ECONOMICS

> **Paper 0455/11**
> **Multiple Choice**

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

General comments

The questions for which most candidates selected the correct answer were **1**, **2**, **4**, **6**, **11**, **14**, **18**, **24**, **26** and **29**. These questions were answered correctly by 75 percent 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**, **9**, **12**, **21** and **30**. 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.

Comments on specific questions

Question 3

Question 3 was answered correctly by 12 per cent who chose option **D**. 8 per cent chose option **A**, 57 per cent chose option **B** and 22 per cent chose option **C**. 1 per cent did not answer the question. The US government (public sector) is involved and helium is a factor used in production. The US government has stocks of the factor so, as there is a supply of existing stocks to meet the demand, there is not an excess of demand over supply as stated in option **B**.

Question 9

Question 9 was answered correctly by 34 per cent who chose option **C**. 32 per cent chose option **A**, 3 per cent chose option **B** and 31 per cent chose option **D**. In a product market, a consumer's income is one factor

that lies behind a demand curve. If income increases then the demand is said to be able to increase. In the factor market, productivity is reflected in the demand curve for labour. If productivity increases then the demand for labour will increase. The distribution of responses between the three options that are more directly related to the factor market (**A**, **C** and **D**), could well indicate that candidates were guessing the correct answer.

Question 12

Question 12 was answered correctly by 30 per cent who chose option **C**. 3 per cent chose option **A**, 64 per cent chose option **B** and 3 per cent chose option **D**. Total revenue is obtained by multiplying the average revenue, or price, by the output. It can be seen from the table that this will result in a sequence that at first rises and then falls (option **C**).

Question 21

Question 21 was answered correctly by 36 per cent of the candidates who chose option **D**. 13 per cent chose option **A**, 12 per cent chose option **B** and 39 per cent chose option **C**. In consumer price inflation, expenditure weights are designed to reflect the expenditure patterns of the target population of households covered by the index. The weights are meant to reflect the relative importance of the goods and services as measured by their shares in the total consumption of households. (Option **D**).

Question 30

Question 30 was answered correctly by 39 per cent who chose option **D**. 28 per cent chose option **A**, 14 per cent chose option **B** and 19 per cent chose option **C**. The immediate effect of a fall in the foreign exchange rate is to make a country's exports cheaper to buy in other countries. This will make them a more competitive alternative for the purchaser. (Option **D**).

* Please note that due to an issue with **Question 22**, this question has been discounted. Candidates' marks have been multiplied by a weighting factor so that the maximum mark for the question paper remains unchanged.

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Paper 0455/12
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2**, **6**, **21**, **26**, **27** and **29**. These questions were answered correctly by more than 75 per cent 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**, **5**, **8**, **10** and **12**. 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 3

Question 3 was answered correctly by 16 per cent of the candidates who chose option **D**. 11 per cent chose option **A**, 46 per cent chose option **B** and 27 per cent chose option **C**. The US government (public sector) is involved and helium is a factor used in production. The US government has stocks of the factor so, as there is a supply of existing stocks to meet the demand, there is not an excess of demand over supply as stated in option **B**.

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Question 5

Question 5 was answered correctly by 29 per cent of the candidates who chose option **A**. 13 per cent chose option **B**, 40 per cent chose option **C** and 18 per cent chose option **D**. In a market economy the equilibrium price clears the market (option **A**) but this is not always a satisfactory outcome as there can be market failures and thus it is not always an advantage that there is no government intervention (option **C**).

Question 8

Question 8 was answered correctly by 35 per cent of the candidates who chose option **D**. 23 per cent chose option **A**, 27 per cent chose option **B** and 15 per cent chose option **C**. For demand to be price-inelastic a fall in the price would result in a decrease in the total revenue. The change in price from $6 to $5 (option **A**), results in an increase in total revenue from $18 to $20. Similar calculations for the other price changes also show increases in total revenue. It is only the change from $3 to $2 that results in a decrease total revenue from $21 to $18 (option **D**).

Question 10

Question 10 was answered correctly by 34 per cent of the candidates who chose option **D**. 17 per cent chose option **A**, 8 per cent chose option **B** and 41 per cent chose option **C**. The two diagrams each show the current equilibrium wage. On the first diagram, when the national minimum wage is introduced for cleaners, it is shown as being above the equilibrium wage so the wage rate for cleaners would rise. This leads to the choice of the correct option being either **C** or **D**. On the second diagram, the same national minimum wage is below the current equilibrium wage for nurses so there would be no change in the wage rate for nurses. The equilibrium wage for nurses would still apply and thus option **C** can be discounted, leaving the answer as option **D**.

Question 12

Question 12 was answered correctly by 29 per cent who chose option **D**. 18 per cent chose option **A**, 42 per cent chose option **B** and 11 per cent chose option **C**. The question concerns a subsidy given to a firm. The diagram shows a shift in the supply curve as a result of the subsidy. The new equilibrium output is shown by the intersection of the S_2 curve and the D_1 curve. The revenue to the firm would be OEKM (option **B**) plus the subsidy of EGHK (option **A**). The total revenue would, therefore, be OGHM (option **D**). Those who chose option **B** did not include the subsidy to the firm from the government.

* Please note that due to an issue with **Question 22**, this question has been discounted. Candidates' marks have been multiplied by a weighting factor so that the maximum mark for the question paper remains unchanged.

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| Paper 0455/13 |
| Multiple Choice |

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

General comments

The questions for which most candidates selected the correct answer were **4**, **6**, **9**, **10**, **16**, **24** and **26**. 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 only questions that were answered correctly by fewer than 50 per cent of the candidates were **Questions 3** and **21**.

Comments on specific questions

Question 3

For **Question 3**, 20 per cent of the candidates chose the correct option **D**. 9 per cent chose option **A**, 51 per cent chose option **B** and 20 per cent chose option **C**. The US government (public sector) is involved and helium is a factor used in production. The majority of candidates chose option **B** and this question proved the most challenging on the paper. The US government has stocks of the factor so, as there is a supply of existing stocks to meet the demand, there is not an excess of demand over supply as stated in option **B**.

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Question 21

For **Question 21**, 41 per cent of the candidates chose the correct option **C**. 36 per cent chose option **A**, 13 per cent chose option **B** and 10 per cent chose option **D**. The Consumer Prices Index (CPI) is a measure of the average change over time in the prices paid for a basket of consumer goods and services. If the CPI increases it reflects an increase in the average cost of living (option **C**). It does not always indicate that total spending has increased (option **A**). If prices rise then consumers could decide to purchase fewer units of the good so total spending would not necessarily increase.

* Please note that due to an issue with **Question 22**, this question has been discounted. Candidates' marks have been multiplied by a weighting factor so that the maximum mark for the question paper remains unchanged.

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Structured Questions
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Key messages

The most important aspect of this examination for many candidates was the relatively new approach (since 2019) required for the long questions seen in **Section B** (**Question 2(d)**, **Question 3(d), Question 4(d)**, **Question 5(d)**). This marking approach replaced the 'points-based' marking still seen in other questions on the paper. These **part (d)** questions are marked by level and candidates must achieve the level descriptor in order to achieve a mark within that specific band. Those candidates who understood the levels requirements tended to do well on this paper, whereas there were many candidates who did not have a good understanding of the process.

Fundamentally, in order to score well on these sections, candidates need to achieve a level three mark where overall both sides of the argument are considered and developed. The key to this process is to develop links and this can be seen clearly in **Question 5(d)**: the question asks about a government's macroeconomic aims and identifying these: e.g., growth, employment, inflation and balance of payments targets, should be the starting point to an answer. The candidate can then attempt to link these aims by economic analysis to the high government spending identified in the question, showing how it might help achieve these macroeconomic aims and how it might not.

As noted above, the main weakness in answers to **part (d)** questions was a lack of development and candidates' answers were often much shorter than that required for an answer of any depth. By contrast, however, many candidates wrote answers that more than answered the questions for **1(g), 1(h)** and **parts (a)**, **(b)**, and **(c)** of the optional questions This was particularly noticeable in answers to the **part (a)** 6 mark questions (**Question 1(g)** and **Question 1(h)**), which were very comprehensive, and often considerably longer than the candidate's answers to **part (d)** (8 mark) questions.

The 'data response question' (**Question 1(f)**) carries five marks and highlights several weaknesses in candidates' techniques when answering questions of this type. Some candidates chose to ignore it altogether, and therefore ignored five marks, but most candidates struggled to construct a suitable answer. The key to a good answer is to do something with the data, in this case the table of six countries linking GDP per head with ease of doing business. This means candidates should first look for patterns (in this case a clear positive relationship), then 'do something with the data' by comparing countries. This, however, does not mean simply lifting the data straight from the table but 'doing something' with it, for example lower/higher or highest/lowest.

Finally, the only diagram question on the paper (**Question 3(c)**) was well answered by those candidates who were thorough and accurate in the way that they drew the diagram, but many candidates were careless when drawing the diagram and therefore did not produce an accurate analysis of it. Clear labelling is essential if candidates wish to maximise their marks for this type of question.

General comments

Whilst most candidates followed the examination rubric correctly, there were still a number of candidates who did not read the instructions carefully. On the question paper, candidates are instructed to:

*'Answer **four** questions in total: **Section A** answer **Question 1**. **Section B** answer **three** questions'.*

There were candidates who answered five questions in total (i.e., all of them) unnecessarily but also of concern were those who answered only three questions (i.e., two questions in **Section B**). In the first case, candidates wasted time on questions where there were no marks available and, in the second case, missed the opportunity to obtain a further 20 marks.

Finally, whilst it is perfectly acceptable to attempt the questions in a different order to that given on the paper, it is not advisable to attempt the questions in a seemingly random manner, selecting questions to answer with no apparent pattern to them. This is because groups of questions have a common theme. This issue can be particularly problematic if the candidate neglects to label the question correctly or does not label a question at all. Every attempt is made to link the question to the answer written by the candidate by looking at the context of the answer but sometimes evidence is not apparent from the candidate's answer if there is incorrect labelling or if the question is not labelled at all.

Comments on specific questions

Section A

Question 1

(a) Most candidates were able to answer this question successfully by multiplying $2.04 billion by 58 per cent. A minority of candidates, however, whilst eventually obtaining the correct answer, made things difficult for themselves by working in large numbers of zeroes ($2 400 000 000) instead of in billions ($2.04).

(b) This question was well-answered on the whole and candidates were able to use the source material to identify local entrepreneurs borrowing money, and encouraging households to save, as roles of commercial banks. Some candidates, however, ignored the source and gave answers based upon material they had learned about commercial banks, such as 'giving advice', instead.

(c) As in the previous question, those who used the source material had few problems with this question, whereas those who ignored it did not do well. Quite simply, the answer was to be found in the written material: taking full advantage of international trade, i.e., exports and imports.

(d) In this question it was necessary to develop the two benefits of the free market reforms in an 'explain' answer. Good answers provided these explanations and developed the answer, e.g., foreign investment may be encouraged by the reforms and this could create employment. In weaker answers, however, the benefits were simply identified but not explained.

(e) Most candidates could identify the increased literacy rate from the source material as a result of improved education in Laos. They could then go on to explain that this would lead to better skills in the workforce. This point, however, needed to be linked to the economy of Laos and stronger candidates then linked this improvement in skills to greater productivity and subsequent economic growth.

(f) This question caused problems for large numbers of candidates, and it was rare to see it answered comprehensively and in full. The first problem arose from difficulties in interpretation of the 'Ease of Doing Business' (EDB) ranking in the table of six countries that was provided in the data. Many candidates interpreted the table in the wrong way and identified a negative relationship rather than a positive or direct relationship. The assumption made was that Singapore, with a ranking of 2, had the lowest EDB rank and that Timor-Leste, with a ranking of 178, had the highest ranking, whereas the opposite was the correct interpretation of the data. This was made clear in the written explanation above the table (1 = easy) but those who missed this instruction came to the wrong conclusions about the table.

The second problem for many candidates was not giving their answers the correct structure. In data analysis questions, candidates should first identify the relationship, then give supporting evidence, e.g., Singapore has the highest EDB rank and the highest GDP per head in the table. They can then add any exceptions to this trend, e.g., Brunei has a higher GDP per head than Malaysia but lower EDB ranking.

Finally, those candidates who tried to use the data, often did so unsuccessfully. Answers to this type of question require more than a simple extraction of data from the table, e.g., Singapore had an EDB of 2 and a GDP per head of $64 581, candidates must **do something with the data**. This requires interpretation, e.g., Singapore has the **highest** EDB rank and the **highest** GDP per head. The few candidates who interpreted the data in this way tended to score well on this question.

(g) The best answers to this question discussed environmental issues and restrictions on monopoly power, contrasting these with the potential lack of investment that regulations could cause. It was particularly encouraging to see a good understanding of market failure demonstrated in answers to the first part of the question and an appreciation of the potential problems caused by lack of clarity in the regulations for the second part of the question. On the other hand, there were candidates who incorrectly identified taxes, particularly tariffs, as rules and regulations imposed on an economy and who were therefore unable to produce an appropriate answer to this question.

(h) The following is from a candidate who scored maximum marks for this question. Whilst it is not completely accurate, it does cover the necessary points required and, despite its brevity, is a comprehensive answer:

'A slowdown in China's economy could or could not be harmful to the economy of Laos. First of all a slowdown in China's economy would lower the foreign investments into Laos, making the start-up of new business even more difficult. Also imports and exports would decrease. As they will not export, they will have a surplus and maybe some would become unemployed due to the unnecessary production. As imports decrease, people would have less choices of products to buy. However, this would be an opportunity to find new investors and expand their trading. Laos is a country with a lot of potential and they could increase their trade worldwide into expanding economies'

This answer is far from perfect: the first sentence is unnecessary and there is a mistake with 'surplus', but it addresses the question set and answers it concisely, covering both sides of the discussion sufficiently.

Weaker answers tended to be those that did not cover both sides of the discussion or those that only considered one piece of evidence from the data, usually the observation that '*58% of Laos's exports are sold to China*'.

Section B

Question 2

(a) This was a straightforward question, but many candidates made it unnecessarily difficult for themselves either by writing a short essay on the subject or by being too vague. It was not sufficient to simply refer to a 'change in incomes' or 'the use of taxation', and candidates needed to specify what this entails. The best answers were those that clearly defined redistribution of income as a transfer of income from one group in order for it to be spent on another group.

(b) As was seen in answers to **Question 2(a)**, there were many candidates who did not have a good understanding of income redistribution. Good answers focused on the idea of poverty and helping the poor, and also the need to reduce inequality and promote equity (fairness). Weaker answers did not consider the requirement for <u>two</u> reasons requested by the question or were far too vague in terms of explaining the terms involved.

(c) The best way to tackle this question was to consider what the meaning of the term 'economic effects' is and to structure the essay based upon this. Macroeconomic objectives are not specified in this question, but the best answers focused upon these, specifically the effects on the balance of payments current account, employment, growth and inflation. It was rare to see the effect of a reduction in exports of services on the exchange rate considered in answers, but this line of reasoning proved very useful for those who considered it: the exchange rate may depreciate as a result of the lack of demand for exports, the cost of imports would rise, leading to cost-push inflation. A substantial number of candidates made a basic error by assuming that revenue from exports went to the government rather than to the exporting firms. This error was then compounded by concluding incorrectly that the government would have less to spend on public services such as health and education.

(d) The following candidate's answer is a level three (L3) response:

'Supply-side policies can be helpful to encourage firms to operate in an economy. Increasing education (L1), for example, will lead to a more skilled workforce. This means quality is likely to increase, as well as productivity, which will overall increase profit (L2). Furthermore, deregulation can make operating easier for businesses, as they no longer have to deal with redundant and

unnecessary regulations. This can also reduce its costs. What is more, giving subsidies to the business, can work as an incentive for them to stay in the country as they have extra-money to invest in new technologies. Free trade can also be really attractive to exporting businesses, as their market widens and will probably make more profit.

However, if other costs the businesses have while operating in that country are too high, supply side policies will not be enough for them to stay **(L3)**. *If the taxes they pay are higher compared to the other countries, and the benefits and the benefits the country offers do not make up that cost, the business is likely to move. As firms aim is almost always to increase profit, they will choose the option that satisfies them the most. Supply side policies can be a good way of making one country more appealing.'* **(L3)** overall

This response is a reasoned discussion, examining both sides of the economic argument with regard to supply-side economics as posed in the question, and thus it achieves level 3 standard. The first part of the answer, however, is clearly stronger than the second part because the discussion is much more developed there and the links are clearer, whereas the discussion is relatively limited in the second part.

Question 3

(a) This question is a good example of how some candidates give a clear definition of the whole term whilst others only give a partial answer to the question. Most candidates could define finite as something that will run out, or by using similar words, but many neglected to define a resource as an aid to production and so only scored one, rather than two marks for this question.

(b) Responses to this question were poor on the whole and there was not a good understanding of private and external benefits demonstrated in answers. A surprising number of candidates thought that private benefits referred to those inside a country and external benefits referred to other countries, whilst many just ignored producers or consumers in their answers. Those candidates who had some understanding could not always explain the terms accurately and they often confused external benefits with social benefits. The key to a good answer was to refer to production and consumption of goods and services, i.e. private benefits are enjoyed by producers and consumers, whilst external benefits are enjoyed by third parties not involved in the production or consumption of goods and services.

(c) This was the only question where a diagram was required but it was not well-answered by many of the candidates who attempted it. Those who answered this question well were able to follow the structure required for a supply and demand question: labelling of axes, original curves, new supply curve, old and new equilibriums, plus two written comments analysing the changes. A substantial number of candidates however scored poorly on the diagram because they were insufficiently thorough with their labelling and it was not uncommon to see a diagram that looked correct but without any labelling of the axes or equilibrium points. Many candidates also felt compelled to examine demand, to unnecessarily draw a shift in the demand curve and complicate the diagram, whereas the discovery of new reserves implied a shift to the right of the supply curve with no other curve required in this case. Good candidates usually remembered to add written comments after the diagram but a surprising number of candidates omitted this requirement.

(d) The following candidate's answer is a good level two (L2) response but is not quite strong enough for level 3:

'On the one hand a fall in the price of a product is not a disadvantage for an economy because if it is elastic **(L1)** *firms are probably going to have more profit. This is because the demand increased more than the change of price* **(L2)**. *Firms will invest and want to produce more, leading to a demand for labour which means the unemployment rate will fall.*

Moreover if prices fall and the product is a merit good then it will benefit the economy. People will be healthier, leading to a higher production and productivity because they don't have to miss work because of diseases.

On the other hand, a fall in price of a product is not beneficial if the product is a demerit good because they are not positive for the population. If the consumption of a demerit good increases then the population will not be able to work properly and productively.

Also if prices decrease sometimes it may mean negative inflation is happening. This can mean the economy slowed down, that demand is low. So companies will have low profits and start investing. Increasing unemployment and decreasing wages.' **(L2)** overall.

This response is clearly of level 2 (L2) standard because it discusses both sides of the question. It does not always discuss the question accurately, however, as shown for example in the first two sentences. The candidate does not specify here whether it is demand or supply that is price-elastic, nor is price elasticity of demand fully explained, whilst the link with profit is not at all clear. On the other hand, there is a reasoned discussion of both sides, even if some of it lacks economic accuracy, and so this was a strong level 2 answer.

Question 4

(a)   Most candidates could define total revenue, although there were few simple concise answers and a lot of answers that struggled for precision. The simplest definition of total revenue is price times quantity sold (P × Q) but a considerable number of candidates wrote long-winded answers, sometimes involving unnecessary references to costs, whilst ignoring the focus of the question. Costs are needed for a definition of profit but not for a definition of revenue.

(b)   The strongest answers to this question were usually the most concise, as in the following example:

'Inflation can be caused by an increase in the aggregate demand of an economy, called demand-pull inflation. Inflation can also be caused by a rise in prices of imported raw materials, so costs of production for firms will also increase causing cost-push inflation'.

On the other hand, long rambling answers tended to stray from the point and ignore the two key concepts required for a good answer: cost-push and demand-pull inflation.

(c)   There were many excellent answers to this question and candidates were usually able to identify how an increase in interest rates would lead to a reduction in borrowing because the cost of borrowing has increased; this in turn would lead to a reduction in consumption. Stronger answers then went on to consider the impact on savings and investment, all of which contribute to reductions in total demand. Some excellent answers also considered the likely appreciation of the country's currency and its subsequent impact upon demand for exports.

(d)   The following answer is a good level three (L3) response:

'On the one hand, an appreciation of a country's domestic currency would have a negative effect in the economy because it would reduce their exports. If the country's currency appreciates then the cost of production would go up **(L1)** *in relation to the other currency. If this is the case, local firms would become less competitive in the international markets as they'd have to raise their prices leading to a drop in demand for their products* **(L2)**. *In addition an appreciation in the exchange rate would result in an increase in the imports of a country. This happens because the country's currency is stronger in relation to the other country's currency so consumers are able to buy more imported goods with the same amount of money. Both of these would result in the balance of trade being worse (greater deficit or smaller surplus).*

'On the one hand, an appreciation of a country's domestic currency would have a negative effect in the economy because it would reduce their exports. If the country's currency appreciates then the cost of production would go up **(L1)** *in relation to the other currency. If this is the case, local firms would become less competitive in the international markets as they'd have to raise their prices leading to a drop in demand for their products* **(L2)**. *In addition an appreciation in the exchange rate would result in an increase in the imports of a country. This happens because the country's currency is stronger in relation to the other country's currency so consumers are able to buy more imported goods with the same amount of money. Both of these would result in the balance of trade being worse (greater deficit or smaller surplus).*

On the other hand, an appreciation of a country's domestic currency would have a positive effect on the economy because it could increase confidence in it **(L3)**. *The increase in confidence in an economy would result in an increase in foreign investment into the country which would provide more employment and higher economic growth. Similarly an appreciation wouldn't be a disadvantage because it would encourage people to save money in that currency as opposed to*

others. This is beneficial to an economy because it would encourage people to save money in that currency as opposed to others. This is beneficial because it would mean that the demand for their currency is high so they would be able to emit more of it and increase the money supply without causing inflation and increasing aggregate demand. **(L3)** overall**.**

This answer starts strongly by showing good understanding of the topic (currency appreciation) and quickly achieves a level 2 response through a series of points linking the rise in the currency's price to reduced exports. The candidate then discusses the topic in more depth by examining imports and concludes that part with the overall effects on the balance of trade. Level 3 is achieved when the 'other side' is discussed in a limited way, but the candidate then develops the answer in much greater depth to produce a good level 3 answer overall, with the first part being a little stronger than the second part which lacks clarity in places.

Question 5

(a) There was a good general understanding of the concept of market disequilibrium demonstrated in answers to this question, supply not equalling demand usually being the preferred answer. There were exceptions, however, and misunderstandings were apparent, with the following incorrect answers being given on occasions: government spending not equalling taxation, exports being greater than imports and vice-versa, market failure, and 'one group being benefited in preference of another group'.

(b) The concepts of labour-intensive and capital-intensive industries were understood by candidates on the whole, but answers were not always comprehensive, and did not find ways to expand upon the words labour and capital in their answers in order to explain the concepts. This meant that candidates often ignored the idea of relying upon labour or relying upon capital or did not explain that it is the proportion of the factor of production in use that is significant here. The best solution to this problem was to provide an example of a capital-intensive industry, such as electricity generation in a power station, and an example of a labour-intensive industry, such the law.

(c) A majority of candidates who attempted this question demonstrated a sound understanding of the ways in which trade unions can increase economic development. The key to a good answer was the concept of productivity and the way in which higher wages, better working conditions and protected rights of employment would improve workers' motivations, thus improving their efficiency and subsequent output for firms. There were, however, a minority of candidates who completely misunderstood the question, confusing trade unions with trade between nations, and therefore they were unable to produce a relevant answer to this question. Additionally, some candidates were determined to give 'the other side' of this question and discuss in an opinionated way how they thought that unions were bad for the economy. In addition, some candidates were only interested in the possible negative impact of trade unions on an economy. This question however asks candidates to analyse rather than discuss both sides and focuses on increasing economic development, i.e., the positive aspects of trade unions rather than the negative ones.

(d) The following candidate's answer is a response that achieves level one **(L1)** but goes no further:

High government spending can help the government achieve its macroeconomic aim, because they can spend the money in better workers (with good education) **(L1)** *in subsidies to in order to encourage new firms to nationalise and go to the country. Although if the government spend more than that it can lead in a disequilibrium market and it can be worse for the macroeconomic and microeconomic because the taxes* **(L1)** *will be high.* **(L1)** overall.

There is a simple attempt at using economic definitions and terminology in this response, but no reasoned discussion of high government spending is evident. There is reference to spending money on education and the possibility that taxes will be high, but neither of these points is developed and so this is clearly a level one response.

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Paper 0455/22
Structured Questions
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Key messages

Candidates should remember that **Question 1** is a data response question. This means that they need to draw on information in the stimulus material in their answers. For example, when asked to 'Explain two reasons why a government may privatise an industry', the reasons needed to be found in the stimulus material. Having used their understanding of economics, to select two relevant reasons, candidates then had to use their economic knowledge to explain the reasons. There will be points in the stimulus material that can be drawn to answer the **Question 1(g)** and **Question 1(h)** parts. Candidates can widen out their answers to these question parts but what they write should not contradict what is in the stimulus material. For example, in this session, it would not have been appropriate to write that an argument for the Indian government increasing the tax on airline fuel is that the tax is currently low. This is because the stimulus material clearly states that 'India has Asia's highest airline fuel tax.'

The widest variation in performance in recent sessions has been on the **(d)** part of the optional questions. To achieve a good performance on the **(d)** part of the optional questions, candidates are advised to:

*   read the question carefully
*   think through the answer carefully
*   define the key terms
*   develop the points made – providing relevant links
*   consider both sides.

General comments

There was a disappointing proportion of candidates who omitted a question part or who answered all four of the optional questions. The first of these actions obviously lost candidates marks but so, on most occasions, did the second as it resulted in candidates not devoting sufficient time to each question answered.

The performance on the first question continues to be generally good with a pleasing number of candidates providing strong answers particularly to **Question 1(g)** and **Question 1(h)**.

There was a relatively even spread of the optional questions selected. The best performance was on the **(b)** and **(c)** parts of the optional questions. A relatively high proportion of candidates provided good explanation and clear, logical analysis on these question parts. The performance on the **(a)** and **(d)** parts was more varied. The answers given to the **(a)** parts often lacked precision. A disappointing proportion of candidates wrote in general terms in their answers to the **(d)** parts. A number of these made points without providing any supporting economics. As in previous sessions, there was some confusion shown over the meaning of economic terms, particularly, productivity. Many candidates assume that productivity is the same as production. There were, however, some excellent answers to the **(d)** parts which showed a strong ability to apply economic theory to the consideration of current economic issues.

The area of the syllabus that candidates seemed to find most challenging was international trade and globalisation. A number of candidates struggled on **Question 1(e)** and some showed confusion over the effects of a fall in the foreign exchange rate on **Question 4(d)**.

Comments on specific questions

Section A

Question 1

This was generally well answered with most candidates attempting all the question parts and considering both sides in **Question 1(g)** and **Question 1(h)**.

(a)   When undertaking a calculation, it is important that candidates get the right size of figure in terms of e.g., thousands, millions or billions. In this case, some candidates recognised that the loss had to be calculated by deducting costs from revenue but then gave $7 as the answer instead of $700 million or $0.7 billion.

(b)   Most candidates were able to identify the two substitutes for air travel mentioned in the stimulus material. A small proportion of candidates wrote at greater length than required, explaining the nature of substitutes and why travel by trains and travel by ships may be substitutes for air travel. The command word for this question was 'identify' and so candidates did not need to explain.

(c)   In the answer to this question, explanation was needed. The majority of candidates were able to identify from the stimulus material that Air India had 100 per cent of the market in 1984. Some went on, as required, to explain what this meant.

(d)   Most candidates were able to identify two reasons from the stimulus material. The two most popular reasons identified were to raise revenue and to increase efficiency. Explanations of why a government may want to raise revenue were particularly strong.

(e)   A number of candidates found this a challenging question. Some appeared to be unaware of the nature of the current account of the balance of payments. These candidates wrote in general terms, mentioning that China had a positive balance while India had a negative balance. A small proportion of candidates confused the current account of the balance of payments with the government's budget balance.

   Those candidates who did well on this question recognised that India had a current account deficit and compared this position with that of the other countries. An example of a good answer is:

   India has the largest deficit in the current account. This may be due to import expenditure exceeding its export revenue. But even though India has the largest deficit in $s, Kenya has a larger deficit as a % of GDP.

   In contrast to India, China and Russia have a current account surplus. China has the most surplus on the current account. It may be because it is exporting more goods and services (surplus in trade in goods and services) or more primary and secondary income. But its current account % of GDP is only 1.4% which is less than Russia which has 2.2%.

(f)   This was a well-answered question. Good use was made of the information in the stimulus material and good links were provided from, for instance, an increase in the number of tourists to higher total demand and then to higher output and higher employment. Some candidates, however, tried to answer another question. They wrote about how the airlines could have become more successful.

(g)   The average standard on this question was again good. The vast majority of candidates provided a two-sided answer. The strongest answers built on the information provided by applying relevant economic theory. For example, some candidates developed the point about reducing market failure by exploring how a higher tax on airline fuel could improve the environment. An example of a good answer is:

   The government should increase tax on airline fuel as it will increase tax revenue which will improve the government's budget. As a result, the government could spend more on education and healthcare which could increase living standards. This will also reduce market failure as a higher price of flights will decrease demand for flights. This will reduce external costs including air pollution.

On the other hand, India's air passengers are among the most price-sensitive in the world which means there is high price elastic demand. If prices are increased, demand for flights will decrease by a larger percentage and therefore will reduce airlines' revenue. Costs of production will increase which could lower corporate tax revenue as well. Increasing tax on airline fuel may also reduce exports and may lead to a deficit in the balance of payments as cost of transporting exports will increase and therefore demand for exports will decrease.

(h)   There were some interesting answers to this question. There was some good application of the influences on a person's choice of occupation to the question of whether more people will apply to be pilots for Indian airlines in the future. These answers both drew on information from the stimulus material and included other potential influences. An example of a good answer is:

It is said that India may have the third largest airline industry by 2025. This means that there will be a high demand for pilots. A pilot is a highly specialised and reputable job as more people would try to become pilots. The high demand means they will be offered high wages and so will enjoy high living standards. The prediction of India's success in the future airline industry means there may be high job security. The working conditions will be of a high standard thus attracting more people to become pilots.

However, pilot training is very long and requires many years of high level of education which may discourage some people. The possible danger involved in being a pilot may scare some from becoming a pilot. It is also a highly specialised occupation which means people may become bored doing the same task over and over again.

Section B

Question 2

There was a wide spread of performance on this question. The best answered question part was **Question 2(b)**.

(a)   Some candidates confused a free good with a public good. Others wrote in too generalised terms, referring, for example, to products that are provided to consumers free. Some mentioned that free goods are produced without cost. This was too imprecise. Labour, for instance, may be given without charge in some organisations. The key point is that free goods do not involve an opportunity cost and they do not require resources to produce them.

(b)   The best answers here recognised that the secondary sector covers manufacturing and construction while the tertiary sector covers services. These answers gave a relevant example of both sectors with car production and education being popular choices. Some candidates, however, mistakenly wrote about the private and public sectors and some confused the secondary sector with the primary sector.

(c)   Over time, candidates have got better at drawing production possibility curves. This time, most candidates did label the axes correctly and most did draw a second curve to the right of the original one, indicating the outward shift by an arrow, or less commonly by letters. A very small proportion of candidates did not draw the curves to the axes and a number drew a demand and supply diagram rather than a PPC diagram.

The strength of the written analysis varied. The strongest answers recognised that an increase in the quality of a country's resources increases its ability to produce gods and services.

(d)   Some candidates revealed confused thinking. Some wrote that more women entering the labour force would reduce unemployment. They did not recognise that before entering the labour force, people are not unemployed, they are economically inactive. A number of candidates suggested there is a fixed number of jobs by mentioning that having fewer workers in the future will reduce unemployment. Candidates should recognise that the number employed is influenced by both the demand for and supply of labour.

Other candidates wrote that having fewer children will increase people's disposable income and increase their spending. This showed a misunderstanding of the meaning of disposable income and did not recognise that parents spend money bringing up children.

A number of candidates just stated some possible advantages and disadvantages of a fall in a country's birth rate without explaining them. Some candidates did, however, produce perceptive, well-developed answers. An example is:

If there is a fall in the birth rate, this may benefit the economy as there will be a reduction in the young dependency ratio. Workers will have to support fewer children. The government may spend revenue saved on spending on fewer children on spending which will increase economic growth by providing subsidies to firms or investment in infrastructure.

If the fall in the country's birth rate is due to the emancipation of women, this will mean they will add to the labour force. This will increase the productive capacity of the economy and lead to economic growth as there will be more availability of labour.

If the birth rate falls by more than the death rate, the population may decrease. It may reach the optimum population which may increase output per head. A lower population may also reduce the depletion of scarce resources
.
However, a sustained decline in a country's birth rate may result in a high elderly dependency ratio. The size of the labour force may decline and so reduce the output the country can produce. The average age of workers may increase and older workers may be less efficient as they may be out of date with advances in technology.

Question 3

The best answered part to this question was **Question 3(b)**. Some candidates were uncertain about the determinants of price elasticity of supply and there was a wide variation on the performance on **Question 3(c)** and **Question 3(d)**.

(a) The two most popular determinants of price elasticity of supply identified were production time and ability to store the product. However, a relatively high proportion of candidates identified determinants of price elasticity of demand. Some mentioned factors that influence supply rather than specifically the factors that determine the extent to which supply adjusts to a change in price.

(b) This was generally well-answered. Many candidates recognised that ending child labour would enable children to gain a better education which would increase their skills. There were some good comments on the possible effects on children's health and job opportunities for adults.

(c) There were some good answers which showed a strong understanding of economies and diseconomies of scale. A number of candidates, however, confused average costs and total costs. These candidates wrote that as output increases, firms have to employ more workers and use more raw materials. From this, they concluded that their average costs would rise. While it can be determined that total costs would increase, whether average costs would rise would depend on whether total costs rise by more than output. Other candidates appeared to think that higher profits would reduce average costs. These candidates did not recognise that profit is the difference between revenue and costs rather than a determinant of costs.

(d) Some candidates wrote in general terms that output, employment and exports might increase. Stronger answers explained how specialisation could influence output and the international competitiveness of the country's agricultural products. There were also some good comments on the possible quality of employment and income earned in the agricultural sector as well as the possible opportunity cost involved in a country allocating more of its resources to agriculture. An example of a good answer is:

The economy would benefit from allocating more resources to agriculture because agriculture is labour-intensive, so there would be more job opportunities available which in turn would reduce unemployment. In addition, the country may become more specialised in agricultural products where it has an advantage, so the quality of its agricultural industry products increases. The agricultural industry would expand and it may be able to take advantage of economies of scale such as technical economies of scale which would decrease costs of production. This would enable price reductions in agricultural products. All of these factors can increase the country's exports of agricultural products and so improve the current account balance. Moreover, increased production and specialisation in agricultural products would ensure that the country is not overly dependent on imports of important agricultural products such as food from other countries.

On the other hand, agriculture is in the primary sector, so moving resources to it would mean that less resources are allocated to the secondary and tertiary sectors and so the overall revenue can decrease. Furthermore, jobs in agriculture are low paying which increases poverty and decreases living standards. Another point to take into account is that more production in agriculture and more people employed in agriculture can increase the level of seasonal unemployment in the country. Plus agricultural products are affected by factors such as weather which can cause uncertainty in their quality and supply.

Question 4

Most candidates answered **parts Question 4(b)** and **Question 4(c)** well. There was more variation on **parts Question 4(a)** and **Question 4(d).**

(a) Some candidates clearly identified two of the three resource allocation decisions, with the two most popular selected being what to produce and who to produce for.

(b) There were some good answers to this question. Some of the strongest answers explained how a fall in the rate of interest or a rise in confidence may cause households to save less. A small proportion of candidates wrote about why households may save more. It is important that candidates read questions carefully.

(c) Most candidates provided good analysis based on a strong understanding of the role of trade unions. There was some particularly good analysis of how collective bargaining may result in higher wages and better working conditions for workers. A small number of candidates wrote about trade organisations rather than trade unions.

(d) Some candidates were confused about the effects of a fall in the exchange rate on export and import prices. Others did not go beyond the possible effects on the current account of the balance of payments to consider the effects on other aspects of macroeconomic performance. A number of candidates produced excellent answers by considering how an increase in the international price competitiveness of the country's products could not only benefit the current account balance but also economic growth and employment. These answers also examined the possible effects on inflation and why import expenditure may not fall. An example of a good answer is:

A fall in a country's foreign exchange rate is also known as depreciation. It is when the value of the currency falls due to lower demand and higher supply of the currency. Lower demand for exports, economic instability and lower interest rate may decrease demand for the currency.

Depreciation may help a country's macroeconomic performance. It will lower the price of exports and increase their demand. More exports will assist in producing more output and higher economic growth. Moreover, more exports will help the balance of payments to be in equilibrium. Higher output would increase demand for labour which will create employment and reduce unemployment. Dumping would be prevented as local industries would be safeguarded from cheaper imports.

On the contrary, higher employment would increase income. This will increase consumption. Higher total demand would lead to demand-pull inflation.

Moreover, if the demand for imports is inelastic, people may still buy them leading to more spending on imports. If import spending does fall, it could reduce competition and cause local firms to become inefficient. The fall in competition could cause local firms to increase prices to get more profits. Inflation could increase. The fall in the foreign exchange rate could also reduce competition. This could lower economic growth.

Question 5

Most candidates answered **parts Question 5(b)** and **Question 5(c)** well. There was more variation on **parts Question 5(a)** and **Question 5(d)**.

(a) The two most common answers given were to increase progressive taxation and to provide more state benefits to the poor. Some answers given were too vague. For example, some answers mentioned the government could increase the income of the poor without identifying how this could be achieved.

(b)   This was a well-answered question. Most candidates were able to explain two advantages of a market economic system. There was some particularly good explanation of why such a system may result in low prices and why firms may be encouraged to produce what consumers demand. Unfortunately, some candidates wrote about the advantages of a mixed economic system.

(c)   There was some good analysis provided in the answers to this question. Most candidates seemed well-informed on the influences on life expectancy. There were good links provided between lower incomes, lower access to healthcare and lower life expectancy. There were also some up-to-date comments on the distressing spread of the recent pandemic.

(d)   A number of candidates who answered this question wrote about monetary policy measures rather than supply-side policy measures. Others wrote about the effects of increasing total supply without examining how the government could achieve this. There were, however, some excellent answers. Many of these were particularly good on examining whether or not increases in government spending on education and subsidies would reduce inflation. An example of a strong answer is:

Supply-side policies are the macroeconomic policies which influence supply in order to achieve government objectives.

Supply-side policies contain relaxation on indirect taxes, subsidy grants, deregulation, investment by government and training by government through vocational courses.

When supply increases, it leads to a fall in prices and an increase in economic growth. However, the impact of supply-side policies can only be achieved in the long run. The reduction in taxes and subsidy grants lower cost-push inflation. Secondly privatisation helps to reduce inefficient production and causes less wastage which lowers costs of production. Moreover, training through vocational centres develops and enhances skills of workers which help to produce good quality products at lower prices.

On the other hand, privatisation may lead to inflation. It may establish private sector monopolies which charge higher prices as demand for the products may be inelastic. Secondly, a subsidy could make firms inefficient and cause average cost to rise. Moreover, economic growth through supply-side policies would create employment opportunities. High employment would lead to high incomes, more purchasing power and more consumption, leading to an increase in total demand. As a result, demand-pull inflation will take place.

ECONOMICS

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Key messages

Candidates need to ensure that they have a good understanding of key terms and concepts. A significant number of candidates did not know or fully understand basic terms and concepts which are usually tested in **part (a)** questions in **Section B**. **Part (a)** questions test general knowledge and understanding and represent the lowest skill assessed and the expectation is that candidates will score highly on them.

However, in this exam, questions about how unemployment is measured, what is 'free trade' and what is 'division of labour' were poorly answered by many candidates. This lack of understanding also showed in answers to other questions in **Section B**. Other terms and concepts which were not fully understood included 'market failure' **2(d)**,' the price mechanism' **2(c)**, 'pattern of employment' **4(c)** and 'competitive market' **5(c)**. This led to some weak answers as they lacked focus.

General comments

Generally, candidates showed good competency in identifying and using information in the source material to form the basis of their answers to questions in **Section A** of this paper. There was little evidence of candidates writing answers that did not relate in some way to the source material.

In **Section B** there were only a few cases where candidates completely misinterpreted the question being asked. There were also relatively few cases of candidates attempting all five questions and this was usually limited to candidates who had given short answers to the first three questions selected. It is appropriate for a candidate to attempt the fourth question if they think it could be a better answer than one of the questions already attempted. Examiners will always count the best three questions answered by a candidate which ever order they are written in.

Comments on specific questions

Section A

Question 1

(a) Nearly all candidates correctly calculated the answer as 18.2 million,
e.g., 28/100 × 65 million = 18.2m obese people.

(b) Again, nearly all candidates identified two reasons why the demand for vegan food has risen. The most common answers were related to health, animal welfare and advertising of vegan products. A succinct answer was '*Concerns about health and animal welfare.*'

(c) Two external benefits mentioned in the source material were that people would be healthier and that there would be an improvement to the environment. Nearly all candidates identified one of these, but a small number either did not give an explanation or did not name the external benefit. For example, a good answer was '*eating less meat would result in less air pollution and improve the environment.*' Whereas a weaker answer was '*there would be less water pollution with less animal waste*' as it did not identify the external benefit.

(d)   Generally, candidates did explain clearly the differences in food consumption between Senegal and the US. This shows a good understanding of how to interpret data shown in charts. Good answers highlighted the lower calorie consumption in Senegal compared to the US and the fact that Senegalese people consumed a higher proportion of cereal and grains but less meat and fats and/or oils than the US. A few linked this with lower incomes in Senegal than in the US. Weaker answers gave fewer differences or described the data in the table without any comparison being made between the consumption in the two countries. The latter is simply a description of the data whereas the skill being tested was analysis.

(e)   This question was not well answered. Increased labour mobility means better geographical and occupational mobility of labour. Strong answers picked up from the source material that the labour market was able to respond quickly to changes in demand for goods if workers could move easily between jobs and to different areas within the country and then explained how better occupational or geographical labour mobility achieved this. Weaker answers simply explained it in terms of how quickly people could get to work and that delays would mean less output. This suggests that some candidates did not understand the term 'labour mobility'.

(f)   Most candidates answered this well as there was plenty of information in the source material. Strong answers highlighted that people would be healthier and able to respond to the rise in demand for jobs in vets, transport firms and meat processing firms. This raised their income and led to a rise in output and economic growth. Weaker answers mentioned some, but not all, of these features. A weak response was '*A rise in meat consumption will increase demand for vets and transport firms*', e.g., just repeating one sentence in the source material without explaining the impact this would have.

(g)   Candidates were generally able to discuss how the Senegalese government spending could help stop recession. Common responses touched upon government spending increasing total demand leading to higher output and employment. Many also explained how government subsidies to firms and spending on specific activities such as training, education and infrastructure would enable firms to increase output and make the country more competitive. Answers on why it might not stop a recession were generally weaker. Strong answers picked up from the source material that consumer and business confidence was low and consumer expenditure might still fall. Others correctly stated that the size of the increase in government spending might be insufficient to offset lower spending in other sectors or that government measures might take a while to become effective. A common misconception was that increasing the level of unemployment benefits would simply encourage more people to become unemployed and make recession worse.

(h)   Strong answers were well balanced and gave reasons why emigration would and would not reduce poverty. Typical answers highlighted that those emigrating might not have jobs and that if they got jobs abroad, they could send home some of their wages to support their family and help them out of poverty. If they gained experience and skills, they could return home to better paid jobs in the future. Alternatively, strong answers stated that emigration might adversely affect government taxation if there was high emigration of people already in work and, if they were skilled workers, this could reduce output in the country. Weaker answers tended to cover fewer points. The weakest answers were from candidates who confused emigration as people emigrating from another country to Senegal or used information from the source material but did not make clear how it would affect poverty. For example, one answer stated, '*Emigration would not reduce poverty as there is a high birth rate and the population will continue to rise even with emigration*'.

Section B

Question 2

(a)   Most answers were correct, e.g., there were more women in the population because of more girls being born, more men being killed in wars or more men were emigrating. Weak answers usually did not give a complete reason, e.g., '*more men went to war*' or '*the retirement age for women is low*' or they just simply wrote words such as '*birth rate*' and '*war*'.

(b)   There were quite a few advantages that candidates could give. The most popular and correct answer was that raising the retirement age increased the size of the workforce leading to higher output, people could work longer and earn more income and that it would reduce the number of pensions paid out by the government. Weaker answers identified a correct reason but then did not explain the effect that this had. For example, correctly stating that raising the retirement age

reduced government expenditure on pensions, but then not explaining that this meant that the government could spend the savings on increasing expenditure on education or healthcare which would help economic growth.

(c) This question was poorly answered by a large number of candidates, including many that did very well on the rest of the paper. The three key resource allocation questions were simply 'what to produce', 'how to produce it' and 'who to produce it for'. However, only a small number of candidates managed to mention them and even if they did, quite a few did not explain how the price mechanism assisted. For example, a full answer for 'how to produce' would comment on the relative costs of either capital-intensive or labour-intensive methods. Weak answers were restricted to comments about the price mechanism in general including some drawing demand and supply diagrams to show the equilibrium price. One weak answer was '*The price mechanism allows people to know the value of a certain resource, so that the prices of resources are suitable and allocated systematically*' which makes a comment on the price mechanism but does not address any of the three key resource allocation questions.

(d) This was a relatively straight-forward question which was essentially about taxing demerit goods. Strong answers discussed how indirect taxes increased the price and therefore reduced demand for demerit goods. Some also explained how revenues raised from this taxation could be used to subsidise or produce merit goods. Common reasons on why indirect taxes might not reduce market failure centred upon many demerit goods being inelastic in demand and that higher taxation would have little impact on reducing consumption and were unfair as they fell more heavily on the poor. Weak answers were unclear on what was meant by the term 'market failure', often confusing it with 'market disequilibrium'. For example, '*An increase in indirect tax would reduce consumer spending as people would not want to pay higher taxes, resulting in little to no improvement on the market failure*'.

Question 3

(a) Most candidates were unable to identify that the two internationally accepted ways of measuring unemployment are through a claimant count or labour force survey (ILO measure). A few referred to how the unemployment rate could be calculated. Weak answers tried to explain it without knowing the measures, e.g., '*Unemployment can be measured by using total labour force minus employed people*.' A few used other terms such as inflation rate and the dependency ratio.

(b) Strong answers came from those candidates that explained how wage increases led to higher total demand and demand-pull inflation or higher costs of production and cost-push inflation. Weaker answers wrote about rising prices or inflation without mentioning the type of inflation. A few confused the two and wrote about demand-push and cost-pull.

(c) PPC diagrams were usually accurate although a few did not label the axes correctly and/or did not show a reduction in capital goods and increase in consumer goods. Some answers were not able to explain what opportunity cost was or that resources used for consumer goods meant that fewer resources were available for capital goods. Overall, PPC is well understood by most candidates.

(d) Candidates understood what a foreign MNC was. However, fewer were able to discuss the actions that MNCs took which would or would not result in a reduction in a deficit on a current account of the balance of payments. This in part was due to not understanding what a deficit was and, in some cases, confusing the term with government taxation and expenditure. Strong answers explained how MNCs were likely to cause higher exports and lower imports of the goods they made. Some weaker answers did not address the balance of payments but wrote answers which highlighted the key advantages and disadvantages for the host country, e.g., providing more employment and raising income for domestic workers but also creating pollution.

Question 4

(a) The benefits of free trade were identified by the majority of candidates. The most common benefits identified were, greater competition, more choice and lower prices. The weakest responses confused free trade with goods being free. Some answers had no link to free trade at all. For example, '*Free trade helps investors to invest in a country to make a profit.*'

(b) Whilst many candidates understood the essential difference between floating and fixed foreign exchange rates, relatively few were able to explain two differences. In quite a few of the answers what was stated was a mirror image, e.g., '*floating foreign exchange rates do not have a fixed rate, but fixed rates do not change.*' A common correct response was that floating exchange rates were determined by market forces whereas fixed rates were determined by a government or its central bank. A common misconception was that fixed rates never changed.

(c) This question proved difficult for many candidates. This was mainly because candidates did not fully understand what was meant by the term 'pattern of employment' rather than just employment. In addition, the question was about a change in that pattern at a national level. Those candidates that understood this wrote about changes in the proportion of skilled workers, the movement from primary to secondary and tertiary sectors and the increase in the proportion of the labour force that were women. Weak answers were about what caused wages to be high or low for individuals or particular jobs. A typical weak answer that gave no explanation was '*A change in the pattern of employment may require firms to raise wages to attract more workers.*'

(d) Most candidates understood what a merger between firms was. Strong answers discussed how mergers would benefit the country through benefits of economies of scale resulting in lower prices and higher quality of goods. This would make them more internationally competitive and assist economic growth. However, governments should stop mergers if they led to abuse of market power and inefficiency. Weaker answers tended to discuss some of these points or discussed the advantages or disadvantages to the firms merging or simply explained the different forms mergers might take, but not why the government would intervene.

Question 5

(a) Many candidates were not able to give a clear definition of the term division of labour. A good response which showed understanding was '*Division of labour is when the workers of a firm are separated to perform particular tasks repeatedly.*' A weak response that confused division of labour with specialisation was '*It is defined as labour concentrating to produce a few goods and services.*'

(b) It was clear from the answers given that some candidates did not know why a firm would continue to produce if it was making a loss. Strong answers gave two good reasons such as they might be making goods that attracted subsidies from the government, e.g., merit goods or that while they were making a loss now, they expected to make a profit in the long run. The explanation for this was either that, at the moment, there was a recession or that it was a new firm still seeking to grow its sales. Weaker answers referred to continuing to produce so that they could pay their workers or meet demand from their customers, which would not resolve the mounting losses which would eventually cause the firm to close.

(c) There were many sound answers which analysed the benefits of greater variety, lower prices, higher quality and quicker response to changes in demand from consumers. Weaker answers tended to give fewer advantages. The weakest answers, but not uncommon, were those that wrote about firms operating under perfect competition which is not the same as a competitive market and also is not in the syllabus.

(d) Candidates generally understood both what was meant by the manufacturing sector and the term 'economic development'. Strong answers discussed how greater manufacturing output led to more employment, economies of scale as firms got bigger, higher incomes and standard of living. A few explained within the context of a developing country moving from a large primary to a large secondary sector. Answers were less strong on the downside of growth in manufacturing output. Good answers referred to growth in pollution, worsening working conditions and benefits going to foreign MNCs. Some candidates also made the point that economic development would be higher with the growth of the tertiary sector. Weaker answers tended to be brief, covering some of these points but not in depth, or gave the benefits but not the detrimental effects on economic development.