

ECONOMICS

Paper 0455/11
Multiple Choice

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

General comments

398 candidates took this 30 question multiple-choice examination and the mean score was 17.3 which is lower than the mean score last year of 19.8.

The questions for which most candidates selected the correct answer were **1, 4, 14, 19, 25, 26** and **27**. These questions were answered correctly by 75 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **5, 8, 11**, and **18**. These questions were answered correctly by 40 per cent or fewer candidates. The rest of the questions gave results which were well within the levels expected.

There were no other questions which were answered incorrectly by candidates who scored well on the test overall.

Comments on specific questions

Question 5 was answered correctly by 16 per cent of the candidates who chose option **A**. 26 per cent chose option **B**, 22 per cent chose option **C** and 36 per cent chose option **D**. The question required candidates to understand what was meant by, and identify an example of, market failure. In economics, market failure is a situation in which the allocation of goods and services is not efficient. That is, there exists another conceivable outcome where at least one individual may be made better-off without making someone else worse-off. Option **A** fulfils that definition.

Question 8 was answered correctly by 39 per cent of the candidates who chose option **B**. 7 per cent chose option **A**, 36 per cent chose option **C** and 18 per cent chose option **D**. A pension and a paid holiday (option **B**) would occur when the employee was not working and thus would not be a wage for a task undertaken.

Question 11 was answered correctly by 27 per cent of the candidates who chose option **B**. 31 per cent chose option **A**, 20 per cent chose option **C** and 22 per cent chose option **D**. With such a distribution of responses it is possible that candidates thought that the question asked what would be a good match rather than what would **not** be a good match for the type of work desired. Someone wishing regular hours would not find farming suitable as the hours are long and irregular.

Question 18 was answered correctly by 31 per cent of the candidates of the candidates who chose option **D**. 3 per cent chose option **A**, and 33 per cent chose option **B** and 33 per cent chose option **C**. A proportional tax is a tax imposed so that the tax rate is fixed. The percentage income paid in taxation, as shown by line D, is always the same whatever the income.

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Paper 0455/12
Multiple Choice

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

General comments

2558 candidates took this 30 question multiple-choice examination and the mean score was 19.7 which was almost identical to the mean of 19.3 in 2016.

The questions for which most candidates selected the correct answer were **1, 2, 5, 10, 13, 21, 24, 27** and **28**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **8, 11, 17, 23** and **26**. These questions were answered correctly by 50 per cent or fewer candidates. The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 8 was answered correctly by 42 per cent of the candidates who chose option **B**. 25 per cent chose option **A**, 13 per cent chose option **C** and 20 per cent chose option **D**. Cheap offers in shops (option **B**) are likely to encourage consumers to spend, not to save. The other options would make saving more likely. As income rises it is possible to save more, rich households tend to save more than poorer households and a rise in the rate of interest would encourage people to save as the return on the money saved has increased. It may be that candidates misread the question and thought they were being asked what might **increase** the level of savings.

Question 11, was answered correctly by 22 per cent of the candidates who chose option **B**. 34 per cent chose option **A**, 15 per cent chose option **C** and 29 per cent chose option **D**. Minimum and maximum prices and wage rates are often found challenging. It should be remembered that a minimum price or wage rate will not change the market situation if the existing market price or wage rate is already above the minimum.

Question 17 was answered correctly by 22 per cent of the candidates who chose option **A**. 54 per cent chose option **B**, 11 per cent chose option **C** and 13 per cent chose option **D**. Those who chose option **B** may well have done so because they thought the tax was progressive, as indicated in the third column. Although the amount of the tax levied had increased on the \$20 good, the proportion had not changed and so it is not a progressive tax.

Question 23 was answered correctly by 46 per cent of the candidates who chose option **A**. 20 per cent chose option **B**, 14 per cent chose option **C** and 20 per cent chose option **D**. An increase in advertising (option **A**) would be an increase in the cost for the industry. The distribution of the responses for the other options might indicate that candidates were guessing the answer.

Question 26 was answered correctly by 30 per cent of the candidates who chose option **C**. 26 per cent chose option **A**, 10 per cent chose option **B** and 34 per cent chose option **D**. In the year, the number of births would have risen by 16 000 and there would have been 8000 deaths so the net change would have been an increase of 8000. However, there was only an increase of 5000. This could be accounted for by 3000 people emigrating (option **C**).

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<p>Paper 0455/13 Multiple Choice</p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	16	C
2	C	17	D
3	C	18	D
4	C	19	D
5	A	20	C
6	B	21	D
7	D	22	C
8	D	23	D
9	A	24	B
10	B	25	B
11	A	26	A
12	A	27	B
13	A	28	A
14	D	29	D
15	B	30	C

General comments

96 candidates sat this paper. The mean mark was 20.0 which is slightly almost identical to the mean of 20.5 in June 2016.

The questions for which most candidates selected the correct answer were **2, 11, 13, 16, 20, 22** and **24**. These questions were answered correctly by 85 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **1, 9, 17, 23** and **30**. These questions were answered correctly by fewer than 40 per cent of the candidates.

The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 1 was answered correctly by 31 per cent of the candidates who chose option **A**. 24 per cent chose option **B**, 41 per cent chose option **C** and 4 per cent chose option **D**. The term capital in economics is used to describe a non-financial asset or factor of production, which may be used to produce other goods. It is not the money used to finance a project (option **C**).

Question 9 was answered correctly by 35 per cent of the candidates who chose option **B**. 33 per cent chose option **A**, 17 per cent chose option **C** and 15 per cent chose option **D**. If there was an increase in the number of workers unemployed then the potential supply of labour is likely to have increased and this would weaken the bargaining strength of a trade union representing existing workers (option **B**).

Question 17 was answered correctly by 32 per cent of the candidates who chose option **B**. 23 per cent chose option **A**, 19 per cent chose option **C** and 26 per cent chose option **D**. Option **B** is the only option that both describes a fiscal policy and a change in supply.

Question 23 was answered correctly by 38 per cent of the candidates who chose option **D**. 26 per cent chose option **A**, 18 per cent chose option **B** and 19 per cent chose option **C**. When an indicator rises at a slower rate than in previous years, it is still an increase in the variable being measured. It has increased, but not as fast as it increased in previous years. Thus, in 2013 prices still rose, by 3 per cent. They did not rise as fast as in 2012, when they rose by 5 per cent.

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<p>Paper 0455/21 Structured Questions</p>

Key messages

The key message from this examination is that careful reading of questions is vital. When a candidate answers a different question to the one on the examination paper, time has been wasted producing work for which no marks can be awarded and this time could have been used more productively elsewhere in the examination. This problem was particularly noticeable in part (c) answers, which ask for analysis rather than discussion, so discussing 'both sides' is not required. For example, many candidates gave the disadvantages of being a sole trader in **Question 5(c)** which would not be rewarded because the question only required advantages to be given.

Before selecting an optional question, candidates should look closely at all four parts first. In this examination many candidates made no attempt, or only made a very limited attempt, at the part (d) questions. This was particularly noticeable in **Question 3** and **Question 5**, where definitions of perfect competition and subsidy were straightforward part (a) questions, but where the international trade part (d) questions proved more challenging.

It is also very important to look very carefully at the number of marks awarded for each question and allocate the time available appropriately. In total there are 90 marks available and the examination duration is 135 minutes so taking into account time for very careful reading of the extract and to decide which optional questions to answer, there is an average of one minute per mark. This should act as a useful guide to candidates and indicates that they should not spend more than 2 minutes on **Section B** part (a) questions for example. These questions, such as **Question 1(a)**, usually require only a very brief *identification or definition*, and candidates who provide long explanatory answers are wasting time which could have been used to score marks on other questions in the examination. It was noticeable how many candidates who produced long answers to short questions were then unable to complete the whole examination, often leaving 8 mark (d) questions either unanswered or producing very limited answers.

General comments

It was disappointing to see a significant rise in the number of rubric errors made by candidates in this examination, in particular candidates answering all seven questions. There were also candidates who answered three questions in total rather than answering the compulsory **Question 1** in **Section A**, plus three optional questions. It is therefore essential that candidates read the instructions on the cover page of the question paper very carefully, so that they will not be at a severe disadvantage when tackling the examination.

When a diagram is provided in the extract, as in **Question 1(f)**, there is no requirement for candidates to copy out the diagram in their answer. Copying the diagram scores no marks and simply uses up the candidate's time.

However, if the question asks for a diagram, as in **Question 1(d)**, it is important to include it. Full marks cannot be gained if a diagram is required and the relevant diagram has not been included. On the other hand, full marks cannot be gained if only a diagram is provided; it must be accompanied by written analysis of what the diagram shows.

Comments on specific questions

Section A

Question 1

- (a) All that was required for a correct answer to this question was identification of the two relevant factors of production from the extract: labour (workers) and capital. No further explanation was necessary. Land is a factor of production and was given as an answer by many candidates, but this was not a correct answer here because it was not specifically indicated in the extract.
- (b) Most candidates could identify two reasons why firms merge. Not all then proceeded to develop their answers with explanations however, and it is important to say how, for example, economies of scale can be achieved through lower average costs.
- (c) (i) A large majority of candidates were able to produce the correct answer of an 80 per cent decrease in the number of firms by using the information in the extract.
- (ii) This question was correctly answered by most candidates, although many made it very difficult for themselves by working in large numbers of zeroes. When a question is in billions it is much easier to keep billions as working units rather than using 1 000 000 000. The correct answer had 12 zeroes when calculated this way and some candidates lost marks because they counted the zeroes incorrectly. It is also important to remember the currency units in answers, in this case yuan, for full marks to be achieved.
- (d) A surprising number of candidates made no attempt at this question, a possible indication that they were either uncomfortable with production possibility curves (PPC) or that they had no knowledge of them. Good candidates however could indicate on a diagram how switching resources from cigarettes to other products involves an opportunity cost which involves a movement along the PPC. Weaker candidates on the other hand incorrectly attempted to either draw demand and supply diagrams or to use price theory to answer this question.
- (e) Many candidates did not have a clear understanding of the nature of the Human Development Index (HDI) and were therefore at a great disadvantage when answering this question. HDI is a combination of three measurements: an income index, a life expectancy index, and an education index. It therefore covers more than the more commonly used measurement of living standards, GDP per capita. HDI however is also limited in scope because it does not take into account such aspects of living standards as income distribution and levels of pollution, and examples such as these should have been the focus for the second part of the discussion: why countries with a high HDI might not enjoy a high standard of living.
- (f) Answers to this question were generally comprehensive and accurate. Most candidates were able to demonstrate a good understanding of the underlying economic concepts behind the diagram by explaining clearly that the information campaign had led to an increase in demand for fruit, a rise in price and an increase in quantity consumed. As indicated in the general comments above however, there was no requirement to reproduce the diagram given on the question paper.
- (g) It was encouraging to see 'two-sided' arguments given in the majority of answers to this question. Good answers used the concept of inelastic demand to explain both the limited effect of taxes on consumption of cigarettes and the positive effect on government tax revenues. There was also good understanding of the external costs involved in smoking such as air pollution and costs to healthcare providers.

Question 2

- (a) Almost every candidate gave a correct answer to this question and it was encouraging to see the concept of equilibrium price so well understood.
- (b) There were some excellent answers given to this question but, as with **Q1(b)**, there was also a considerable number of candidates who did not develop their answers sufficiently with explanations. So, for example, job satisfaction was frequently given as a reason but the reason for this job satisfaction was not given as further development to gain a second mark.
- (c) It was pleasing to see good understanding of productivity and efficiency demonstrated in answers to this question. This was the key to a comprehensive answer, and the idea could then be developed to analyse reasons for this improved efficiency, such as time saved, fewer mistakes and falling capital costs. Weaker answers however did not distinguish between the total costs and the average costs specified in the question. It is not necessary for total costs to fall in order to reduce average costs – in this case that depends on the number of workers employed.
- (d) Good candidates were able to see ‘both sides’ of this discussion and evaluate how, for example, monopolies could take advantage of economies of scale in order to reduce average costs and thus reduce prices to consumers. Too many candidates however started from the assumption that there are no benefits to the consumer from monopoly, and were therefore limited to a maximum 5 marks for a ‘one-sided’ answer. It was also important for candidates to understand that the question referred to consumers and that answers which discussed benefits to the firm or its employees could gain no reward.

Question 3

- (a) Answers to this question were good on the whole, with a majority of candidates able to define perfect competition satisfactorily. On the other hand there were some candidates who demonstrated a considerable amount of confusion about perfect competition. It is important to understand that despite being in a competitive market, firms in perfect competition produce identical and not differentiated products and do not try to undercut other firms’ prices. They are unable to do so because they each have only a very small fraction of the total market.
- (b) This question proved problematic for those candidates who described the size of firms rather than explaining the influences upon the size. In particular, it was common to see ‘number of employees’ given as an explanatory factor but this is simply one measurement of a firm’s size. Good candidates understood this distinction and explained that the size of the market or the goals of the entrepreneurs would determine the size of the firm, and therefore the number of employees it has.
- (c) The most popular approach to answering this question was to analyse the effect of training upon labour productivity, and this was also the most successful approach. It was important however to note that six marks were available and weaker candidates were unable to develop their answers sufficiently. Those who did look at other issues were able to produce excellent answers which analysed motivational factors such as higher wages and improved working conditions.
- (d) Having produced competent answers to the first three parts of this question, many candidates then found this section provided too many obstacles for a successful answer. There were very few answers which provided a sound discussion of both sides of the argument and unfortunately many candidates resorted to pre-prepared answers on types of protection. There was also a tendency to ignore the focus of the question - higher economic growth. Some answers which focused on employment or good international relations missed the point. It was rare to see a discussion of the benefits of specialisation and competition, but those who did adopt this approach tended to score highly.

Question 4

- (a) Most candidates could name either the CPI or the RPI as a measure of a country's inflation rate. Some candidates however were determined to give a long explanation (sometimes with numerical tables) of how this was calculated in terms of a basket of goods and weights, thus wasting time which could have been spent answering other questions.
- (b) As with other part (b) questions, the main problem here was a tendency to identify but not explain. Most candidates could identify two reasons for conserving resources such as scarcity and the need to protect them for future use, but scarcity needs to be explained in terms of the economic problem, and future use needs to be explained in terms of output, income or employment.
- (c) There was some confusion in the distinction between taxes and subsidies here, but most candidates were able to produce an answer analysing the issue of living standards. The main weakness was a tendency to assume that the subsidies would go straight to poorer consumers without explaining the involvement of the farmers to whom the subsidies were given. It was perfectly acceptable to approach this question from the aspect of farmers' living standards but difficult to score the full six marks without reference to the living standards of the wider population.
- (d) The most successful approach to this question was to structure the answer according to the types of tax and their effects. Thus income tax could be evaluated by its effects on expenditure and incentives to work, whilst corporation tax could be evaluated with regard to its effects on costs of production and incentives to produce. Most candidates concentrated on income tax however, and it was rare to see an answer which covered corporation tax. Unfortunately a significant minority confused direct and indirect taxes, assuming that direct taxes would be added to prices. Needless to say, this approach was unsuccessful.

Question 5

- (a) Most candidates were able to demonstrate a clear understanding of a subsidy.
- (b) Whilst an increase in the price of oil does not strictly cause a decrease in the demand for oil, because it causes a movement along the demand curve rather than a shift of the demand curve, an increase in oil price was acceptable as an answer here. This is because the distinction is very subtle and easy for candidates to miss, especially when given in English as a second language. Large numbers of candidates did give an increase in oil price as a cause and so the decision to accept this answer proved justified. Candidates still needed to provide causes which shifted the demand curve to the right however, and there were some good answers which examined the introduction of electric cars and the fall in the price of other fuels.
- (c) Most candidates were able to satisfactorily outline the sorts of advantages available to a sole trader. As outlined in the key messages above however, it was common to see disadvantages, such as unlimited liability, also given as answers when not required. Analysis questions such as this one do not require the alternative view to be given – it is not the same as a **part (d)** Discuss question when two/both sides are required – and here candidates needed to stick closely to the advantages alone. There was also some confusion about the nature of sole trading, with some responses indicating that he/she would be the only employee. This is incorrect because sole traders frequently employ staff to assist them – it is the ownership which is singular.
- (d) As was the case with **Question 3**, it would have benefitted many candidates to look closely at this part of the question before tackling parts (a), (b) and (c). Those who had found these first three parts straightforward often struggled badly with this section because they had a weak understanding of the current account of the balance of payments. The worst examples of this were those candidates who confused deficits on the current account of the balance of payments with budget deficits (government spending exceeding tax revenues), and this led to answers which could not possibly score marks. Even those who correctly identified the deficit as imports exceeding exports often struggled to develop their answer further, and it was rare to see evaluation of the effects of a current account deficit on output, prices and employment. It was even rarer to see 'the other side' of the argument satisfactorily developed in terms of the effect of a deficit upon the exchange rate and hence the potential of falling export prices/rising import prices to improve the current account position.

Question 6

- (a) Answers to this question were of a mixed standard and there was some confusion about the nature of unemployment. It was common to see answers which suggested that high unemployment would cause problems for firms due to a shortage of workers, but this is incorrect because the unemployed are a potential source of labour. Unemployment does, however, cause problems for firms because of lack of demand for their products because consumers have less disposable income.
- (b) The key to a good answer to this question was to split the two causes of deflation into demand and supply factors. Candidates who did this found it a straightforward task to explain how lack of total demand would put downward pressure on prices and how an increase in total supply would enable firms to lower their prices. Understanding of deflation however was weak on the whole, and a number of candidates confused it with disinflation (a fall in the inflation rate) and even with inflation, which could be an indication that a closer reading of the question was called for.
- (c) There were some excellent answers to this question which demonstrated a sound understanding of the implications of very high inflation. There was a considerable amount of confusion of cause and effect regarding very high inflation, and to simply state that inflation causes unemployment is unsatisfactory. High unemployment is usually associated with low levels of inflation, even sometimes with deflation, and this is caused by a lack of demand in the economy. It is possible that unemployment could be caused by higher costs to firms (cost-push inflation) but this needed to be clearly explained in order for marks to be awarded. One of the most effective ways to answer this question was to examine the international trade aspect but few candidates used this approach to show that high inflation reduces a country's competitiveness, devalues the currency, and reduces the value of exports, whilst improving the competitiveness of imported products.
- (d) In contrast to the other parts of this question, answers here usually demonstrated a good understanding of inflation and how increased government spending on training could potentially reduce inflation by improving skills, raising productivity and reducing production costs. The alternative aspect of this discussion however proved much more difficult for many candidates who struggled to find reasons why increased spending on training might not reduce inflation. The most successful approach to this 'other side' of the question was to link increased government spending to higher total demand in the economy, which then caused demand-pull inflation.

Question 7

- (a) Most candidates could score one mark by some identification of the ways in which the poor spend less and the rich spend more, but few appreciated the importance of proportions or percentage spending in order to score two marks. It is incorrect to say that the poor spend more on necessities than the rich because recognition needs to be made of the much larger incomes of the rich. So the appropriate answer is to say that the poor spend a higher *percentage* of their income on necessities and this avoids confusion with absolute amounts of income.
- (b) This question was answered well on the whole, with most candidates able to identify that the poor are less likely to be able to repay loans. As with other part (b) questions however, many candidates then failed to develop their answers any further with an appropriate explanation – in this case they are less likely to be able repay because of their smaller income.
- (c) There were many problems evident in answers to this question, most notably a lack of understanding about the composition of the labour force. The labour force consists of both the employed and the unemployed, and answers which assumed that the unemployed were excluded from the labour force inevitably produced inappropriate answers. The important aspect of this question was for candidates to consider various possibilities – for example if the extra labour force *is not* employed by firms then unemployment will increase, but if the extra workers *are* employed then more goods and services can be produced and economic growth occurs. When a question asks for the effects upon an economy it is a good idea for candidates to structure their answers according to key economic objectives and so the best answers considered how an increase in the labour force could affect economic growth, inflation and unemployment.

- (d) This question produced the best 'two-sided' answers on the examination paper. The biggest weakness displayed by some candidates was a tendency to air their prejudices about the behaviour of poor people, but overall there were some very good discussions of the potential or otherwise of reducing poverty by providing loans to the poor. The best answers examined how the loans could be spent on education which would provide job opportunities and income, along with the possibility of starting businesses which would also provide incomes to the poor. This was then contrasted with the potential problems caused when the loans were spent on unsuitable items, and the difficulties the poor might face repaying the loans and the interest, thus increasing their financial problems

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<p>Paper 0455/22 Structured Questions</p>

Key messages

There are a number of key messages arising from this examination. Candidates need to:

- Read the questions and think carefully about what the questions are asking and what economic concepts can be applied before they start answering them.
- Stay focused on the question asked. Some candidates attempt to answer a different question and others wander off the point of the question.

In connection with the optional part questions (a) to (d) in **Section B**:

- (a) The answers here can be short but they need to be accurate. When a definition is asked for, candidates should realise that it is not sufficient to just reorder the words given in the question or to use a variation of the words in the question. For instance, candidates who gave as their answer to **Question 7(a)** that specialisation is when people specialise did not gain any marks.
- (b) Candidates should ensure that points are not only identified but also *explained*. For example, mentioning that specialising may lead to workers being bored would have gained only one mark in answer to **Question 7(b)**. To gain the second available mark for one disadvantage, candidates needed to explain why specialisation can result in workers being bored.
- (c) Candidates need to provide clear and relevant links. They should bear in mind the words ‘why’ and ‘how’ when *analysing*. For instance, in answering **Question 5(c)**, candidates might have written that an increase in unemployment may reduce spending. This is right, but candidates must also explain why higher unemployment may reduce spending. They should also recognise that they needed to explain how lower spending may affect inflation.

If the question asks for a diagram, as in the case of **Question 3(c)**, it is important to include it. Full marks cannot be gained if a diagram is required and the relevant diagram has not been included. On the other hand, full marks cannot be gained if only a diagram is provided; it must be accompanied by written analysis of what the diagram shows.

- (d) A number of candidates just stated points rather than evaluating them. This was a particular problem when the points were very debatable. For instance, a number of candidates wrote in their answers to **Question 5(d)** that a small population would mean that unemployment would not be a problem. It is not clear why this would be the case.

General comments

As in previous sessions, there were some excellent answers. These displayed an impressive understanding of economics and an ability to apply this understanding to the specific questions set. There were also some answers that were sketchy and based more on general knowledge than economics.

Candidates generally made good use of the time available. Many candidates devoted most time and attention to the higher mark questions and wrote at an appropriate length. A small proportion of candidates wrote in too much detail for some of the low mark questions. Indeed, one candidate wrote a whole page answering **Question 1(c)(i)** explaining both what s/he planned to do and what s/he planned not to do in order to answer the question; this is completely unnecessary.

Some candidates seemed to start an optional question without considering whether they could provide good answers to all the question parts. In some cases, this resulted in them crossing out their answer and replacing it with another one or omitting a question part.

A number of candidates did not number the optional questions they selected correctly. For example, one candidate who had answered **Questions 3, 6 and 7**, numbered them **2, 3 and 4**. The questions were the candidate's 2nd, 3rd and 4th answers, but numbering them this way is confusing to examiners.

Comments on Specific Questions

Section A

Question 1

The performance on **Question 1** was generally good although a number of candidates did not attempt **Question 1(c)(i)** and **(ii)**.

(a) Most candidates were able to *identify* the two aims of government policies mentioned in the extract. A small proportion of candidates showed some confusion by identifying, for example, increasing the gap between the wages of skilled and unskilled workers. A very small number of candidates identified aims not mentioned in the extract or identified two types of government policies.

(b) The stronger answers here both identified two problems caused by inflation and, as instructed by the question, *explained* them. Two problems which were particularly well explained were a worsening of the current account position and a decrease in living standards. In the first case, the answers explained how exports would become less price-competitive. In the second example, the answers explained how people would be able to buy fewer goods and services if their incomes rise by less than prices.

A number of candidates, however, only identified problems and did not explain them. A small number of candidates mentioned effects that are not problems or are not problems caused by inflation.

(c) (i) Most candidates who attempted this question got it correct. A number, however, did not work out how much the price had fallen, and just divided the new price by the old price. .

(ii) This was the most common question not to be attempted. Of those who did answer it, some only got part way through the calculation. They worked out how much the consumer prices index had increased by, but did not go on to add this to the prices index at the end of 2014.

(d) The strong answers here *analysed* a number of reasons why an increase in unemployment might cause an increase in government spending. Interesting points were made about the need to provide basic necessities to the poor and the need to stimulate the economy to create jobs. Some candidates, however, mentioned that the government would have to spend more on, for example, healthcare but did not explain why.

(e) Most candidates did examine both sides of the question. The evaluation on why the supply of workers for unskilled jobs may be high in a country tended to be stronger than those on why they might not be. Some candidates just reversed points without providing any further explanation. For example, some wrote that the supply of workers for unskilled jobs would be higher if there was a lack of education. They then wrote that the supply of workers for unskilled jobs would be low if education was widely available. In both cases, explanation of the link was needed. For example, a lack of education in some low-income countries would be likely to mean that workers would not develop the skills and qualifications required for skilled jobs. In contrast, in richer countries, expenditure on education is likely to be higher. This may result in well-qualified workers who would be reluctant to apply for unskilled jobs. There were some strong comments on the effect that a high rate of unemployment could have on the number of workers who would be forced to apply for unskilled jobs. Some candidates wrote about what would influence the demand for unskilled workers rather than the supply of unskilled workers. This showed the importance of reading the question carefully.

- (f) This was generally well answered although some candidates incorrectly interpreted a shift of the supply curve to the right as a decrease in supply. In considering what is happening when demand and supply curves shift, candidates should look at the position of the curve relative to the horizontal axis. This would show them that a move to the right of a demand or supply curve shows a higher quantity.
- (g) There was some good evaluation provided of how a decrease in income tax could reduce deflation. Good links were made from more disposable income, to higher consumer spending to higher total demand and then to a rise in the price level. Some answers were not so strong on why the measure to decrease income tax might not reduce deflation. A few seemed confused about the meaning of deflation and the likely effect of higher demand on the price level.

Section B

Question 2

This was the least popular question. Those candidates who did select it, tended to do better on the (d) part than on the (c) part.

- (a) Some candidates defined the composition of short run total cost in the form of fixed costs and variable costs rather than a definition of average costs. Those who did define average costs were able to do so briefly/appropriately.
- (b) Most candidates were able to identify two relevant factors with the two most popular being an improvement in education and a cut in taxes. As with some other questions, however, not all candidates explained the points that they identified. Some candidates wrote about factors that would increase the supply of workers rather than the supply of entrepreneurs.
- (c) Candidates found this to be a challenging question. They struggled to cope with two things happening at the same time. Not all candidates recognised that a reduction of the tax on the product would shift the supply curve. Some thought it would shift the demand curve. A number of candidates also showed confusion over the meaning of a complement. Some thought it was a substitute and a number of other candidates thought it was a raw material used to produce the product. Not many candidates considered the overall effect on the market.
- (d) There were some strong answers to this question. These included an interesting discussion about the effect of less unemployment on the availability of workers, the level of wages, the level of demand and offsetting factors. Some candidates, however, confused low unemployment with low employment. A number of other candidates wandered off the focus of the question so only wrote about the advantages and disadvantages the presence of a multinational company may have on a country.

Question 3

There was quite a popular question with strong answers particularly to the (a) and (b) parts.

- (a) Most candidates were able to identify a relevant opportunity cost, bringing out the meaning of opportunity cost.
- (b) This was a well answered question. There were some good links made, particularly between experience and productivity. Again, some candidates just identified two reasons. A few identified and explained more than two reasons which was not a good use of time. The time spent writing about a third reason could have been more usefully devoted to another question part.
- (c) Over time, candidates' interpretation and drawing of production possibility curves (PPC) have improved. There were some clear and accurate PPCs drawn in response to this question with relevant written explanation provided. A few candidates, however, still drew demand and supply diagrams to answer this question. A higher number drew a PPC diagram but inaccurately labelled the axes as price and quantity. There were also some candidates who wrote about how an increase in labour productivity might affect an economy but did not draw a diagram.

- (d) Most candidates were able to examine both why the rich of one country may save more than the rich in another country and why they might not. The depth of the evaluation of the influences varied. Some candidates did not seem to understand that a higher income can enable people to both save more and spend more.

Question 4

This was a popular question. There were some strong answers provided with some good application of relevant economic concepts.

- (a) The performance on this question was good. There was very little confusion shown over the nature of factors of production.
- (b) This was well answered. A high proportion of candidates showed a good awareness of the methods of trade protection and how they may reduce imports. The two methods most commonly explained were tariffs and quotas.
- (c) There were some excellent answers to this question which showed a good understanding of the nature of social costs. These analysed both private costs and external costs that may arise from car production and car use. A number of candidates, however, were confused between social costs and external costs. Their comments revealed that they thought that social costs consist only of external costs. This narrowed the scope of their answers.
- (d) There were some excellent answers to this question which made good use of demand theory. For instance, a number of candidates wrote about the impact that a change in the price of a complement, such as petrol, and in the price of a substitute, such as bus travel, may have on the demand for cars in the future. There was also some interesting discussion about the effects that greater concern about the environment and technological advances may have. A small proportion of candidates, however, mentioned possible influences but did not expand on them.

Question 5

The main issues in connection with this question were that some candidates wandered away from the focus of the question parts and in (d) did not make clear why some of the effects mentioned might occur.

- (a) Most candidates were able to state what is meant by a labour-intensive industry. A few candidates referred to labour being employed but did not mention the dominance of labour over other factors of production in a labour-intensive industry.
- (b) The strongest answers here tended to concentrate on the need to conserve resources and the lack of demand in foreign markets. Some candidates, however, were able to identify only one reason and some wrote about why countries export.
- (c) There was some strong analysis produced in response to this question. Some candidates provided clear and relevant links to both demand-pull inflation and cost-push inflation. There was also, however, some confused thinking shown. For instance, a number of candidates wrote that lower total demand for goods and services would result in a rise in prices. These candidates did not take into account the impact that lower demand would have on the prices that firms would be able to obtain from consumers.
- (d) The main issue here was that candidates made unexplained statements and some of the statements would even have been difficult to justify. For instance, one candidate wrote: *'Having a small population is an advantage. There can be no crimes leading to death. It is easy to eradicate poverty and promote full employment.'* A number of candidates argued that countries with small populations have full employment but there is no reason why a small population would necessarily ensure full employment.

Some candidates also only examined points from one side, leading to unsupported evaluation. For example, a number of candidates wrote that countries with small populations would have a current account surplus as they would not import much. They did not, however, consider how much these countries might export.

Question 6

This question was the second least popular question. Those that did answer it tended to do well on the **(a)** and **(b)** parts. The performance was more widely spread on the **(c)** and **(d)** parts.

- (a)** Most candidates were able to identify two relevant influences on the size of a country's population.
- (b)** The majority of candidates were able to identify two relevant causes of an increase in living standards. Most, but not all, were also able to explain how these causes lead to higher living standards.
- (c)** A number of candidates produced good links between an increase in the rate of interest and an increase in unemployment. Some candidates, however, appeared to have misread the question and wrote about how an increase in income tax could result in higher unemployment. A number of other candidates wrote about the effects of an increase in the rate of interest on total demand but did not analyse what effect this would have on unemployment.
- (d)** Some candidates produced excellent answers which provided clear evaluation of the possible impact of higher tax rates on total demand and the level of the country's output. They made some interesting comments about the effect higher tax rates may have on incentives and on the distribution of income, as well as the ability of a government to increase economic activity. A number of candidates, however, did not evaluate their points relative to a period of recession.

Question 7

This was a popular question. It appeared to be selected by candidates of the full range of ability.

- (a)** The key issue here was that some candidates tried to define specialisation by mentioning that it is specialising. Such an approach did not bring out the meaning of specialisation. Using the same word in answer to a definition question is not usually rewarded. Other candidates did successfully state the meaning of specialisation.
- (b)** There were some good answers to this question which explained how workers could be disadvantaged by specialising. The boredom they may experience and the difficulty they may encounter in gaining another job were the two most common problems explained. Some candidates did not read the question carefully enough and, as a result, they wrote about the disadvantages that may be experienced by firms rather than workers.
- (c)** Some candidates produced thoughtful answers which made good use of their understanding of the effects of imposing trade restrictions, using subsidies, putting downward pressure on the exchange rate and introducing supply-side policy measures. Other answers were rather vague. These included comments on the need to improve the quality of domestic products and to lower their price but without explaining how these aims could be achieved. There were a number of candidates who, instead of writing about reducing reliance on imports, wrote about how exports could be increased.
- (d)** Some candidates were able to produce very good answers, evaluating relevant economic concepts and terms. These included economies of scale, opportunity cost, absolute poverty, external costs and economic growth. They explored the link between an increase in the amount of food produced and living standards in a clear, interesting and balanced way. They evaluated, for example, the possible rise in the number of agricultural jobs that might occur with the quality of the jobs that may be created. A small proportion of candidates did not consider why an increase in food production might not increase living standards and some candidates based their answers on general knowledge rather than on economic analysis and evaluation.

ECONOMICS

Paper 0455/23
Structured Questions

Key messages

It is important that candidates are clear about the meaning of the command words at the beginning of a question, as well as the number of marks available, because these indicate how to approach a question and the length and depth of answer required. So for example, the command words Define, State or Identify require only brief comments and not a detailed explanation.

The format of the exam paper has stayed the same for a number of years now and it is pleasing to see that the majority of candidates' answers do reflect the command word and number of marks available. In particular, most candidates do now recognise that a Discuss question (such as **part (d)** questions in **Section B**) require two/both sides of the argument to be evaluated to gain full credit, and that a 'conclusion' is not required.

General comments:

This paper contained two calculations in **Section A**. Often candidates may show their workings and do not always make clear which is their final answer. It is important that they do so. One would normally expect the final answer to be at the bottom of their calculations, but this is not always the case.

The evidence from answers in this exam highlight the fact that many candidates are unclear about elasticity of supply and what factors affect whether it is elastic or inelastic.

Candidates should seek to ensure that their answers to **part (d)** questions in **Section B** evaluate both sides of the discussion, e.g. why it might or might not be true, although this should not be a simple reversal of the argument.

Comments on specific questions

Section A

Question 1

- (a) Interest rates and exchanges rates were commonly correctly identified as example of monetary policy measures in the extract. Subsidies was also commonly given as an answer as it was mentioned in the extract however it is incorrect, as it is a form of fiscal policy.
- (b) Popular answers included more women working, women marrying later and better family planning with appropriate explanations on why this led to lower birth rates. There was some confusion, for example, that higher infant mortality rates meant fewer births and that birth rates commonly fall when national income falls. It is true that for individual families a fall in income could mean that they could not afford more children.
- (c) (i) The correct answer was 20 per cent of US\$ 2.730 billion, e.g. US\$ 546 billion. However, many answers given were US\$ 16 146 billion, e.g. a calculation of 20 per cent of US\$ 80 730 billion which was the total global GDP in 2015. The correct answer related to the growth in global GDP between 2014 and 2015.
- (ii) 2500 was a commonly wrong answer where candidates calculated 25 per cent of the population of 10 000. If birth rate is 25 per 1000, the correct answer is $25 \times 10\,000 / 1000 = 250$.

- (d) Virtually all candidates could draw a Production Possibility Curve. The majority of candidates clearly showed a shift in the PPC to the right and either labelled the change PP1 and PP2, or showed a directional arrow to the right. Labelling of the axes was not always accurate. Good A/Good B or Capital goods/Consumer goods would have been sufficient. Some labelled the axes P and Q as for a demand and supply diagram or did not label it at all. The explanation required was simply that as a consequence of the outward shift in the production possibility curve, productive capacity had increased or it results in economic growth. It was incorrect to say that output rose.
- (e) Most candidates recognised that the question was about the impact on firms and not the economy which has been asked in the past. Where candidates wrote about the economy their answers tended to relate to the balance of payments, employment and economic growth, which were not relevant for a firm.
- (f) This was also done well, with most answers referring to the change in price, demand and supply arising from the removal of subsidies by the government. A few candidates tried to explain what might cause the changes in demand and supply which was not the question. Some candidates redrew the diagram in the question paper which was not required.
- (g) Candidates generally understood that the question related to international trade and were able to give a number of examples on how free trade would result in a higher standard of living, e.g. a larger market and lower prices without tariffs meant greater exports and a rise in income. Answers on how the standard of living might fall were less developed and tended to relate to domestic firms being affected by dumping from abroad and being driven out by large multinational companies. Other answers highlighted that free trade could lead to the importation of undesirable goods, e.g. drugs. A small minority confused free trade with an economy without a government or where goods were free.

Section B

Question 2

- (a) The willingness and ability to buy a product or service was a very common correct answer. Most other incomplete answers defined demand as either desires or wants.
- (b) A range of correct answers were given to this question. The most common ones were restricting exports to ensure sufficient supply in the home market, to prevent stocks running out and to reduce a balance of payments surplus. Less common correct answers included if goods were inelastic then restricting the level of exports would lead to a higher price and too high a level of exports could cause demand-pull inflation. Some students confused exports with imports and argued that a government would do it because other countries were restricting exports to their country, or to restrict harmful goods coming into the country.
- (c) Nearly all candidates understood elasticity of demand and could differentiate between elastic and inelastic demand. Most knew that with inelastic goods, a firm should increase price to raise revenue, but few explained why. Similarly, most knew that with elastic goods, firms should reduce prices but again many did not explain why. Some answers confused profit with revenue.
- (d) This question was primarily about economies and diseconomies of scale. Most answers reflected this with accurate explanation of how mergers could lead to economies of scale and lower average costs. Most candidates were able to give examples of economies such as financial and bulk buying. A common error is to write that economies of scale lead to lower costs of production which could be achieved by firms getting smaller. Diseconomies of scale was less well done, with some answers not mentioning them at all. Often when this happened however, candidates wrote about how a merger could result in the expanded firm gaining market share with monopoly powers, enabling it to raise prices as consumers had restricted alternative choices - this was a sound answer to give.

Question 3

- (a) A range of reasons were identified, such as to raise revenue for the government, reduce demand and therefore reduce inflation, and as a means of redistributing income between the rich and the poor. Occasionally, answers related to a specific area of government expenditure, e.g. education or health, which was not the question being asked.
- (b) Quite a few answers confused public limited companies with public sector organisations and therefore mistakenly wrote about the advantage of being funded by the government. Those students that understood what a public limited company was were able to give two advantages, e.g. able to raise revenue by selling shares through a stock exchange and investors having limited liability which meant that they could not lose their personal assets if the firm went bust. Very few wrote about the features of a private limited company.
- (c) Many of the answers to this question were too vague and did not identify any individual tax; instead they wrote in general terms, e.g. reducing taxes would give consumers more income which when spent meant that the government collected more tax. Better answers identified one or two taxes and explained how their reduction would eventually lead to an increase in tax revenue from another tax. For example, a reduction in income tax increased the disposable income of consumers which led to higher expenditure on goods and services, with a resulting increase in VAT or GST and firms paying more corporation tax through higher profits on higher sales which would have been a very good answer.
- (d) There was a range of answers to this question. At the lower end, candidates tended to write about the functions of trade unions rather than the benefits that they might or might not bring. Many candidates identified that trade unions often brought better wages and working conditions for workers and better answers expanded on this by explaining how this could lead to higher motivation of workers, greater productivity and often higher output which benefits firms and the economy. Weak answers tended to highlight the negative effects of industrial action, e.g. lost production, whereas stronger answers explained that higher wages without higher productivity could result in higher costs of production, loss of jobs and cost push inflation that could affect competitiveness of exports.

Question 4

- (a) Many candidates could not define the term devaluation which is the fall in the value of a currency, with a fixed exchange rate against other currencies. Quite a few stated that it was a fall in value but did not mention a currency. Alternatively, they confused devaluation with the depreciation of a currency.
- (b) Common explanations given included that lower output could lead to lower GDP, lower incomes, less tax revenue and lower exports. Some answers could have been improved if there had been fuller explanation of the impact that this would have had for the country.
- (c) Candidates needed to analyse the impact of changes in both demand and supply within the market for food. Candidates could approach this either in written form or by drawing an appropriate diagram. Essentially, demand for food would rise and supply of food would fall. As a result, the market price would rise but the impact on the market equilibrium quantity would be dependent on whether demand or supply showed the biggest change. Quite a few candidates whilst analysing correctly about change in demand and supply did not explain what the overall effect would be on the new market equilibrium. Some candidates were able to draw very accurate diagrams to back up the written analysis.
- (d) Few candidates were successful on this question. Candidates needed to explain the role of the central bank and commercial banks and why the central bank would intervene for the benefit of the country whilst also raising the risks inherent in providing support. Answers were often very limited: in the weakest answers there was not a clear distinction made between the respective roles, and the general conclusion reached was that commercial banks could go bankrupt. Few students attempted to discuss what was the alternative or opportunity cost of the central bank lending to commercial banks.

Question 5

- (a) Most answers successfully identified two reasons for placing an embargo on the import of a product – usually to prevent the import of a harmful product, protect domestic employment or as retaliation to action by another country. The most common incorrect reason was that this was a way of raising additional taxes. Embargoes are a quantitative restriction and no revenue is raised.
- (b) The fact that young workers were likely to be more qualified and have more skills which resulted in them earning more was commonly put forward as reasons why they earned more than older workers. Another common response was to highlight that young workers often had more energy (often important in jobs where physical strength was required) and were prepared to work longer hours and be more mobile.
- (c) Answers to this question often mistakenly referred to factors affecting elasticity of demand, e.g. substitutes, income of consumers. For those candidates that understood elasticity of supply, the factors which made supply more elastic included: ability to store the product, the time to produce it and the availability of new technology, raw materials and labour. Some very good answers were given covering three or four factors in depth.
- (d) Candidates found it difficult to explain why a decrease in spending would benefit an economy and were far better on why it might not. Where factors were identified they usually related to how a reduction in government spending would reduce total demand and therefore reduce demand-pull inflation. Another factor was that lower government spending might mean less need for taxation, giving consumers and producers more disposable income. Concerns that reduced government spending might not benefit an economy usually centred upon the impact on reductions in spending on types of spending, e.g. education, health, infrastructure and benefits. Strong answers highlighted the impact that this could have on the standard of living and increased poverty.

Question 6

- (a) Candidates were able to indicate that trade protection protected domestic firms but many added examples of types of trade protection, e.g. imports and quotas which is not a definition or the effect that it has. For example, some answers mentioned raising the price of imports rather than stating that trade protection measures were placed on foreign competition. Therefore, many of the answers given were not definitions but a description.
- (b) There were many good answers which explained that specialisation could lead to greater output, and better quality goods resulting in greater income and a higher standard of living. Others mentioned the fact that countries specialise in what they were best at or using abundant resources and were able to produce goods more cheaply than other countries.
- (c) Again, this question was usually well done. Less successful answers stated that the government had more money to provide better education and healthcare. Fuller answers added that this meant that people lived longer and received better treatment. Good answers also often made the point that in developed countries people were better educated and knew more about risks to their health and richer people had the income to buy their own private healthcare.
- (d) Overall, candidates found this question more difficult. Candidates were able to discuss how a rise in income tax would reduce consumer spending, including imports and that lower imports would result in an improvement in the balance of payments. Answers often explained that the extra tax revenue could be used by the government to subsidise exports so that they were more competitive. However, few candidates identified any other benefit, such as reducing demand-pull inflation making exports more competitive. There were few good answers to why a rise in income tax might not reduce a current account deficit. Some thought that with less disposable income, consumers might buy cheaper quality import. A few added that even with less money they might still buy imports if they were better quality goods than those produced domestically. Some answers made the point that with higher tax revenue, the government might increase spending which could lead to higher imports. Generally, answers often contained only one of these points.

Question 7

- (a) Demand-pull and cost-push were identified by a very large number of candidates. Where candidates did not identify these two terms they often referred to high level of demand or a lack of supply being the cause of rising prices.
- (b) Overall, this was less well done by most candidates. The question was about recognising that expansionary fiscal policy, e.g. government spending being higher than tax revenue, would be used to combat recession and high unemployment. A few candidates did explain this point. Most candidates either explained reasons why there might be high expenditure, e.g. to improve education or healthcare, or why there may be lower tax revenue, e.g. people avoiding paying tax or the government having other sources of income, e.g. reserves. Some candidates gave a scenario, e.g. if a country had an ageing population the government had to make pension payments but, because people were retired, they would not pay tax. This was an acceptable alternative way of answering the question.
- (c) Candidates did much better on this question. Most understood the term productivity and were able to explain that higher productivity could lead to higher output, with more people employed resulting in an increase in incomes and therefore higher standards of living as more goods and services could be consumed. Quite a few answers also stated that higher income meant more tax revenue for the government who could then offer better education and healthcare, which would also raise the standard of living.
- (d) Candidates generally understood what was meant by monetary policy, and changes in interest rates and money supply was commonly identified. Fewer wrote about the impact of exchange rates. Expansionary monetary policy meant that interest rates were lowered and money supply increased. Most candidates were able to discuss how this would increase disposable income for consumers and reduce cost of borrowing for producers. Increased consumption and investment would increase demand and therefore increase economic growth. For those candidates who wrote about exchange rates, most of them correctly identified that depreciation could result in cheaper exports and dearer imports which again increased total demand. The answers about why monetary policy measure might not increase economic growth were less well done. Too many candidates simply reversed the argument by writing about contractionary monetary policy which, whilst being a correct analysis, was not appropriate for this question. Good answers raised the prospect of raising demand by too much resulting in demand-pull inflation, or that even with lower interest rates, consumers might not spend and producers might not invest if they lacked confidence in the economy. For those writing about exchange rates the answer usually related to depreciation where exports might not rise and imports might not fall if many goods were inelastic.