ECONOMICS

Paper 2281/01

Multiple Choice

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

4,208 candidates took this paper and the mean mark was higher than in the last few years at 29.6. Candidates are to be congratulated on an excellent performance in the examination.

The easiest questions proved to be numbers 2, 3, 4, 15 and 29 with over 90% of the candidates choosing the correct answer. These questions were on different sections of the syllabus and tested different skills. **Questions 2** and **3** tested knowledge, **Questions 4** and **15** tested application and **Question 29** tested analysis. There is no one skill or one section of the syllabus, therefore, that the candidates find easier than others.

None of the questions proved to be more difficult than the limits expected by the examination. The most difficult questions were 17 and 37 but even these were well above the 'guessing rate' with 41% choosing the correct answer for **Question 17** and 47% choosing the correct answer for **Question 37**.

Question 17 was answered correctly by 41% of the candidates who chose option **D**. Option A was chosen by 7%, option **B** was chosen by 46% and option **C** by 6%. The 46% who chose option **B** must have thought that the fall in output was because of a failure of staff to produce products. The idea behind option C was that there was a fall in demand which resulted in a fall in output. The more likely explanation for a need to offer higher wages, other things being equal, was that there was a continued demand for the product or service but an inability to obtain the labour to provide it because of a scarcity of workers due to a fall in unemployment (option **D**).

Question 37 was answered correctly by 47% of the candidates who chose option **D**. 15% chose option **A**, 5% chose option **B** and 33% chose option **C**. Those who chose options **A** and **C** may have misread the question and thought that it asked for a factor which was a barrier to international trade, rather than a factor which was not a barrier. It is, of course, not certain that this misreading was the reason for the choice of options **A** and **C**. The choice may have been because of a misunderstanding of the analysis.

ECONOMICS

> **Paper 2281/02**
> **Paper 2 (Extended)**

General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates who demonstrated a sound understanding of Economics and a sensible and mature ability to discuss, analyse and evaluate key economic concepts and issues. There were also, however, a number of relatively weak answers where the candidates failed to demonstrate very much knowledge or understanding.

There were relatively few rubric errors, although some candidates did answer all seven questions on the examination paper when the requirement was to answer just **Question 1** and three other questions. This meant that a great deal of valuable time in the examination was wasted.

Candidates need to pay close attention to the precise instruction in the question and they need to look at the number of marks given to each part of a question. These two factors give a clear indication of how much detail is required and how much time should be taken. For example, if the question asks the candidate to explain what is meant by something and then identify an example, as in **Question 1 (a)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to analyse something, as in **Question 4 (d)**, or discuss something, as in **Question 1 (e)** or **Question 6 (d)**, he or she needs to go into much more detail, often giving two sides of an argument and then coming to a logical and reasoned conclusion.

Comments on specific questions

Question 1

(a) Most candidates were able to explain what was meant by a substitute good, in terms of it being an alternative product or service, and most were able to identify an example from the information provided, such as a coach being a substitute for a train. Some candidates, however, got confused with complimentary goods, writing about two things in joint demand, such as trains and tickets.

(b) This proved to be quite a difficult question. The information stated that in 2005 10% bought tickets that were cheaper than the cheapest available in 1996, but this was in real terms and candidates needed to explain what was meant by the term 'real'. They also needed to point out that if 10% bought cheaper tickets, this meant that the other 90% must have bought more expensive tickets.

(c) Most candidates were able to explain what was meant by a fixed cost, i.e. one that did not change when there was a change in output. There was some uncertainty, however, as to which of the costs in the extract were fixed and which were variable. The fixed costs were the track costs and government charges and, at 50%, this was higher than the variable costs of operating the trains which were only 46%. The question did ask candidates whether the fixed costs were higher than the variable costs on every journey and many candidates either ignored this part of the question or assumed that it would be the case for every journey; many of the better candidates, however, pointed out that although this would be the case in general, it might not always apply to every journey.

(d) Many candidates were able to explain what was meant by a subsidy in terms of money being allocated to help a business cover its costs. In this case, candidates needed to point out that some parts of the railway service were less likely to make profits than other parts, such as in rural areas where the population would be much smaller in size.

(e) A number of candidates assumed that if GNER carried 40% more passengers in ~~_____~~ 1996, its profits would be likely to have risen by 40% over this period. The better ~~_____~~ however, pointed out that the calculation of profits came about by studying the difference ~~_____~~ revenue and costs. We do not know that GNER's revenue increased by 40% and, even if ~~_____~~ we are not given any information about the size of costs. It would, therefore, be very difficu~~___~~ make a judgement about profits on the basis of the information provided.

Question 2

(a) Most candidates were able to explain what was meant by a trade union in terms of a group or combination of workers joined together with a common purpose. They then went on to successfully describe its functions, such as improving working conditions, increasing the real rate of wages and/or salaries, improving the terms and conditions of employment or enhancing the health and safety aspects of a job.

(b) This part of the question was concerned with the factors which might influence someone in choosing to work for a small enterprise. The existence of a trade union may be a possible influence but candidates correctly considered that there might be many other possible influences, such as pay and working conditions. The significance of the existence or non-existence of a trade union in a small enterprise was, therefore, likely to be relatively limited for most people.

(c) There were some very good answers to this part of the question. Many candidates were able to explain why small enterprises continued to exist as an economy developed and expanded because of their specific advantages, such as providing a personal service or because there was a relatively small, niche market.

(d) Many of the answers to this part of the question were very one-sided, usually stressing the negative effects that trade union activities might have on an economy, such as the disruption caused by industrial action. The better answers, however, were much more balanced, taking into account the fact that trade unions could also have positive effects in an economy, such as improvements in working conditions which could lead to enhanced productivity. The responses which gave both sides of the argument were the ones which gained the highest marks.

Question 3

(a) The majority of candidates were able to correctly identify and explain the factors of production mentioned. These included land (small plots of land for subsistence farming), labour (local farmers), capital (machinery) and enterprise (the exporter).

(b) Answers to this part of the question varied a great deal. Many candidates drew two correct diagrams, one showing a leftward shift of the demand curve for the original pineapples, leading to a fall in the equilibrium price, and one showing a rightward shift of the demand curve for the new, sweeter pineapples, leading to a rise in the equilibrium price. Some candidates, however, produced some poorly drawn diagrams, often with incorrect labelling of both the curves and the axes. Again, the explanations varied widely in terms of the quality of the answers.

(c) The majority of the candidates recognised that farmers would be likely to benefit from an agreed, fixed price, particularly in terms of the certainty it would provide. Relatively few candidates, however, went on to say that the extent of the benefit would depend on whether the fixed price was higher or lower than the equilibrium, free market price.

(d) The key word in this part of the question was 'always'. The better candidates recognised that although there were a number of advantages of subsidies, such as in terms of supporting industries which might otherwise decline or collapse, causing a large increase in unemployment, there were also a number of possible disadvantages, such as in terms of creating a situation of dependency where the producers came to rely on the subsidy, becoming less efficient as a result. The better answers looked at the idea of subsidies from both points of view and these were the ones which gained the higher marks.

Question 4

(a) Some candidates assumed that if richer households spent a smaller proportion of their in... food, this meant that the actual amount spent on food would be smaller than that spent ... poorest households. The better candidates, however, correctly recognised that there wa... difference between the percentage and the actual amount spent, pointing out that as the riche... households had a much larger income, they would spend more on food but this would represent a lower percentage of expenditure compared to the poorest households.

(b) There were some very good answers to this part of the question, with candidates explaining that Samira would be able to spend more, especially on luxury items, and would also be able to save more. Daniel, on the other hand, would be more likely to spend a higher proportion of his income on basic necessities and would be likely to save less. Some candidates failed to appreciate that the focus of the question was on expenditure and wrote about the likely differences in their incomes.

(c) This part of the question was answered reasonably well by the majority of candidates. They pointed out that a general increase in the level of consumer spending in an economy would be likely to lead to an increase in aggregate demand, a higher rate of economic growth and a lower rate of unemployment. It might also, however, lead to an increase in the rate of inflation and possibly a worsening of the balance of payments position if much of the consumer spending involved the purchase of imports.

(d) There were some good answers to this part of the question, especially in relation to training, skills, education, qualifications, experience, geographical area, gender, public versus private sector and primary/secondary/tertiary sector. However, a number of answers were limited to this more 'descriptive' approach. The better answers went further and related the variations in earnings to demand and supply factors, often bringing in relevant and accurate diagrams to support the points being made.

Question 5

(a) This part of the question was answered reasonably well by the majority of candidates. They described the differences in terms of direct taxes being taxes on income or profit, such as income tax or corporation tax, and indirect taxes being taxes on expenditure, such as value added tax.

(b) This part of the question was also answered well by many of the candidates who linked a reduction in taxation to two macro-economic aims of a government. For example, a fall in income tax would be likely to lead to greater spending which would stimulate economic growth and lead to a lower rate of unemployment.

(c) The majority of candidates were able to consider why a government might wish to increase employment opportunities. Unemployment is seen as a waste of valuable resources and so governments would want to have as many people working as possible to increase GDP and the rate of economic growth. It would also lead to a reduction in public expenditure on benefits for the unemployed.

(d) Candidates were generally able to discuss what might be the consequences of unemployment, such as a slowing down in the rate of economic growth, an increase in public expenditure on support for the unemployed, and possibly an increase in the level of crime in a country.

Question 6

(a) Most candidates were able to explain what was meant by specialisation in terms of workers concentrating on particular parts or operations of a production process, such as in relation to the division of labour. They then went on to consider the circumstances in which it might occur, such as at plant, regional, national or international level.

(b) This part of the question was answered well by the majority of candidates. They generally demonstrated a sound knowledge and understanding of the methods of protection, describing how three of these would work, such as tariffs, quotas and embargoes. A number of candidates, in their descriptions of tariffs, included useful diagrams to support the points being made.

(c) Most candidates had some idea of what was meant by a natural resource of a cou... commodities which are found in nature as opposed to commodities which are the... production process. They were usually able to provide one example, such as oil.

(d) Some of the answers to this part of the question were very one-sided, with candidates arguing... natural resources needed to be exploited by a country to provide employment and an increase i... economic growth and standards of living. The better answers, however, offered a more balanced... perspective, arguing that although the exploitation of natural resources might have economic advantages, this would need to be contrasted with the possible depletion of non-renewable resources which would dramatically affect the standard of living of future generations. The better answers, therefore, were the ones which attempted to look at the issue from both points of view, contrasting the themes of exploitation and conservation.

Question 7

(a) Most candidates were able to identify three indicators that might be used to compare the standard of living between countries, such as GDP per capita, the literacy rate and the standard of education, and the quality of health provision. Some candidates, however, did not go on to offer a really convincing consideration of why one of these might be more reliable than others.

(b) The majority of candidates assumed that there was always greater poverty and a lower standard of living in developing countries compared with developed countries. The better candidates, however, offered a more sophisticated discussion, pointing out that while this may often be the case, it was not always necessarily true. For example, there are some very rich people living in developing countries and many poor people living in developed countries.

(c) The majority of candidates recognised what would need to be done to improve the standard of living in a developing country, such as improvements in education, infrastructure, housing and health. Many of the answers, however, simply offered a list of these and did not address how these could be improved. The better candidates went further than this and discussed what would need to be done to bring about an improvement in such areas, such as providing subsidies out of public finance and encouraging multi-national companies to locate there.