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## FOREWORD

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This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# ECONOMICS

## GCE Ordinary Level

Paper 2281/01  
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>A</b>	21	<b>B</b>
2	<b>C</b>	22	<b>B</b>
3	<b>D</b>	23	<b>A</b>
4	<b>B</b>	24	<b>D</b>
5	<b>B</b>	25	<b>B</b>
6	<b>A</b>	26	<b>D</b>
7	<b>C</b>	27	<b>B</b>
8	<b>C</b>	28	<b>A</b>
9	<b>A</b>	29	<b>C</b>
10	<b>C</b>	30	<b>B</b>
11	<b>C</b>	31	<b>A</b>
12	<b>C</b>	32	<b>C</b>
13	<b>C</b>	33	<b>C</b>
14	<b>C</b>	34	<b>D</b>
15	<b>C</b>	35	<b>C</b>
16	<b>C</b>	36	<b>C</b>
17	<b>B</b>	37	<b>B</b>
18	<b>A</b>	38	<b>A</b>
19	<b>B</b>	39	<b>D</b>
20	<b>D</b>	40	<b>B</b>

### General comments

4109 candidates took this paper this session and the mean mark was 26.5, slightly higher than the mean mark of 25.6 in 2004 and 25.0 in 2003.

The easiest questions proved to be **Questions 3, 6, and 39** with at least 90% of the candidates choosing the correct answer. These questions were on different sections of the syllabus and tested different skills. **Question 3** tested analysis, **6** tested knowledge and **39** analysis.

No questions proved to be more difficult than the limits expected by the examination. However, the most difficult questions were **11, 24 and 25**. In **Question 11**, the correct answer was **C**. 56% of the candidates chose option **D**. These candidates forgot that an increase in advertising expenditure would increase the costs of the firm and move the supply curve to the left. Any positive change in quantity supplied would be the result of a shift in the demand curve and be represented as a movement along the new supply curve.

For **Question 24** the correct answer was **D**. 62% of the candidates chose option **A**. This is a common error that occurs regularly. Candidates correctly associated Gross Domestic Product with economic growth but failed to realise that although the figures for economic growth were lower in 2002 and 2003 than they were in 2001, there was still a positive growth. For **A** to be the correct answer growth rates would have to be negative.

For **Question 25** the correct answer was **B**. 21% of the candidates choose **A**, 16% choose **C** and 27% choose **D**. With such a distribution of responses it may be that the candidates were guessing. Higher government spending is likely to raise incomes and then consumer spending. This increase in spending is, of the options given, most likely to be the cause of a rise in prices.

The remaining questions were within the tolerance allowed for the paper and for many a high proportion of candidates were able to choose the correct key. They are to be congratulated for so doing.

**Paper 2281/02**

**Structured Questions**

**General comments**

Candidates need to pay attention to the precise instruction in the question. For example, if the question asks the candidate to identify something, as in **Question 7 (a)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to explain something, as in **Question 2 (b) and (c)**, **Question 3 (a)**, **Question 4 (c)**, **Question 5 (a)** and **Question 6 (a)**, he or she needs to go into much more detail. If the question requires the candidate to discuss something, as in **Question 2 (d)**, **Question 3 (d)**, **Question 4 (d)**, **Question 5 (d)**, **Question 6 (b)** and **Question 7 (b) and (c)**, he or she needs to develop the answer much more fully, often giving two sides of an argument before coming to a conclusion. Candidates also need to check the number of marks given to each part of a question as this gives an indication of how much time should be allocated to that part of the question and the level of detail required.

**Comments on specific questions**

**Question 1**

- (a) It was necessary to show that the Netherlands was not just weak but the weakest compared with Italy and Germany. Some comparative statement was required in order to obtain both marks.
- (b) The question required an explanation and, therefore, it was not sufficient only to say that the letters GDP meant Gross Domestic Product. Some elaboration of this was required.
- (c) Many candidates were able to give an example of each type of tax and comment on whether the tax was levied on a person at the source of earnings or whether it was levied on subsequent expenditure. It was not sufficient simply to say that the tax was paid directly to the government.
- (d) The most common error in this part was a failure to identify initially two macro-economic aims of the government, although most commented on the effect of a reduction in taxation on unemployment and economic growth. Some did not seem to understand the meaning of the term macro-economic aims and so wrote about irrelevant aims of a government.
- (e) Most candidates recognised that there were several possible reasons why a government might wish to increase employment opportunities. For example, some of them explained that unemployed labour was a waste of scarce resources and so a lower rate of unemployment would make better use of human resources. Others suggested that a higher rate of employment would be likely to lead to an increase in national income and consequently economic growth. A number of candidates pointed out that increased employment opportunities would reduce government expenditure on benefit payments, which would enable the money to be spent in more productive ways. Some mentioned other relevant non-economic reasons, such as achieving a lower rate of criminal activity, or helping to gain the government more votes in elections.

**Question 2**

- (a) Most candidates were able to distinguish clearly between a quota and a subsidy, with a quota being a limit on the amount of something that could be imported into a country, either in terms of the volume or value of products or in relation to a particular market share, and a subsidy being assistance from a government in terms of financial support to reduce the costs of production, which might then result in lower prices and higher profits. Both are forms of protection to support the domestic industries of a country. A diagram was not asked for but a number of candidates used one to show the difference between the two. Some candidates confused subsidy with substitute and gave examples of two goods which were substitutes for each other.
- (b) Some candidates did not produce a clear diagram which was correctly labelled. Some confused the demand curve with the supply curve, some shifted a correctly labelled demand curve rather than the supply curve, some shifted a correctly labelled supply curve incorrectly to the left and not to the right. Candidates would be well advised to recognise that shifts of demand and supply curves and the ability to represent them clearly on a diagram are a fundamental part of the syllabus.
- (c) Most candidates were able to explain correctly what was meant by price elasticity of demand, and how the values could range from perfectly inelastic to perfectly elastic, with a good use of diagrams to illustrate this. Some candidates also included examples of differing degrees of elasticity. A few candidates were confused about the term and thought that it was the change in quantity demanded which affected the price.
- (d) Some candidates struggled to apply the concept explained in the previous part of the question. Many candidates, however, fully understood what was involved and discussed how there had been a change from an inelastic level of demand to a more elastic level of response. They then considered what might have caused this change; one key influence could have been the anti-smoking campaigns in many countries. Although diagrams were not explicitly asked for, many candidates included them to show the effect on the revenue obtained by a firm of the changed level of response when price altered.

**Question 3**

- (a) The better candidates were able first to explain the link between profits, costs and revenue and then to say that a fall in profits might be because revenue has decreased, or costs have risen, or a combination of both. A significant number of candidates concentrated only on costs and either ignored revenue altogether or did not comment that it might change.
- (b) Some candidates did not allocate their time well in this part and wrote for too long about the establishment of sole traders, partnerships and small companies, leaving little time to discuss why these business organisations might grow in size. Candidates could have discussed the possibility of mergers, general growth through increases sales caused by increased demand, the impact of advertising, increased profits or growth caused by a change in the type of image the company presented, or expansion into other areas or products. They could also have commented on the methods used to obtain finance. Some candidates thought, mistakenly, that economies of scale could help a firm to become large, whereas economies of scale are benefits to a firm which has already become large.
- (c) Candidates demonstrated a good knowledge and understanding of different economies of scale, including technical, marketing and risk-bearing. The main weakness, however, was that the question explicitly required candidates to describe three types of economies of scale that a computer company might experience; many candidates ignored this instruction and wrote about economies of scale in general without attempting to apply them to a computer company.
- (d) The main weakness in the answers to this question was where some candidates simply described the four factors of production without discussing why a company might change its use of them.

**Question 4**

- (a) This was answered well by most candidates, who offered several possible reasons why someone might be prepared to work for very low wages. These included the low level of skills, training and qualifications of the worker leading to a very elastic supply, a lack of experience, a preference to work part-time rather than full-time, an unwillingness to take on extra responsibilities or to move to another area where wage levels were higher, a temporary situation which was acceptable until something better was offered, a lack of information as to what other work was available, or the age of the worker. A few candidates misunderstood what was required and wrote at length on the factors which caused low wages, not why someone might work for a low wage.
- (b) This was also answered well by most candidates who recognised that there were a number of possible factors which might make a worker decide to move to another job at the same rate of pay. These included better working conditions, a greater opportunity for promotion in the future, greater proximity to home which would reduce both the time and cost of travelling, possibly fewer hours (if the same rate of pay referred to a weekly rather than an hourly wage) and better fringe benefits, such as subsidised meals.
- (c) The majority of candidates demonstrated a good knowledge and understanding of trade unions and were able to explain how membership of a union might be beneficial to a worker. Most discussed the ability of a union to help increase wages through the process of collective bargaining. Many considered their influence in improving the working conditions and some stressed their legal role in supporting a union member in a grievance dispute.
- (d) Some candidates mistakenly thought that the question was asking them to explain why an older skilled worker would earn a higher income than a younger unskilled worker. The focus of the answer, however, should have been on the spending and saving characteristics of the two types of worker. Many candidates understood this and discussed the likelihood that the older worker would be more inclined to save a higher proportion of his income than the younger worker, perhaps for retirement purposes or to finance the cost of children's university education. There were also some interesting and appropriate examples of the differences in spending; for example, younger people might be inclined to spend a higher proportion of their income on entertainment and fashion.

**Question 5**

- (a) Most candidates explained what was meant by a rate of exchange in terms of the rate at which one currency is exchanged for another. Many gave an example to illustrate a rate of exchange between two particular currencies, and some went on to explain this in terms of floating exchange rates.
- (b) Most candidates were able to explain what would happen to production and employment in Egypt if exports from Egypt became more expensive, i.e. demand in other countries would be likely to fall leading to a fall in both production and employment. A few candidates did, however, comment on the fact that the effect of this would depend on the price elasticity of demand for Egyptian goods in other countries. The effect in countries importing Egyptian goods was described less well by many candidates. If other countries could find an alternative supplier to Egypt, it would have no effect on their production and employment, but if this was not possible, they would have to produce the goods themselves, which would lead to an increase in production and employment in these countries.
- (c) Most candidates were able to describe the different accounts of the balance of payments, and the structure of the current account in terms of visibles and invisibles. Knowledge of the capital account was more limited, with some candidates failing to mention it at all.
- (d) There were many good answers to this question. Candidates recognised that there were several factors which might lead to an improvement in the balance of payments of a country, and that these could be grouped together in two types. First, there were factors which could lead to an improvement in the exports of goods and services, such as improved efficiency or the availability of subsidies to make goods more competitive in the world market. Second, there were factors which could lead to a reduction in the imports of goods and services, such as tariffs, quotas or administration procedures. Many candidates also brought in the use of changes in the exchange rate to affect imports or exports. The stronger candidates recognised that the question referred to the balance of payments and not just the current account, and so included a consideration of the capital account.

**Question 6**

- (a) Most candidates explained what was meant by a market system and discussed the idea of a market where resources were allocated through the price mechanism, stressing the importance of demand and supply. The role of a government would be greatly restricted; several candidates made reference to the ideas of Adam Smith and his reference to the price mechanism as an 'invisible hand'. A few candidates, however, got rather confused and wrote about three market systems: a free market system, a planned market system and a mixed market system.
- (b) The majority of the candidates recognised that a market system was effective in terms of the production of private goods or services but that there were some possible market failures in other areas, such as the non-provision of public goods, the under-production of merit goods and the over-production of demerit goods. These terms were not always used but candidates were still able to demonstrate a sound knowledge and understanding of market failure, leading to the need sometimes for a government to act as a producer of certain goods or services.
- (c) Candidates recognised that there were many ways in which a government could influence private producers in an economy. Some discussed the use of various laws and regulations which would limit the freedom of firms to operate, such as in the areas of consumer protection, environmental protection or health and safety. Sometimes these regulations might relate to different market structures, such as regulations affecting monopolies. A number of candidates discussed fiscal aspects, such as the different direct and indirect taxes which could affect firms. There was also consideration of how governments could assist firms with subsidies. Monetary policy was also discussed by some candidates; for example, changes in interest rates could affect the level of demand in an economy, which would influence the behaviour of private producers.

**Question 7**

- (a) Most candidates were able to identify four factors; these included the quality of housing, sanitation, the infrastructure, education, health provision and the range of products available. Candidates were asked to identify them; they did not need to go into a lot of detail.
- (b) Candidates recognised that there were a number of possible reasons why there was so much poverty in developing countries. These included the dependence on relatively unproductive subsistence farming, the relative lack of development in the secondary and tertiary sectors, a very unequal distribution of income and a high rate of population growth which was not matched by the resources in such countries.
- (c) Candidates discussed a range of factors which might lead to an improvement in the standard of living in a developing country. These included improvements in infrastructure, health provision, housing and education. The role of the government in bringing about such improvements was stressed and there was also some consideration of the potentially important role of multinational companies. Many candidates made reference to the need to borrow money from foreign countries and from international organisations, such as the World Bank and the International Monetary Fund.