whilst it was rare to see supply and demand curves labelled the wrong way round, candidates that did so could not possibly score any marks. Much more frequent was the omission of any information on each axis, especially the reduction in price from P1 to P2 and the increase in quantity from **Question 1** to **Question 2**. In addition, explanations which give more than a simple description of the diagram, and noted that the supply curve shifted to the right because a subsidy will have reduced the firm's costs at each level of output. Finally it is important to note that this question only required one diagram and not two diagrams.
- (b) Candidates tended to offer an analysis of factors which affect the demand for public transport, but usually ignored their impact upon elasticity. Thus, for example, substitutes such as cars were identified, but it was rare to see this linked to elasticity, i.e. the greater availability of substitutes the more price elastic the demand for public transport will be.
- (c) Good answers to this question focused on ideas from economic theory, such as the potential efficiency gains from private competition, and the importance of social costs and benefits when governments provide transport. As noted in the "Key Messages" section above, good conclusions to this question recognised that there were merits in both approaches and that a combination of private and public provision could draw on the strengths of each.

Question 4

- (a) Candidates did well on this question, with most able to identify three factors influencing choice of occupation. Further development of these factors proved difficult for some however, especially a description of the wage / salary factor, where candidates could have noted that the wage paid would determine the extent of a worker's ability to provide for their family.
- (b) Candidates did well to identify that a wage is the price paid for labour and, as is the case with other prices, it is determined by supply and demand factors. The best approach was to identify the low demand, but high supply, for unskilled workers and then explain how each of these could occur, for example the lower productivity of unskilled workers makes them less demanded. By contrast, an answer consisting generalisations and prejudices, such as the "deserving" nature of skilled workers or the "lower class" of unskilled workers, are not appropriate answers to this question.
- (c) Most candidates were able to describe some aspects of a trade union, focussing on collective bargaining and the ability to negotiate higher pay. A minority of candidates however misunderstood the question and wrote about trade agreements between nations, such as those found in the European Union.
- (d) There were some excellent answers to this question, many of which used the ideas identified in the previous section and then developed them into a discussion of the merits and demerits of trade union membership. Some answers repeated points made earlier for and against trade union membership, or offered unsubstantiated opinions about trade unions.

Question 5

- (a) There was a reasonable understanding of the two types of firm demonstrated here. It was important to specify that a sole proprietor firm is owned by one person and that partnerships have a number of owners, rather than describing differences in their running or management. A large number of answers described the unlimited liability position of both firms, but a close reading of the question would have led candidates to realise that "distinguish between" requires identification of differences between the firms rather than similarities.
- (b) Most candidates could define economies of scale in terms of reductions in unit costs as the firm grows. They were then able to develop their answers by explaining examples such as technical economies of scale. Very few candidates explained external economies of scale, such as the development of ancillary industries. In addition, diseconomies of scale were not well covered on the whole, some responses incorrectly assumed that, because economies of scale apply to large firms, diseconomies of scale must apply to small firms.

- (c) This question proved challenging for many candidates and, although there were a few excellent answers, the biggest difficulty proved to be the need to look at both sides of the argument. Some candidates could usually identify several problems with monopoly provision, such as lack of choice and high prices, better candidates were able to identify positive aspects of monopoly, such as the ability to invest in research and avoidance of wasteful duplication of resources.

Question 6

- (a) There was a wide range of answers to this short question, from those who had a thorough understanding of the two types of poverty to those who clearly had very little knowledge of the subject and who only hazarded a guess at the answer.
- (b) This question proved an insurmountable obstacle to large numbers of candidates because of its unfamiliar scope. Most studies of migration tend to focus on movements from developing countries to developed countries, but in this case the situation was reversed, requiring the candidate to focus on migration to developing countries. This could either be from other developing countries or from developed countries, a concept few candidates were able to grasp. The small number of candidates who did grasp this concept were able to produce excellent answers, analysing examples such as workers from Europe who migrate to Venezuela to work in the oil industry, or people escaping war in Syria and moving to Jordan. The biggest obstacle for most candidates was their confusion of 'immigration' with 'emigration', with some long answers discussing migration out of developing countries instead.
- (c) The key to a good answer in this question was to recognise that GDP is only one measure of living standards and that alternative measurements, such as HDI, are available. Indeed the best answers used HDI in order to discuss the advantages and disadvantages of GDP, focussing on the extra elements included, namely the health and education dimensions. However, whilst specific details of the HDI index were not expected in answers, there was considerable inaccuracy and confusion in many answers. The health aspect is covered by life expectancy at birth, and not by birth rates and death rates as many candidates believed, whilst the education aspect is covered by expected years of Schooling. The few candidates who developed this idea further by explaining the limitations of HDI, even suggesting alternatives such as the MPI, were usually able to provide good answers to this question.

Question 7

- (a) Many candidates who attempted this question stated that imports would be greater than exports. To gain full marks much more was required in terms of the composition of the current account – trade in goods, trade in services, income and current transfers. It was expected that candidates would be able to explain that a deficit on current account occurs when the value of the credit items is exceeded by the value of debits.
- (b) Answers to this question were generally of a reasonable standard, with candidates able to explain the links between cheaper exports and dearer imports and an improvement in the current account deficit. It was very rare however to see further development of this idea in terms of price elasticity of demand for exports and imports, but some candidates did make relevant use of price elasticity of demand in this context in order to produce excellent answers.
- (c) The overwhelmingly popular approach was to identify tariffs and quotas as methods of protection and then describe how these methods worked.
- (d) This was a fairly straightforward question, with good answers looking at how free trade promotes specialisation and trade between countries, thereby allowing countries to improve resource allocation and ultimately living standards. Weaker answers assumed that imports should be discouraged in general, because they are produced by other countries, rather than examining specific cases where it might be advantageous, such as infant industries or sunset industries.

ECONOMICS

Paper 0455/22
Structured Questions

Key Messages

Candidates need to read questions carefully, follow the command words and answer the specific questions set.

Candidates must take care not to confuse terms, such as, productivity and production, capital and money, direct and indirect taxes, cost and price.

Candidates should explain rather than assert points. Candidates should keep the word 'why' in mind when answering questions. For example, in answering **Question 4(c)** a number of candidates wrote that a country's largest commercial banks should not be nationalised as the quality of the services they would provide would decline. Candidates would do better to go on to explain why this might be the case.

General Comments

Candidates did not appear to have any difficulties in answering the questions in the time available. Indeed, candidates allocated their time well between **Section A** and **Section B** and between question parts. There were few unanswered questions. There was also little evidence of a list-like approach to the higher mark questions.

There was generally good use of the information in the extract in answering the questions in **Section A**. Most candidates made use both of their understanding of economics and the information given in answering the questions.

The most popular question in **Section B** was **Question 2** with the vast majority of candidates choosing to answer this question. **Questions 5, 6 and 7** were also relatively popular. **Question 3** was the least popular question followed by **Question 4**.

Comments on Specific Questions

Section A

Question 1

- (a) This was generally well answered with a relatively high proportion of candidates showing an awareness of the meaning of deflation. Some candidates confused the terms with a fall in the rate of inflation and others produced a micro answer referring to a fall in the price of a product.
- (b) A very small proportion of candidates did not attempt this question. Some gave US\$5,069 billion as their answer, not recognising that the debt was twice this figure. A relatively high number calculated a figure of 1,0138 but did not recognise that the figure was in US\$ and in billions.
- (c) This was a relatively straightforward question with most candidates being able to recognise relevant reasons from the extract. The two most common reasons explained were a rise in government expenditure resulting from the earthquake and tsunami and deflation.
- (d) There was a mixture of responses to this question. Some candidates appeared unaware that the command word 'discuss' requires them to evaluate. Some candidates recognised that the increase in the rate of sales tax would reduce consumer spending but did not go further. Others provided more in depth analysis, linking the lower consumer spending to reduced demand for goods and

services, lower output and lower demand for workers. There was some confusion shown about the effect a higher indirect tax would have on firms' profits, on the difference between direct and indirect taxes and on the difference between cost and price. Some candidates made strong use of the concept of price elasticity of demand. They mentioned that any increase in unemployment would be influenced by the degree of price elasticity of demand and that firms facing inelastic demand for their products would be able to pass on more of the tax to consumers without reducing demand significantly. A number produced a good discussion of how the government could use the extra tax revenue to generate employment.

- (e) Candidates found this to be a challenging question. Some confused productivity with production. Candidates would do better to explained points rather than assert them. For example, a number of answers stated an increase in productivity would increase exports without establishing why this might be the case. The links between higher productivity, lower costs of production, lower prices and increased international competitiveness were omitted. The links between greater entrepreneurship and a return to positive economic growth were somewhat stronger but were still rather limited. A number of candidates recognised that greater entrepreneurship would result in more business organisations being set up, fewer picked up how both a rise in the quantity and quality of entrepreneurship could increase output.
- (f) A disappointing proportion of candidates ignored the instruction 'Using information from the extract' and as a result wrote about influences on how much people save that were not referred to in the extract. A number of others also wrote about how a change in the rate of interest could affect saving despite the wording of the question. There were, nevertheless, some good answers to the question. Most of these focused on the tradition of saving in Japan and concerns about the risk of higher unemployment in the future.
- (g) The majority of candidates showed an awareness of how to calculate the figure although a number made a numerical mistake in subtracting 56.9 from 83.7.
- (h) There were some good answers to this question which explored whether an ageing population is always a problem for an economy. In these answers candidates applied economic theory to discuss the impact on, for instance, the dependency ratio, government expenditure, the quality of the labour force and adjustments that might be made as the population ages. A higher proportion of candidates considered both sides of the question than was the case with **Question 1(d)**. Some candidates, however, asserted rather than explained points. For example, a relatively high number of candidates wrote that the labour force would decline without explaining why and without considering the size of the labour force relative to the number of people retired. A higher number of candidates wrote that retired people are unemployed rather than not being in the labour force.

Section B

Question 2

- (a) A number of candidates wrote accurate answers giving relevant examples. Some candidates incorrectly described capital as money.
- (b) The quality of answers on private, external costs and benefits is improving. There were some good and accurate answers. A number of candidates, nevertheless, confused external costs with social costs and there were some vague answers. More candidates were able to identify accurately an external cost, most commonly pollution, than to identify accurately a private cost.
- (c) This was a well answered question. Most candidates showed a clear understanding of the meaning of scarcity and were able to link it to choices and opportunity cost. A number of candidates, however, provided too vague a description of opportunity cost by just referring to a choice foregone.
- (d) There was a range of responses to this question. There were some excellent answers which analysed and evaluated the possible effect on the economy in the short and long run. These examined the effect on income, employment, exports and imports, sustainability and the environment. Other answers were somewhat narrowly focused, often only on the environment. Some wrote rather generalised answers which required further economic analysis.

Question 3

- (a) A number of candidates who answered this question seemed uncertain about how to approach it. Some actually wrote about a market economy working efficiently, by describing the price of a product falling because of decreasing demand. The strongest answers recognised the nature of a market economy and explained how over and under-consumption may arise due to a form of market failure. There were some good comments on merit and demerit goods.
- (b) The strongest answers drew an accurate diagram and provided relevant analysis of the effects of the imposition of an indirect tax on the market for tobacco. Some of the answers went into some depth and explained that the extent to which suppliers would pass on the rise in the tax would be influenced by the extent to which demand is price inelastic.
- (c) There was a range of answers to this question. Some candidates produced a clear and relevant discussion, covering a number of examples of government regulations, their objectives and their effectiveness. Other candidates did not focus on regulations. A number write about taxes rather than regulations and others wrote vague answers which did not address the question directly.

Question 4

- (a) Not all candidates concentrated on the function of a medium of exchange. Some wrote around this question by describing the four functions of money. The strong answers examined how money performs the function more effectively than barter because of the characteristics of money. A small number of candidates mentioned that how well money performs the function is influenced by the extent to which price stability is achieved.
- (b) This was a generally well answered question. Most candidates showed an awareness of a number of the important roles carried out by a central bank. The stronger ones went on to analyse the role of a central bank in an economy. There were some particularly good comments on how a central bank may act as a lender of last resort in times of financial crises and how it conducts monetary policy. A small number of candidates confused a central bank with a commercial bank.
- (c) Weaker responses wrote in very generalised terms and did not address the question directly. The strongest answers focused on the differences between the aims of a nationalised industry and a private sector firm, the avoidance of the banks going out of business and the impact on the quality of the service provided.

Question 5

- (a) There were some good and relevant answers to this question with most candidates recognising that a public limited company can sell its shares on the stock exchange and that the change could enable a firm to raise more finance for expansion. Some responses confused a public limited company with a public corporation and as a result wrote about the advantages of working in the public sector.
- (b) The two most common reasons identified for why a firm might change from capital-intensive production to labour-intensive production were wages falling and a firm changing from mass production to producing individually designed products. A number of candidates did not develop the reasons they identified and some confused the total cost of employing capital and the cost per unit produced.
- (c) This was a generally well-answered question with candidates revealing a clear understanding of the terms and providing relevant examples. A number, however, confused vertical and horizontal integration. Conglomerate integration was the form of integration most widely understood.
- (d) There were some good comments on why most small firms in an economy may remain small. These included an examination of the finance available to small firms, the motivation of the owners of small firms and the size of the market the firms are supplying. Weaker responses appeared to appreciate the need to consider why small firms may grow in size. Some candidates wrote about that firms are small because they have only recently been formed rather than why they stay small.

Question 6

- (a) There were many strong answers to this question, with candidates showing an awareness of the difference between demand-pull inflation and cost-push inflation. Weaker responses wrote in micro terms when attempting to explain demand-pull inflation and some seemed uncertain about the nature of cost-push inflation.
- (b) Weaker responses here did not always explain the costs they identified. For example, some stated that the poor would be adversely affected but did not explain why. Others mentioned that inflation could cause unemployment. This might have been linked to cost-push inflation and a lack of international competitiveness but in most cases it was not. The problems best explained were a possible adverse effect on the balance of payments and the possible generation of uncertainty.
- (c) Most candidates showed an accurate understanding of frictional and cyclical unemployment, bringing out differences in their causes, duration and significance. A number did, however, reveal some confusion between cyclical and structural unemployment.
- (d) Many candidates were able to explain why there may be a conflict between low inflation and low unemployment. Most examined the different impact an increase in total demand would have on inflation and on unemployment. Some went further to examine the effect of a reduction in unemployment on costs of production and so on cost-push inflation. Fewer established how it might be possible for there to be both low inflation and low unemployment.

Question 7

- (a) This was generally well-answered. Most answers covered individual workers specialising. The stronger answers recognised that specialisation can occur at a number of different levels and so referred to not only workers specialising but also firms, regions and countries specialising.
- (b) A high proportion of candidates did not examine the wording of this question carefully enough. This led to them describing the benefits and disadvantages of either individual workers specialising or countries specialising rather than regions specialising. Those candidates who did focus on regions specialising tended to produce good answers. There were some interesting comments on the impact on output, employment, depletion of resources and interdependency.
- (c) There was a range of responses to this question. Some candidates wrote in generalised terms and did not establish the points they made. Others applied economics in a relevant way to explore the possible impact on an economy. There were some good discussions on how the balance of payments might be affected, how some industries may gain whilst others might lose and the effects on competition and choice.

ECONOMICS

Paper 0455/23

Structured Questions

General comments

Some questions in this paper enabled candidates to show how well they understood economic definitions and concepts. It was clear in some cases that whilst candidates showed a basic understanding of these terms they were unable to be accurate in their descriptions. For example, definitions of the rate of unemployment, birth rate, death rate and productivity were often incomplete. Other concepts such as market failure and Human Development Index were not understood sufficiently well for candidates to provide adequate answers to the questions asked.

Key messages

Section A of this paper contains one specific question with question parts covering a wide range of the syllabus. The majority of the part-questions require the candidate to draw upon information in the written text. Therefore, candidates should ensure that they have fully read the page of text before they start to answer **Question 1**.

Parts of questions in both *Section A* and *Section B* which carry 6 or more marks usually start with the command word 'discuss'. It is important that candidates understand that this invites them to give a balanced argument on the point being raised. For example, in **Question 7(c)** where candidates are asked to discuss whether a current account surplus is always to be regarded as desirable, a full answer will comment upon why it is desirable and why it may not be desirable.

Comments on specific questions

Section A

Question 1

- (a) Few answers gave a correct definition of the rate of unemployment, which is the percentage of the workforce unemployed. In many cases it was expressed as a percentage of the total population or explained in terms of changes in the level of unemployment. Similarly the level of unemployment is simply the number of people unemployed. A common incorrect response was that the level referred to whether unemployment was low, medium or high and that it was used to compare unemployment in different countries.
- (b) Ways in which the government could reduce unemployment were understood by most candidates. Three correct ways were often identified, the most popular being reducing taxes to increase demand and subsidising firms to reduce costs, as well as other forms of raising government expenditure and encouraging multinational companies to enter the country – all leading to increased demand for labour and therefore lower unemployment. However, a few incorrectly explained that raising the retirement age or lowering the school leaving age would help but these actions would increase labour supply without increasing demand, leading to more unemployment.
- (c) Most candidates were able to calculate that the increase was 10%. Where they did not, it was usually because the method used was wrong e.g. $\text{US}\$90/990\text{m} = 9.1\%$.
- (d) Candidates were told that the informal economy was 30% of national income, and the majority of candidates calculated it to be either US\$14.4 billion or US\$20.6 billion depending on whether or not they counted the 30% as being within or in addition to the US\$48.0 billion quoted in the text as the

size of the national income in Bulgaria. Those who got the answer wrong gave no workings, used an incorrect method of calculation or did not express the answer in US\$ billions.

- (e) The extract gave four reasons why a large percentage of the Bulgarian GDP goes unrecorded, such as the size of the informal or hidden economy, and a very large percentage of candidates were able to explain three of them.
- (f) The Human Development Index (HDI) is still not well understood by the majority of candidates. If candidates are unclear on what indicators are actually included in the HDI, it becomes very difficult to answer a question on whether or not it is a perfect measure for comparing different living standards. Too often candidates thought that GDP per head was not included in HDI when it is, or they were unaware of changes that have been made to other indicators such as adult literacy. Some candidates did have a good understanding of common concerns about HDI in general even if they were unsure about the indicators. Concerns expressed covered what was not included and also issues such as income inequality, the environment and general happiness.
- (g) Few candidates gave correct definitions of either the birth rate or death rate simply because they either did not mention a time period or they wrote about the total number rather than the number being expressed as 'per 1000 of the population'.
- (h) This question required candidates to consider whether the Government should try to reverse the decline in the population size in Bulgaria. Good answers used some of the information in the text such as low level of expenditure on health as part of their answer. Candidates needed to give a balanced answer on the likely impact on the economy, for example, unemployment, living standards, economic growth and the ability of the Government to respond to increased demand on education and health provision. This was done very well by some candidates who were able to apply their knowledge and understanding of economics to the information on Bulgaria. However, a significant minority of candidates interpreted the question to be about the actions that the Government should take to address the declining population, which was not what the question asked.

Section B

Question 2

- (a) Some of the key features of a market economy were identified by most candidates. For example, resources being allocated by the price mechanism or demand and supply and the fact that firms are driven by the profit motive in response to consumer demand were explained well by many candidates. On the other hand, some candidates were unclear about the difference between the market system which is in the private sector and a mixed economy where there is also government involvement.
- (b) Some candidates confused market failure with business failure and wrote about firms failing because they did not produce what consumers want. However, the majority of answers did give correct examples of market failure such as negative externalities, monopolies and the over-production/consumption of harmful goods, such as cigarettes, and the under-production/consumption of other beneficial goods to the community, such as education and street lighting, arising from the profit motive of firms.
- (c) Answers to this part of the question often reflected what was stated in part (b). Good answers explained how government intervention could address issues such as over- and under-production/consumption of goods via the use of taxation, subsidies and direct provision by the government. Legislation to control monopolies and minimum and maximum prices was also commonly mentioned. Reasons for not supporting government intervention in the market were generally not so well explained. The most common answer was that governments are less efficient than the private sector and that actions such as taxes, subsidies and price controls might not work. Where candidates had not understood market failure in part (b), their answer in part (c) tended to be about government action to address economic objectives such as unemployment, inflation and balance of payments.

Question 3

- (a) The demand and supply diagram showing a shift to the right in the demand curve and a shift to the left in the supply curve was correctly drawn and labelled by most candidates and this included

showing the change in market price and quantity. A few candidates chose to draw two separate diagrams for the shift in demand and the shift in supply which meant that they were unable to show the final wage rate and quantity. The analysis of the effect of the two decisions on the equilibrium wage and quantity was less well done since many candidates simply described the shift in the demand and supply curves which caused the change in wages and quantity. What was required was for candidates to analyse that the shift in the demand curve to the right arose from increased demand for teachers because there were more schools and that supply of teachers would reduce because fewer teachers would have the relevant qualification.

- (b) Most candidates were able to identify at least one reason why earnings of teachers rose over time, for example experience or promotion. Alternatively they mentioned the effect of changes in demand and supply. In many cases there was a limited, or no, description of why for example greater experience would lead to higher earnings.
- (c) There was no single answer to this question as teachers' pay differs in different countries. Candidates who answered this question well were able to give a reasoned explanation of why they thought pay in the private sector might be higher or lower than in the public sector. A common response was that independent/private schools want to attract the best teachers in order to get the best results as parents pay school fees and therefore these teachers are paid more than teachers working in state schools which are funded by government through taxation etc. Some responses also stated that teachers in the public sector had greater job security and benefits, for example pensions, which offset higher pay in the private sector. A few commented that it was the same labour market and that demand and supply could result in similar pay in both the private and public sector. In some countries the private sector appeared to be individual tutors and comments made reflected the performance of individual teachers. All these answers were acceptable.
- (d) The most common response to this question was that highly paid teachers were likely to spend more than less well-paid teachers because they had higher disposable incomes. However, the position on borrowing was less clear-cut. Many candidates made the correct point that highly paid teachers may be more confident to borrow (especially for buying cars and houses) and that banks were more willing to lend. On the other hand less well-paid teachers spent more of their pay on basics like food and clothing and might borrow more for more expensive, luxury items. Some answers lacked clarity, mainly because candidates were unsure who spent and borrowed more and often made an assertion without making an explanation.

Question 4

- (a) This question was primarily about large car producers benefiting from lower costs. Many candidates correctly identified this and a number mentioned economies of scale and the fact that producers need to have high amounts of capital to invest in large-scale production. The fact that they could source raw material and labour by locating in different countries was also a common response. However, a few answers were less relevant as they only referred to how being located in different countries increases demand for their products, which did not explain how these firms become large.
- (b) There were very few correct answers to identifying the difference between productivity and production. Productivity is simply output produced per factor, for example labour, over a time period and production is the total output over a period of time. Many answers were too vague and whilst showing some awareness often explained productivity as the rate of output without mentioning factors/inputs or a period of time. Time was also often missing from an explanation of production, with some candidates describing production in terms of productivity.
- (c) Most answers explaining the difference between fixed costs and variable costs were correct in relating to levels of output, although a few incorrectly related it to time. Nearly all examples given were correct and relevant to car production, even if candidates had been unclear in distinguishing between fixed and variable costs.
- (d) Candidates were asked to discuss whether multinational companies were beneficial for their workers. However, a few mistakenly only wrote about their impact on the economy, which was not the question. Generally speaking, where candidates related to workers they were able to explain a number of benefits and disadvantages. The main benefits related to job security, pay, other financial benefits and training/skills developed. The main disadvantages related to low pay (which was why firms located in that country) and poor working conditions including environmental issues.

Question 5

- (a) Measurement of price levels was well understood by most candidates who were able to explain the steps in measuring inflation through the construction of a consumer or retail price index. Where this was not the case, answers tended either to explain the causes of inflation or to suggest some other measurement, for example GDP.
- (b) Most candidates understood that what was being described in the question was a situation of demand-pull inflation. Many answers were able to explain how demand rising faster than output can result in prices rising. The best answers were also able to explain why demand rises faster than output.
- (c) This question offered scope for a number of approaches in discussing whether fiscal policy was better than monetary policy in bringing down the rate of inflation. Most answers showed a reasonable understanding of the difference between fiscal and monetary policy, for example taxes and government expenditure compared with money supply and interest rates, and how this affects the level of demand. What was not so well done was how effective these actions might be. Comments often related to the time it took to be effective, for example, higher taxation has more immediate effect than putting up interest rates, and higher income tax rates could have a greater disincentive effect on output than higher interest rates.

Question 6

- (a) There were many good answers to this question with candidates often identifying high birth and death rates and low standards of living as their three examples. However, the descriptions of why these features exist in developing countries were not always fully developed.
- (b) The majority of candidates were able to explain that there was normally a fall in the primary sector and growth in the tertiary sector as a country developed. However, candidates were less clear about changes in the geographical distribution. Comments were often very general and referred to growth in the total population. A minority of candidates correctly identified the net movement from rural areas to towns and cities but often did not explain that this was due to the creation of new and better paid jobs in the secondary and later on the tertiary sectors.
- (c) The term 'absolute poverty' was understood by most candidates as meaning not receiving enough income to afford basic needs. Most candidates were able to illustrate this with an example, such as food/clothing/shelter or less than US\$1.25 a day.
- (d) There was a very mixed response to the question of whether government policies could be effective in reducing poverty in a developing country. In many cases candidates discussed general government policies, for example reducing unemployment or increasing economic growth, without specifically relating them to reducing poverty. Better answers did identify particular government actions, such as welfare benefits, subsidising basic foods like rice, or training the unemployed so that they can get jobs. Reasons why they might not be effective were less developed, suggesting that candidates were less clear on this. Two common comments made were that in some countries the government is unable to raise sufficient income to effectively help the poor or that governments are corrupt in using financial aid given to them, which means that the funds fail to reach poor people.

Question 7

- (a) Most answers showed a basic level of understanding of what a current account deficit is, for example more spending on imports than exports, but many responses were unable to give two consequences of a current account deficit. Where they did so, lower employment, output and economic growth were often mentioned. There were few comments about the effect upon the exchange rate.
- (b) Most answers were limited to factors affecting the levels of visible imports and exports, such as changes in exchange rates and quality of goods produced by the home country. Very little was written on reasons for surpluses in invisible balance or income and current transfers. Too many answers were limited to identifying a surplus rather than explaining what caused the surplus.
- (c) Some candidates were confused about what happens to a current account surplus. Quite a few wrongly believed that any surplus could be used by the government to spend elsewhere, for example on expanding education and health provision. However, there were a number of good answers

highlighting that if exports are greater than imports this often means greater output by domestic firms, leading to higher employment and economic growth. On the downside, many candidates were able to explain that this could mean fewer goods being available for domestic consumers and that it could lead to a higher exchange rate, eventually reducing the surplus. A few mentioned that other countries with deficits might take action to reduce their imports. Overall, there was a reasonable attempt by most candidates to provide a balanced answer. However, in a limited number of cases answers were very thin and candidates struggled to provide a correct answer to the question.