

# ECONOMICS

Paper 0455/11  
Multiple Choice

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

3094 candidates sat this paper. The mean mark was 19.5 which compares favourably with the mean of 18.5 in June 2011.

The questions for which most candidates selected the correct answer were 1, 8, 10, 11, 14, 15, and 23. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 17, 25 and 29. These questions were answered correctly by fewer than 40% of the candidates. The rest of the questions gave results which were well within the levels expected.

**Question 17** was answered correctly by 37% of the candidates. 9% chose A, 51% chose B and 3% chose D. Private companies can issue shares; more than two people are needed for it to be a public company.

**Question 25** was answered correctly by 19% of the candidates. 11% chose A, 10% chose B and 60% chose C. Candidates often confuse the idea of a change in inflation rate and the level of prices. In any year the inflation rate may have fallen but if the rate was positive there would still be inflation. Prices will still have risen. In the question, the inflation rate started at 5%, prices were rising. Prices then rose in years 2 and 3 so B and C cannot be correct. The government target was missed in 3 years so A cannot be correct.

**Question 29** was on international trade and was answered correctly by 37% of the candidates. 42% chose option A. Free international trade means that the countries concentrate on the goods for which they are best suited to produce. There is specialisation, not diversification. Candidates obviously muddled the two ideas.

# ECONOMICS

**Paper 0455/12**  
**Multiple Choice**

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

4735 candidates sat this paper. The mean mark was 21.4 which compares favourably with the mean of 20.6 in June 2011.

The questions for which most candidates selected the correct answer were 1, 5, 9, 10, 14, 15, 16, 18, 19, 21, 23, and 27. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 8 and 25. These questions were answered correctly by fewer than 40% of the candidates. The rest of the questions gave results which were well within the levels expected.

**Question 8** asked about market failure which is a relatively new topic on the syllabus. 40% chose the correct answer A, 18% chose B, 22% chose C and 20% D. B was an example where the market did not fail, C was not linked to the technical analytical idea of market failure, and D was linked to long run operations of a company. Economies of scale are not necessary in order for there to be efficiency in production.

**Question 25** caused the biggest problem for candidates. 75% chose D, 2% chose C, 4% chose B and only 19% chose the correct answer A. Candidates often confuse the idea of a change in inflation rate and the level of prices. In any year the inflation rate may have fallen but if the rate was positive there would still be inflation. Prices will still have risen. In the question, the inflation rate started at 10%, then rose so it would be obvious that prices rose in year 2. However, although the inflation rate fell to under 10% in year three, prices would still rise. In year 4 the inflation rate was negative, so, in that year, prices would have fallen. However, the fall in price in that year was not sufficient to counteract the rise in prices in the previous three years. Prices would not, therefore, go below the level at which they started in year 1. The lowest price level was, therefore, in year 1, and the highest in year 3 before prices began to fall.

# ECONOMICS

**Paper 0455/13**  
**Multiple Choice**

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

94 candidates sat this paper. The mean mark was 21.2. Last year only two candidates took this paper so no comparison with the mean is possible.

The questions for which most candidates selected the correct answer were 1, 3, 4, 5, 10, 14, 15, 16, 18, 19, 21, 23, 27 and 28. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 7 and 25. These questions were answered correctly by fewer than 40% of the candidates. The rest of the questions gave results which were well within the levels expected.

**Question 7** was answered correctly by 23% of the candidates who chose option A. 34% chose option B, 21% chose C and 22% chose D. When there is an even distribution of answers between three options, as occurs in this case, it is often an indication that candidates are guessing the answer.

**Question 25** caused the biggest problem for candidates. 85% chose D, 1% chose C, 1% chose B and only 13% chose the correct answer A. Candidates often confuse the idea of a change in inflation rate and the level of prices. In any year the inflation rate may have fallen but if the rate was positive there would still be inflation. Prices will still have risen. In the question, the inflation rate started at 10%, then rose so it would be obvious that prices rose in year 2. However, although the inflation rate fell to under 10% in year three, prices would still rise. In year 4 the inflation rate was negative, so, in that year, prices would have fallen. However, the fall in price in that year was not sufficient to counteract the rise in prices in the previous three years. Prices would not, therefore, go below the level at which they started in year 1. The lowest price level was, therefore, in year 1, and the highest in year 3 before prices began to fall

# ECONOMICS

Paper 0455/21  
Structured Questions

## Key Messages

It was pleasing to see that many of the economic terms and concepts being tested in this paper were well understood by most candidates e.g. the correct drawing and labelling of a demand / supply diagram, inflation, scarcity, opportunity cost and the functions of money. However, few candidates understood the term frictional unemployment or what was meant by full employment in **Question 5** or what was meant by an ageing population in **Question 6**. Equally, many candidates did not explain that net migration has an effect upon population growth in **Question 6**.

There is still a need for candidates to look carefully at key words in questions to ensure that they focus their answer. For example, in **Question 1(d)** candidates were required to focus their answer on developing countries and yet some candidates made no reference to a developing country in their answer. In **Question 2 (c)**, candidates were asked to use examples to distinguish between the different factors of production, yet many did not do so and gave instead the rewards for each factor which was not the question and therefore gained them no marks. In **Question 7** the focus was upon increasing exports and yet many candidates confined their answers to reducing imports. A focus on key words would help candidates to gain the best possible marks in a question.

Four of the questions - **Questions 1(d), 3(c), 4(c) and 6(c)** were discussion questions which used the key word ***always***. The inclusion of this word effectively invited candidates to express a view or make a judgement. In many cases candidates did not reach a conclusion which meant that full marks could not be given.

## General comments

Time management did not appear to be a problem with very few candidates not completing four questions. There were still a few candidates who answered more than 4 questions but it was rare to gain higher marks in the additional questions answered over and above the first 4 attempted. In a relatively few number of Centres, candidates had answered parts of questions out of order and often after attempting another question. In some cases these parts of questions were not labelled correctly which made it difficult for Examiners to mark. Some scripts were also almost illegible to read which again made it difficult for Examiners to ensure that candidates were correctly assessed.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) The majority of candidates were able to identify that workers from the primary sector would be attracted by higher wages and better employment opportunities. The most developed answers also made reference to one or more of the following: better working conditions, new skills and better promotion opportunities.
- (b) There was a good understanding by most candidates that through promising employment, the Indian Government would reduce unemployment and poverty and raise living standards in the rural areas. Well-developed answers commented upon the impact on reversing the current movement of workers away from rural areas to towns and cities and improve the production of food.

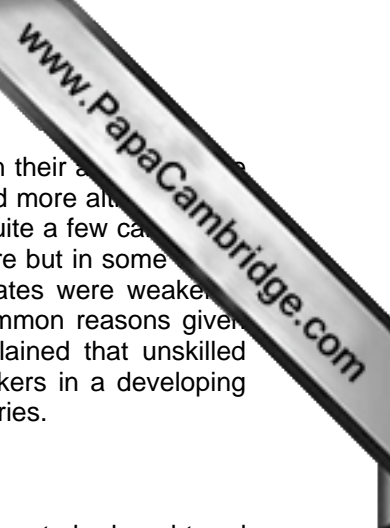
- (c) A significant number of candidates were able to analyse how a rise in the rate of interest could reduce borrowing and increase savings thereby leading to lower spending which means lower demand, reduced prices to increase demand, resulting in lower inflation. Others analysed this the other way round with lower interest rates resulting in higher inflation. Quite a few candidates explained the effect of both an interest rate rise and fall which was not necessary to gain full marks. A few candidates however got the relationship wrong, explaining that a higher interest rate resulted in more income from savings and therefore leading to greater expenditure and higher inflation.
- (d) In this part of the question candidates were required to provide a balanced discussion on whether or not multi-national firms benefited the developing countries where they had located. Most candidates were able to give a balanced discussion on whether or not a developing economy benefited from a multi-national firm locating there. However, a few candidates did not take into account that the question required an answer which related to a developing country and therefore could not gain full marks. A few referred to the Indian economy which was not specified in the question. Another error was to discuss the benefits to the multi-national firm rather than the economy in which it was locating. Although often the discussion was correct, it was not relevant and they therefore received few marks.

### Question 2

- (a) Nearly all candidates understood the concept of scarcity. Answers were therefore generally well done although a number of candidates referred to scarce resources rather than limited or finite resources in their answer. A few did not develop their response to state that the outcome is that a choice has to be made or that there was an opportunity cost.
- (b) The concept of opportunity cost was well understood and relevant examples were given by most candidates.
- (c) Most candidates were able to correctly identify at least three of the factors of production. However in some Centres candidates stated that the fourth factor was entrepreneur which is not correct as it should have been enterprise with entrepreneur given as the example. Quite a few candidates did not give examples and instead wrote about the rewards to each factor. There were also common errors made in examples given. Many candidates wrongly gave as their example for land the location where production took place rather than natural resources. Similarly with the factor of production capital, money or finance was wrongly given as an example.
- (d) Most candidates understood the concept of conservation. Well-developed answers were able to explain both the short-term and long-term effects of conservation and provide a balanced discussion for and against conservation. This often involved reference to sustainability of resources and whether or not they were renewable. Some candidates gave examples from their own country which is always welcomed by Examiners although in some cases where the home country had large oil and gas reserves there was a focus on using the natural resources to raise the standard of living in the country and responses lacked balance.

### Question 3

- (a) There was a much better response to this question than to similar ones in recent years. Most candidates were able to explain at least three of the functions, with a few surprisingly not mentioning the function of medium of exchange. There were relatively few responses which wrote about the properties or characteristics of money or described money in a very general way.
- (b) An encouragingly high proportion of candidates correctly drew and labelled a demand and supply diagram which showed a shift in the demand curve to the right. There were few incorrect diagrams although sometimes the new equilibrium was not identified. Most errors showed an increase in supply resulting in lower wage rates. The explanation given was often not as good as the diagram, and was simplistic in that it referred to a shift in the demand curve and the new equilibrium point which is not an explanation but a description of the diagram. Good answers could be short in explaining that the increase in demand would result in wages rising along with an increase in supply of workers attracted by the higher wages. Some candidates did not mention an increase in supply although it was clearly shown in the diagram as the shift from Q to Q1.



- (c) The key word in this question was always but few candidates reflected this in their answers. The majority of candidates were able to explain well why skilled workers were paid more although a few explained it in terms of productivity or elasticity of demand / supply. Quite a few candidates drew demand/supply diagrams to illustrate why skilled workers were paid more but in some cases the elasticity of demand and supply were almost the same. Many candidates were weaker at identifying why some unskilled workers would be paid more. The most common reasons given were discrimination and length of service. Some very good answers explained that unskilled workers in a developed country may receive higher wages than skilled workers in a developing country which was why some skilled workers emigrated from developing countries.

#### Question 4

- (a) Most candidates understood that becoming a public company enabled its shares to be bought and sold on the stock exchange and that they were able to raise additional funding for expansion. However for some candidates there was confusion over whether a public company was owned by the state. Equally there was confusion over limited liability with a number of candidates explaining that private limited companies do not have limited liability. Another relatively common error was to apply a maximum number of private shareholders e.g. the numbers usually applied to partnerships. Relatively few candidates made the point that in private firms shares could only be sold with the permission of existing shareholders.
- (b) Most candidates were able to explain why firms would want to make profits, but few wrote about profit maximisation. Few mentioned other goals a firm may have such as survival or sales maximisation. However, the majority of answers identified at least one reason why firms needed profits e.g. for expansion, for reinvestment in research and development or as reward to shareholders and senior managers. A common error was to confuse profit with revenue as quite a few candidates explained that profits were used to pay wages or buy raw materials.
- (c) In this part of the question candidates were required to discuss whether or not firms always benefited from growth in size. Most candidates showed a good understanding of economies and diseconomies of scale arising from growth. In the discussion there was often a good balance between advantages and disadvantages. However, some candidates were not clear that economies of scale meant a fall in the average cost as output rose. Some mistakenly explained it in terms of falling costs. Well-developed answers often gave a conclusion for example a comment that the extent of the benefits might depend on the industry the firm was in.

#### Question 5

- (a) There were some very good answers on the types of goods and services that governments might provide. Many candidates made reference to merit and public goods although this is not in the syllabus and full marks could be obtained without reference to them. Most candidates were able to make the point that the governments often provided goods that were either not provided by private firms or the price charged was too expensive for people on low incomes. Public utilities were often given as examples of a service provided by governments.
- (b) The term full employment is not understood by many candidates. Some confused the term with individuals working full time. Others could explain it in very general terms of it being one of the objectives that a government might have. Some expressed it as a percentage of the total workforce without work e.g. 3%.
- (c) It was disappointing to see the large number of candidates that incorrectly described frictional unemployment, although most candidates were accurate in their understanding of structural unemployment. Because of this misunderstanding about frictional unemployment this meant that candidates often were unable to differentiate the effect of being frictionally unemployed rather than structurally unemployed on the individual. Frictional unemployment is normally of shorter duration than structural unemployment and is usually due to the individual seeking to change jobs. Again in discussing the effect on the economy, many candidates failed to show the different impact that frictional unemployment might have compared with structural unemployment and answers tended to be generic.

### Question 6

- (a) Most candidates were able to explain why differences in birth rate and death rates influenced population growth rates to differ. The more developed answers gave details of the factors that influenced these rates. However, only a small number of candidates mentioned net migration as a factor and of those that did, the reasons given were often limited in their development.
- (b) The responses to this part of the question were disappointing. Often the response was to list a range of features such as education and health with very little development. Some repeated the demographic features explained in part (a). The approach suggested that many candidates felt they had to name as many features as possible rather than explain in more depth a limited number of features. Some candidates may have misinterpreted the question as meaning countries that were in the process of becoming developed rather than already developed.
- (c) Candidates were asked to discuss whether or not an ageing population was always an economic problem. Overall the responses to this part of the question were poorly developed. This was probably because far too often “ageing population” was interpreted as a large proportion of old people rather than the fact that the average age was rising. Thus the focus tended to be on the additional costs to the government of providing additional services for the aged e.g. health, housing, pensions and the financial impact upon those working and in some cases this resulted in rather one-sided answers. However, there were some interesting comments on whether or not there were benefits. Clearly in some societies older persons are respected for their experience and skills and the support they give within extended families. Generally speaking most candidates failed to address whether an ageing population was always a problem, tending to explain why it was or was not.

### Question 7

- (a) Most candidates understood that the current account included the trade in goods and services and were able to explain the difference between imports and exports. However, only a few also referred to income flow and current transfers, although those that did understood these terms well.
- (b) Most answers stated that a current account deficit was due to the value of imports being greater than the value of exports. The better developed answers explained what could cause imports to rise and/or exports to fall or grow more slowly than imports. Inflation was often mentioned but often not in the context of the rate of inflation in other countries. Some candidates also wrote about the relative quality of domestically produced goods and services.
- (c) The answer to this part of the question was often disappointing. Many candidates interpreted the question as addressing a balance of payments deficit and wrote in depth on how to reduce imports through tariffs, quotas and embargoes for example which gained no marks. However, those that did look at policies to increase exports often referred to government subsidies to encourage increased production and the devaluation or depreciation of the currency to make goods and services cheaper. Some really good answers also wrote about improving the skills of the workforce and entering into trade agreements with other countries to increase trade between them.

# ECONOMICS

Paper 0455/22  
Structured Questions

## Key Messages

Candidates need to focus clearly on the command or directive word used in each question. For example, some questions required candidates to **identify** (as in **Question 5 (a)**), whereas other questions required candidates to **analyse** (as in **Questions 1 (b), 2 (b) and 4 (c)**) or **discuss** (as in **Questions 1 (d), 2 (c), 3 (c), 5 (d), 6 (c) and 7 (c)**). These command or directive words give a clear indication of what candidates are required to do in the examination and this is reflected in the number of marks allocated to these different parts of questions.

Candidates are required to answer **Question 1** in **Section A** and then three questions from **Section B**. A few candidates, however, answered all seven questions and this substantially reduced the time that they could allocate to each.

## General Comments

It was very pleasing to see many good answers from a number of candidates who successfully demonstrated a sound knowledge and understanding of economics and a sensible and mature ability to describe, explain, analyse and discuss a number of key economic concepts and issues.

Where candidates are required to use a demand and supply diagram (as in **Question 3 (a)**), they should ensure that these are drawn as accurately and as carefully as possible and that all parts of the diagram are labelled correctly.

## Comments on specific questions

### Question 1

- (a) The majority of candidates were able to identify at least one piece of evidence from the extract to suggest that China was planning to move from a fixed to a floating exchange rate, such as the comment from the spokesperson for the People's Bank of China, the belief of economists or the statement by the President of the US. Relatively few candidates, however, provided a second piece of evidence.
- (b) A number of candidates provided an appropriate analysis of the effect of a rise in the external value of the yuan in terms of making exports more expensive and imports less expensive, leading to a reduction in China's current account surplus. Unfortunately, relatively few candidates developed their analysis to include a consideration of the importance of price elasticity of demand to the likely change in the current account surplus.
- (c) Many candidates demonstrated an understanding of the potential impact of a current account surplus on other countries, pointing out that one country's surplus is another country's deficit. There were some good answers that considered the potential impact of this situation on US firms.
- (d) The majority of candidates were able to demonstrate a sound knowledge and understanding of the different forms of trade protection, such as tariffs, quotas and subsidies, but they did not always go on to discuss fully the extent to which such measures could correct a balance of trade in goods and services deficit. Candidates need to understand that when a question asks 'discuss the extent' of something, they need to go beyond a purely descriptive approach.



### Question 2

- (a) The majority of candidates were able to explain what was meant by the factor of production land in terms of the natural resources used in production, and included appropriate examples, such as coal, oil or gold.
- (b) Many candidates demonstrated a sound understanding of the differences between labour-intensive production and capital-intensive production and were able to analyse why a firm might decide to change from one to the other, such as to improve productive efficiency. Some candidates, however, simply offered a description of the two types of production without really analysing the possible reasons for a change from one to the other.
- (c) Many candidates were able to offer a balanced response to this question, contrasting the possible advantages and disadvantages of a newly established firm expanding into foreign markets. Some candidates, however, did not focus sufficiently on the fact that such a firm would have limited resources.

### Question 3

- (a) Candidates were required to draw a demand and supply diagram which showed a shift of the demand curve to the left (indicating the significant increase in income tax) and a shift of the supply curve to the right (indicating the building of extra houses). They also needed to indicate the change in the equilibrium position in response to these two shifts. Many candidates gained full marks for clearly showing what had happened in the market, but some made errors, such as confusing demand and supply and/or price and quantity.
- (b) Many candidates were able to provide a good explanation of the various influences on the demand for houses, such as income and the price of houses, but some candidates, instead of offering an explanation, provided simply a list of possible influences without explaining any of them. Such an approach limited the number of marks that could be awarded.
- (c) There were some very good answers to this part of the question, with candidates making a genuine attempt to contrast the various arguments for and against house building by the public and private sectors. Many candidates came to the conclusion that a mixture of the two was probably the better solution.

### Question 4

- (a) There were a number of very good answers to this part of the question, with candidates providing a useful explanation of why it might be better for individuals to use money rather than barter, especially given the fact that the latter required a double coincidence of wants. Some candidates, however, did not focus sufficiently on the question and wrote more generally on the functions and characteristics of money. It is vitally important that candidates concentrate on answering the particular question that is being asked in an examination.
- (b) The majority of candidates demonstrated a good awareness of the functions that commercial banks perform in an economy, although some of them provided a list, rather than a description, of such functions. A few candidates, unfortunately, misunderstood what the question was asking and wrote about the functions of central, rather than commercial, banks.
- (c) There were some very good answers to this part of the question, with candidates offering an intelligent analysis of why some individuals might be more likely to borrow money than others, such as for family or education reasons. Some candidates, however, wrote a very general answer on borrowing without really focusing on the actual question being asked.

### Question 5

- (a) There were some very good answers to this part of the question with candidates demonstrating a sound understanding of the differences between a partnership and a company. To gain full marks, however, candidates needed to state that there were actually two types of company, a private limited company and a public limited company.

- (b) The majority of candidates were able to offer a good explanation of why a firm's profit might increase, taking into account both revenue and costs. Some candidates, however, focused only on revenue or costs, but not both.
- (c) Most candidates were able to demonstrate a sound understanding of internal economies of scale, but there was quite a lot of confusion as to the meaning of external economies of scale, with a number of candidates thinking that this referred to the methods of expansion of a firm rather than the cost advantages of an industry or a particular geographical area, rather than a firm.
- (d) There were some very good answers to this part of the question, with candidates recognising that although some small firms might eventually become large firms, it was not necessarily the case that this would apply to all of them.

#### Question 6

- (a) A number of candidates produced some very good answers to this part of the question, providing thorough explanations of the possible cause of inflation, especially in relation to demand-pull and cost-push influences.
- (b) The majority of candidates were able to distinguish clearly between structural unemployment, which would relate to a loss of jobs in particular industries as a result of structural changes in the economy, and demand-deficient or cyclical unemployment, which would relate to a loss of jobs in the whole economy as a result of fall in the level of aggregate demand, such as at a time of recession.
- (c) Candidates were able to demonstrate an understanding of the meaning of the term 'economic growth' and then go on to discuss whether it was always possible for a government to achieve a high rate of growth. Many of the answers were well balanced, offering a consideration of the various factors that could encourage and hinder growth.

#### Question 7

- (a) Many candidates were able to offer a description of the possible factors that could affect a country's death rate, such as the housing conditions or the availability and quality of medical care, but some were unable to provide a clear definition of the term 'death rate' in relation to the number of people in a country dying per thousand of population over a given period of time (usually one year).
- (b) A number of candidates offered very general answers to this part of the question, making vague comments about a country having too many people, without focusing on the link with available resources in an economy.
- (c) There were some very good answers to this part of the question, with candidates offering a useful discussion of whether the population problems found in the developing world were the same as those found in the developed world. It was clear from many of the answers that candidates had a good understanding of population issues in the two types of economy. Some candidates, however, did not focus sufficiently on 'population', writing very generally about the differences between developing and developed countries.

# ECONOMICS

Paper 0455/23  
Structured Questions

## Key Messages

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## General Comments

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## Comments on specific questions

### Question 1

- (a) The majority of candidates were able to identify at least one piece of evidence from the extract to suggest that China was planning to move from a fixed to a floating exchange rate, such as the comment from the spokesperson for the People's Bank of China, the belief of economists or the statement by the President of the US. Relatively few candidates, however, provided a second piece of evidence.
- (b) A number of candidates provided an appropriate analysis of the effect of a rise in the external value of the yuan in terms of making exports more expensive and imports less expensive, leading to a reduction in China's current account surplus. Unfortunately, relatively few candidates developed their analysis to include a consideration of the importance of price elasticity of demand to the likely change in the current account surplus.
- (c) Many candidates demonstrated an understanding of the potential impact of a current account surplus on other countries, pointing out that one country's surplus is another country's deficit. There were some good answers that considered the potential impact of this situation on US firms.
- (d) The majority of candidates were able to demonstrate a sound knowledge and understanding of the different forms of trade protection, such as tariffs, quotas and subsidies, but they did not always go on to discuss fully the extent to which such measures could correct a balance of trade in goods and services deficit. Candidates need to understand that when a question asks 'discuss the extent' of something, they need to go beyond a purely descriptive approach.

### Question 2

- (a) The majority of candidates were able to explain what was meant by the factor of production land in terms of the natural resources used in production, and included appropriate examples, such as coal, oil or gold.
- (b) Many candidates demonstrated a sound understanding of the differences between labour-intensive production and capital-intensive production and were able to analyse why a firm might decide to change from one to the other, such as to improve productive efficiency. Some candidates, however, simply offered a description of the two types of production without really analysing the possible reasons for a change from one to the other.
- (c) Many candidates were able to offer a balanced response to this question, contrasting the possible advantages and disadvantages of a newly established firm expanding into foreign markets. Some candidates, however, did not focus sufficiently on the fact that such a firm would have limited resources.

### Question 3

- (a) Candidates were required to draw a demand and supply diagram which showed a shift of the demand curve to the left (indicating the significant increase in income tax) and a shift of the supply curve to the right (indicating the building of extra houses). They also needed to indicate the change in the equilibrium position in response to these two shifts. Many candidates gained full marks for clearly showing what had happened in the market, but some made errors, such as confusing demand and supply and/or price and quantity.
- (b) Many candidates were able to provide a good explanation of the various influences on the demand for houses, such as income and the price of houses, but some candidates, instead of offering an explanation, provided simply a list of possible influences without explaining any of them. Such an approach limited the number of marks that could be awarded.
- (c) There were some very good answers to this part of the question, with candidates making a genuine attempt to contrast the various arguments for and against house building by the public and private sectors. Many candidates came to the conclusion that a mixture of the two was probably the better solution.

### Question 4

- (a) There were a number of very good answers to this part of the question, with candidates providing a useful explanation of why it might be better for individuals to use money rather than barter, especially given the fact that the latter required a double coincidence of wants. Some candidates, however, did not focus sufficiently on the question and wrote more generally on the functions and characteristics of money. It is vitally important that candidates concentrate on answering the particular question that is being asked in an examination.
- (b) The majority of candidates demonstrated a good awareness of the functions that commercial banks perform in an economy, although some of them provided a list, rather than a description, of such functions. A few candidates, unfortunately, misunderstood what the question was asking and wrote about the functions of central, rather than commercial, banks.
- (c) There were some very good answers to this part of the question, with candidates offering an intelligent analysis of why some individuals might be more likely to borrow money than others, such as for family or education reasons. Some candidates, however, wrote a very general answer on borrowing without really focusing on the actual question being asked.

### Question 5

- (a) There were some very good answers to this part of the question with candidates demonstrating a sound understanding of the differences between a partnership and a company. To gain full marks, however, candidates needed to state that there were actually two types of company, a private limited company and a public limited company.

- (b) The majority of candidates were able to offer a good explanation of why a firm's profit might increase, taking into account both revenue and costs. Some candidates, however, focused on either revenue or costs, but not both.
- (c) Most candidates were able to demonstrate a sound understanding of internal economies of scale, but there was quite a lot of confusion as to the meaning of external economies of scale, with a number of candidates thinking that this referred to the methods of expansion of a firm rather than the cost advantages of an industry or a particular geographical area, rather than a firm.
- (d) There were some very good answers to this part of the question, with candidates recognising that although some small firms might eventually become large firms, it was not necessarily the case that this would apply to all of them.

#### Question 6

- (a) A number of candidates produced some very good answers to this part of the question, providing thorough explanations of the possible cause of inflation, especially in relation to demand-pull and cost-push influences.
- (b) The majority of candidates were able to distinguish clearly between structural unemployment, which would relate to a loss of jobs in particular industries as a result of structural changes in the economy, and demand-deficient or cyclical unemployment, which would relate to a loss of jobs in the whole economy as a result of fall in the level of aggregate demand, such as at a time of recession.
- (c) Candidates were able to demonstrate an understanding of the meaning of the term 'economic growth' and then go on to discuss whether it was always possible for a government to achieve a high rate of growth. Many of the answers were well balanced, offering a consideration of the various factors that could encourage and hinder growth.

#### Question 7

- (a) Many candidates were able to offer a description of the possible factors that could affect a country's death rate, such as the housing conditions or the availability and quality of medical care, but some were unable to provide a clear definition of the term 'death rate' in relation to the number of people in a country dying per thousand of population over a given period of time (usually one year).
- (b) A number of candidates offered very general answers to this part of the question, making vague comments about a country having too many people, without focusing on the link with available resources in an economy.
- (c) There were some very good answers to this part of the question, with candidates offering a useful discussion of whether the population problems found in the developing world were the same as those found in the developed world. It was clear from many of the answers that candidates had a good understanding of population issues in the two types of economy. Some candidates, however, did not focus sufficiently on 'population', writing very generally about the differences between developing and developed countries.

# ECONOMICS

Paper 0455/31

Analysis and Critical Evaluation

## Key messages

Candidates need both to draw on the extracts and their knowledge of economics in answering the questions on this paper. It is advisable that candidates read the extracts and questions very carefully. In answering the questions they should note the command words and the mark allocations.

Candidates should focus on the specific question set. They should answer the question directly and not try to change it into a question they would prefer to answer or wander off the point.

They should ensure they provide discussion in the last question on each extract. The discussion may come in the form of considering both advantages and disadvantages, arguments for and against, what factors influence an outcome and what information may be needed in assessing a situation or decision.

It is important that candidates use appropriate economic terminology and concepts to avoid common confusions. In answers provided to this paper, for instance, a number of candidates referred to cost when they meant price and diseconomies of scale when they meant economies of scale.

Candidates also need to ensure that their writing is legible. As in previous sessions, the writing in a number of scripts was difficult to read.

## General comments

It was pleasing to note that there were very few unanswered questions and that the majority of candidates wrote answers of an appropriate length. The discussion **Questions (1e and 2e)** were particularly well answered but candidates found the questions on the current account very challenging.

There was a wide range of responses. There were some excellent scripts with lucid answers which revealed abilities to interpret data and to select and apply relevant economic concepts. Some of those scripts which were not so strong produced rather generalised answers which did not always grasp the key points.

## Comments on specific questions

### Question 1

- (a) The majority of candidates did identify tariffs/a tax on imports from the extract. A small number of candidates referred just to a tax which was not sufficient. A few, for some reason, stated that the method of protection was a quota.
- (b) There were some strong answers particularly in terms of a rise in the exchange rate and a rise in the price of steel. A number of candidates explained that a rise in the exchange rate makes exports of cars rise in price abroad whilst imports of cars fall in price thereby reducing the price competitiveness of Russian cars. Most of those who identified a rise in the price of steel went on to explain that it pushes up the cost of production and so raises the price of Russian cars. Some candidates revealed a confusion between the causes and consequences of a loss of international competitiveness, by writing about the imposition of the tariff on imported cars.
- (c) Candidates identified a range of reasons with some of the most popular being to gain access to cheap raw materials, to be able to employ cheap or high quality labour and to gain access to a wider market. A key factor which differentiated answers to this question was whether they went beyond identification on to explanation.

- (d)(i) It was important to use appropriate economic terminology in answering this question. Some candidates did mention that a rise in the value of exports would be expected to raise a current account surplus or reduce a current account deficit. A relatively high proportion, however, produced vague answers.
- (ii) Candidates often find questions on the current account of the balance of payments to be challenging. This was the case in terms of this question. The strongest answers recognised that whilst exports rose over the period, the current account surplus rose until 2009 and then fell. A number recognised that the current account position is influenced by both imports and exports.
- (e) There were some excellent answers to this question. Candidates explored a number of reasons why the Russian government should increase a tax on imported cars and a number of reasons why it should not. The arguments for included to protect the domestic industry and employment, to raise employment and to increase government tax revenue. The most popular arguments against that were discussed were the risk of retaliation and the reduction in choice to consumers. Encouraging MNCs to set up in the country was a valid point. Some candidates, however, produced rather narrow answers by concentrating just on the impact that MNCs may have on the host country.

It was pleasing to note that fewer candidates than in previous sessions answered the discussion questions in note form.

## Question 2

- (a) This was generally well answered. Some candidates gave supply as an influence on demand. Supply does, of course, influence price and it is price which influences demand.
- (b)(i) Again this was generally well answered with a high proportion of candidates being able to interpret the data to recognise that price is likely to have increased due to a decrease in supply. Although not required, some candidates drew a demand and supply diagram showing the supply of Kenyan tea decreasing and as a result price rising. Credit was given for such an approach.
- (ii) This was answered even better than the previous question with the majority of candidates identifying there was an oversupply of tea and then explaining that this would have been likely to have caused the price to have fallen.
- (c) Most candidates responded well to this question. There were some interesting answers particularly related to the risk of unemployment and low wages. Explanations explored how, for instance, fluctuations in wages arise in the industry or why moving to another job could avoid such a disadvantage.
- (d) Whilst most candidates were able to identify small scale production and a lack of capital equipment, the strongest answers went on to explore their significance. There were some good answers which explained that Kenyan tea farmers are unable to spread their fixed costs over a high output and are not able to take advantage of economies of scale. A number gave examples of economies of scale that larger tea producers would be able to enjoy.
- (e) There was a full range of answers to this question. The strongest explained how a subsidy would be likely to increase supply and thereby reduce the price of the tea. They also mentioned that a subsidy could enable Kenyan tea farmers to use more capital equipment and raise the quality of their tea. They went on to explore why a subsidy might not increase sales. There were some particularly good comments relating to the possibility of tea producers in other countries improving the quality of their tea or lowering their price further and recognising that other factors influence the supply of tea especially the weather.

Some candidates, however, produced a one-sided answer, focusing only on the reasons why a subsidy might increase sales. A small number of candidates showed some confusion over the nature of a subsidy with a number interpreting it as a tax.

# ECONOMICS

Paper 0455/32  
Analysis and Critical Evaluation

## Key Messages

Candidates should make an attempt to answer all parts of the questions. It was noticeable that a few candidates made no attempt to answer some questions.

Candidates need to focus on the command or directive word that is being used in each question. For example, some questions required candidates to **state** (as in **Question 2 (a) (i) and (ii)**), whereas other questions required candidates to do more than this, such as **describe** (as in **Question 2 (d)**), **explain** (as in **Question 1 (d) (i) and (ii)**, **Question 2 (c)** and **Question 2 (e)**) or **discuss** (as in **Question 1 (e)** and **Question 2 (f)**). These words give a clear indication of what candidates are required to do and this is reflected in the number of marks allocated to these different questions. For example, in the two parts of **Question 2 (a)**, only one mark was allocated in each part, whereas in **Question 1 (e)** eight marks were allocated.

Candidates need to focus on precisely what the question requires them to do. For example, in **Question 2 (c)**, candidates only needed to explain how raising the rate of interest could reduce aggregate or total demand; some candidates also included in their answer a consideration of how reducing the rate of interest could reduce aggregate or total demand.

It is also important that candidates focus on the use of appropriate terminology in an Economics examination. In **Question 2 (d)**, many candidates simply wrote about figures going up or going down, or being positive or negative, rather than using the appropriate terminology, such as referring to a deficit or a surplus.

## General Comments

It was pleasing to see many very good answers from a number of candidates who successfully demonstrated a sound knowledge and understanding of economics and a sensible and mature ability to describe, explain and discuss a number of key economic concepts and issues.

Candidates need to read the questions very carefully, especially in relation to whether answers directly relate to material provided in the extract. For example, in **Question 1 (b)**, candidates were explicitly required to consider what evidence there was **in the extract** of the economic problem.

It would be helpful if candidates could indicate if they have continued their answer on an additional page.

## Comments on specific questions

### Question 1

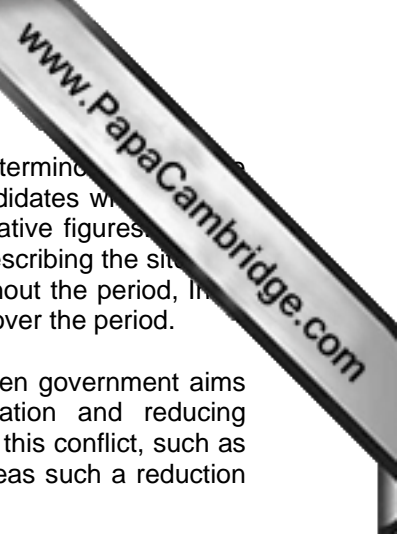
- (a) The majority of candidates were able to offer an explanation of what was meant by external costs, such as in relation to a harmful effect on a third party that was not involved in the production or consumption of a product. The most straightforward answer was simply that external costs were social costs minus private costs. Some candidates wrote very generally about society or community, suggesting that they were not entirely clear of the distinction between social costs and external costs.



- (b) Most candidates were able to refer to at least one piece of evidence in the extract that demonstrated the existence of the economic problem, such as the reference to health care exceeding the resources available to supply it, or demand exceeding resources or the fact that dealing with health problems caused by obesity prevented other health problems being treated. Some candidates, unfortunately, wrote a very general answer on the economic problem without making any reference to appropriate evidence in the extract.
- (c) This question was answered reasonably well by the majority of the candidates who recognised that there were a number of reasons why obesity might lead to an increase in government spending, such as an increase in government spending on health care because of the health problems caused by obesity, or the increased government spending on sickness benefits, or the spending of money on advertising campaigns to encourage healthy eating and/or exercise or the subsidising of low fat food.
- (d)(i) Some candidates did not seem to grasp the distinction between absolute expenditure and relative expenditure. The extract indicated that the poor did not spend more on food than the rich, simply that the poor spent a higher proportion of their income on food. The better answers developed this point further to point out that the poor may actually spend less on food in total than the rich because their income was lower.
- (ii) The majority of candidates answered correctly that the extract suggested that the demand for cigarettes was price inelastic. Their explanation consisted of pointing out that smoking was a largely addictive habit and that the percentage change in the quantity demanded was likely to be less than the percentage change in price.
- (e) There were some very good answers to this question, with many candidates offering a balanced response in terms of arguments both for and against the idea of the US Government deciding to tax chocolate. The arguments in favour included an increase in government revenue, the possible reduction in demand for chocolate and, therefore, the likely reduction of obesity. The arguments against included the fact that a tax on chocolate might simply lead to a switch in consumption to other high fat foods and the possible reduction of employment in the chocolate industry as a result of the lower demand. Many candidates also pointed out that such a tax would be likely to be a regressive tax. A number of candidates discussed a number of other policies that might be more effective, such as an advertising campaign to make people aware of the possible implications of eating chocolate. Some candidates, unfortunately, offered an entirely one-sided answer and the maximum mark that could be gained for such a response was five. Some candidates did look at both points of view, but offered a very list-like answer, despite the fact that the command word in the question was **discuss**; such responses could gain no more than four marks.

## Question 2

- (a) The majority of candidates correctly stated that the price level rose in India (in (i)) and fell in China (in (ii)) in 2009.
- (b) A number of candidates correctly pointed out that the reason why a country might experience a shortage of workers at the same time as it was encountering a relatively high unemployment rate was because of geographical and occupational immobility of labour. Candidates could, however, gain both marks if they developed their explanation of one of these reasons. For example, there were some very good answers which developed the consideration of occupational immobility in terms of the possible mismatch of skills, education, qualifications and training.
- (c) There were a number of good answers to this question. Many candidates defined the various components of aggregate demand and then went on to focus on one of them. This was usually in terms of an increase in the rate of interest causing a decrease in the level of borrowing and an increase in saving leading to a fall in consumption. Some candidates, however, went on to extend their explanation by relating the increase in the interest rate to a reduction in investment by firms, while others linked the change in interest rates to exports and imports.



- (d) Unfortunately, some of the answers to this question did not use appropriate terminology that would be expected in an Economics examination. For example, a number of candidates wrote in general terms of increases and decreases or in relation to positive and negative figures. It is pleasing, however, to see a number of candidates gain maximum marks by describing the situation in the four countries correctly, i.e. China and Russia were in surplus throughout the period, India was in deficit throughout the period and Brazil went from a surplus to a deficit over the period.
- (e) The majority of candidates were able to give an example of a conflict between government aims mentioned in the extract, such as the conflict between reducing inflation and reducing unemployment, but they did not always offer a very convincing explanation of this conflict, such as in relation to inflation benefiting from a reduction in aggregate demand whereas such a reduction might actually increase the rate of unemployment.
- (f) There were a number of good answers to this question, with candidates discussing both the potential advantages and disadvantages of a reduction in unemployment. Arguments in favour could include a higher level of output, a higher tax revenue for the government and a reduction in government spending on unemployment benefits. Arguments against included the possible increase in the rate of inflation, a possible shortage of workers and the possibility of increased imports, leading to a deterioration in the current account of the balance of payments. Some candidates, unfortunately, offered an entirely one-sided answer, usually considering the benefits of a reduction in unemployment with no consideration of the possible disadvantages, and such a response could gain no more than four marks. Some candidates did consider both points of view, but provided a list-like answer, despite the fact that the command word in the question was **discuss**. Such answers could gain no more than three marks.

# ECONOMICS

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Analysis and Critical Evaluation

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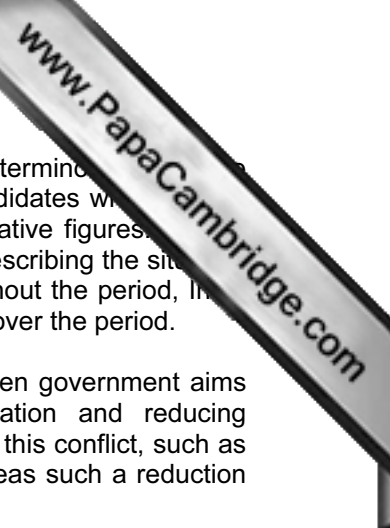
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