

# ECONOMICS

Paper 0455/12  
Multiple Choice

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

## General comments

1153 candidates took this 30 question multiple choice examination and the mean score was 21.3 which was higher than the mean score of 19.8 from the previous year.

The questions for which most candidates selected the correct answer were **1, 2, 7, 10, 12, 13, 14, 17, 29** and **30**. 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 that were answered correctly by fewer than 45% of the candidates were questions **5, 9, 16** and **19**.

## Comments on specific questions

**Question 5** was answered correctly by 32% of the candidates who chose option A. 4% chose option B, 51% chose option C and 12% chose option D. Those who chose option C, the most popular answer, must have been thinking of a product with *unitary* elasticity of demand.

**Question 9** was answered correctly by 27% of the candidates who chose option C. 3% chose option A. 60% chose option B and 9% chose option D. Those who chose option B realised that the person's disposable income had increased but did not realise that this does not necessarily result in an increase in purchasing power if prices had increased by more than the increase in disposable income.

**Question 16** was answered correctly by 36% of the candidates who chose option A. 3% chose option B, 8% chose option C and 53% chose option D. D relates to an increase in unemployment. This usually results in an increase in government spending as claims for unemployment benefits increase. It may be that the candidates thought that the option referred to an increase in employment, not unemployment.

**Question 19** was answered correctly by 42% of the candidates who chose option C. 26% chose option A, 11% chose option B and 20% chose option D. The effect of a rise in interest rates on the current account (option A) is uncertain. It would depend on the balance between changes in export and import prices and the elasticities of demand for the goods or services. A rise in interest rates would be likely to reduce the attractiveness of investment and, thus, not increase economic growth (option B). It would also be likely to make saving more attractive compared with borrowing and, thus, decrease, not increase the inflation rate (Option D).

# ECONOMICS

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Paper 0455/22  
Structured Questions

## Key messages

Some candidates wrote a lot without including sufficient relevant economic theory. It is important that candidates answer questions in sufficient depth and remember the need for quality. To achieve this, candidates should think about questions carefully before they start writing their answers. They should not just look at an economic term in a question and then write all they know about that term. They need to look at the context in which the term is used. It is vital that they use economics in their answers because an answer which is based just on general knowledge, however long it is, will not gain high marks.

As in previous sessions, a relatively high proportion of candidates stated points without explaining them. For example, a number of candidates wrote that a cut in corporation tax will increase investment but did not explain why. Candidates need to explain the points they make.

## General comments

The performance on **Q1** was generally good with candidates interpreting the data carefully. The vast majority of candidates answered this question first. There were some particularly strong answers to **Q1(d)**, **Q1(e)** and **Q1(h)**. Most candidates coped well with **Q1(g)** which covers an area that candidates have found challenging in the past. A small proportion of candidates, however, did not attempt **Q1(c)** and a number struggled with **Q1(f)**.

There was a relatively even spread of the optional questions selected. **Q5** and **Q6** were the least popular options but not by much. Most candidates appeared to have selected their questions carefully and only a small number attempted more than the required number of questions.

There were some excellent answers which were lucidly and coherently written and which made perceptive and intelligent use of economic theory and real world examples. There were other answers which lacked focus and which did not make appropriate use of economics.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) The key here was to answer the specific question set. A number of candidates gave examples of land which was not mentioned in the extract and a few gave examples of other factors of production.
- (b) Most candidates coped well with this question. Some, however, did not pick up on the word 'system'. They wrote about dollars being exchanged for rupees without recognising the nature of the exchange rate.
- (c) To do well on this question, candidates needed to understand what is meant by GDP *per head*. Some candidates who did show an awareness of the meaning of GDP per head made a mistake and came up with an answer of \$50 million or, in some cases, \$50 billion. They should have realised that these figures could not be correct as they should have some awareness that GDP per head would not increase by such a large amount in one year.

- (d) This was well answered by a high proportion of candidates. There were some good comments on the significance of the small proportion of the US labour force employed in agriculture and the long life expectancy enjoyed by US citizens. Some candidates, however, wrote about the USA buying more goods and services from India. Purchasing more products from India does not, in itself, mean that US citizens are buying more goods and services in total. Even if US citizens were purchasing more in total, this would not necessarily result in the country being categorised as developed.
- (e) This again was generally well answered with most candidates focusing on workers being more educated and working with more capital and the impact these changes would be expected to have on the quantity of output workers would produce in an hour. Some candidates showed confusion between productivity and production which led them to write about output increasing rather than output per worker hour increasing.
- (f) Some candidates produced strong and lucid answers, revealing a good understanding of economies and diseconomies of scale. A number of candidates showed confusion between total cost and average cost and between the effect of an increase in output on average cost as well as on revenue and profit. An increase in output would increase total cost as more raw materials would have to be purchased and more workers employed. Whether average cost would rise or fall, however, would depend on whether the total cost increased by more or less than the increase in total output. An increase in output might also mean that total revenue would increase but stating this does not, in itself, provide any information on what is happening to average cost.
- (g) Many candidates coped well with this question. There were some perceptive comments, particularly in terms of the external costs that arise from the use of fertilisers. There were also some interesting comments relating to government failure.
- (h) The strongest answers examined the impact on cost, affordability, and incomes and why food subsidies might not be effective in reducing poverty. A small proportion of candidates did not examine both sides and some got into difficulties by suggesting that low food prices would lead to inflation.

## **Section B**

### **Question 2**

- (a) Awareness of the nature of a stock exchange has grown over time. Most candidates were able to define it accurately and only a few confused a stock exchange with a commodity market.
- (b) There was mixed performance on the question. Some candidates wrote good answers explaining the influence of economic circumstances and the level of competition. Not all candidates, however, paid sufficient attention to the wording of the question and so did not answer in the context of a short-term goal.
- (c) The distinguishing factors in the answers to this question were the depth, width and relevance of the answers. Some candidates correctly identified that a fall in profit may cause firms to raise their prices but did not go on to explain why higher prices would disadvantage consumers. A number of candidates produced rather limited answers just concentrating on higher prices. Some wrote about how workers and shareholders rather than consumers might suffer.
- (d) Candidates tended to produce stronger arguments on why a decrease in wage rates and an increase in working hours may not reduce the supply of workers to a firm, than on why it might. There were some good comments on the non-wage factors that might encourage workers to stay with a firm. A number of candidates wandered off the central point by discussing how workers could resist a decrease in wage rates and an increase in working hours.

### **Question 3**

- (a) Most candidates were able to define a monopoly with some sophisticated answers produced. A number, however, revealed confusion between a monopoly and a sole trader.

- (b) A small proportion of candidates thought that a decrease in the death rate would reduce the size of the population. Most did recognise that it would raise the size of the population and so increase demand. Some also recognised that it would increase demand for products, such as healthcare, demanded by older people.
- (c) Candidates found this quite a challenging question. Most recognised that a monopolist is a price maker while firms operating under conditions of perfect competition are price takers. Some candidates did analyse the influence of economies of scale, ownership of the monopoly and objectives of the firm but other candidates wrote in rather vague terms. There was confusion shown by a number of candidates about the characteristics of perfect competition. Some wrote that perfectly competitive firms collude to set the price whereas collusion is a feature of oligopoly and not perfect competition. In perfect competition price is set by the market forces of demand and supply. Others mentioned that perfectly competitive firms produce differentiated products whereas they produce homogeneous products.
- (d) Some answers made good use of economics and explained the points they made well. Some of the strongest answered how the effect of an increase in a country's population size on living standards would be influenced by the cause of the increase in population size. A relatively high proportion, however, wrote very generalised answers which asserted rather than explained points. For example, a number of candidates wrote that an increase in population would cause unemployment. They did not explain why this might be the case but went on to base a large part of their answer on this point even though it had not been fully established/explained initially. A number of candidates explored the links between an increase in population size and economic growth without making the final link to living standards.

#### Question 4

- (a) The key to doing well here was to answer the specific question. Most candidates did identify two relevant costs. The two most popular costs identified were a loss of output and a rise in government spending on unemployment benefit. Some candidates, however, wrote instead about types of unemployment and causes of unemployment but did not identify any costs.
- (b) The majority of candidates were able to identify two advantages. Not all candidates, however, went on to provide adequate explanations of the advantages. For example, a number of candidates wrote that the sole proprietor keeps all the profits but did not explain why this is an advantage.
- (c) There was some good analysis provided in answers to this question with clear links being given between a reduction in government spending and unemployment. Some answers accurately explored the impact on demand for firms' products and so their demand for labour, the influence lower spending on education and healthcare might have on the employability of labour, and the effect of low unemployment benefit on the incentive to seek work. Other candidates, however, wrote that a reduction in government spending would be accompanied by a rise in taxation without establishing why. They then went on to answer a different question by analysing the effect an increase in taxation might have on unemployment.
- (d) Candidates' answers tended to be stronger on why a cut in corporation tax will increase economic growth than on why it might not. Some candidates wrote that lower corporation tax would increase investment and this would raise living standards without explaining why. They then went on to state that higher living standards mean economic growth. These two do tend to be linked but they are not the same thing.

#### Question 5

- (a) Most candidates have a good understanding of opportunity cost and this was reflected in the answers to this question.
- (b) A number of candidates revealed confusion between people who are unemployed and people who are economically inactive. Others did explain relevant reasons including a mismatch of skills and vacancies, and the unemployed spending time searching for a job with a wage at a certain level and with specific non-wage benefits.

- (c) The answers to this question were quite vague although the stronger answers did recognise that capital goods may be both a complement to, and a substitute for, labour.
- (d) Some candidates revealed a good understanding of the nature of supply side policy measures and evaluated the effectiveness of, for example, tax cuts and privatisation. Their answers analysed how supply side policy might reduce inflation and the limitations of its measures. Other candidates wrote about a decrease in supply. This approach revealed confusion not only about how a decrease in supply would affect inflation but also about the nature of supply side policy measures.

#### Question 6

- (a) There was some confusion between a tariff and a quota but most candidates coped well with this question.
- (b) There was a lack of precision in some answers. A relatively high proportion of candidates wrote that inelastic supply is when a large change in price causes a small change in supply. Some answers did not recognise that a large *absolute* change could be a small percentage change. For instance, price might rise by \$2000 which might seem to be a large absolute rise. If, however, the initial price was \$40 000 the *percentage* rise would only be 5%. The supply change may be only 2 but if the original supply was 10, this would be a percentage rise in supply of 20%. In this case, the PES would be 5 and so supply would be elastic.
- (c) This was well answered, particularly in terms of the diagram. Very few candidates transposed the demand and supply curves and most labelled the axes correctly. A number of candidates drew a good and relevant diagram but then did not provide clear written analysis to accompany it.
- (d) This was well answered by a high proportion of candidates who selected this question. They made good use of economic theory and showed a good awareness of the possible impact of exporting raw materials not just on the trade balance but also on economic growth, employment and living standards.

#### Question 7

- (a) A number of candidates showed confusion about how earnings received by a country from tourism are recorded in the current account of the balance of payments. The components of the current account are not always well understood.
- (b) The word that not all candidates picked up here was 'increase'. A relatively high proportion of candidates wrote in *static* rather than *dynamic* terms. They concentrated on why tourism occurs rather than on why an increase in tourism may occur.
- (c) Again here some candidates did not read the question carefully enough. This led them to analyse why workers are paid *more in total* rather than why they are *paid higher wage rates*. Consequently, they wrote about workers who work more hours being paid more than workers who work fewer hours. Others did not pay attention to the words 'with the same skills' and so wrote about why more skilled workers are paid more than unskilled workers. There were a number of candidates who did produce strong answers however, with a number of interesting reasons given, particularly in terms of differences in bargaining power, fringe benefits and discrimination.
- (d) Not all candidates answered the specific question set. Some wrote about the causes of population changes. Others wrote about the general economic problems facing developing and developed countries. Those who did focus on the actual question produced a range of responses. A number of answers were perceptive, making interesting comments on the challenges facing developed countries as a result of ageing populations, and how a high birth rate and a high population growth rate may put pressure on resources and may increase the dependency ratio.