

ECONOMICS

Paper 2281/12
Multiple Choice

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

This 40-question multiple choice examination was taken by 11 130 candidates and the mean score was 22.8.

The questions to which most candidates gave the correct answers were **1, 2, 4, 5, 10, 21** and **38**. Over 80% of the candidates gave correct answers to these questions, which covered a range of topics from the syllabus and also the skills of knowledge and analysis and interpretation.

The questions that were answered correctly by fewer candidates were **16, 31** and **37**, with fewer than 30% of the candidates choosing the correct option.

For **Question 16**, the correct option, B, was chosen by 27% of the candidates, while 26% chose option C and 34% chose option D. It is unsure why candidates thought that governments rather than private companies were primarily motivated by risk-taking (option C), nor why it was thought that workers were likely to gain productivity bonuses, especially as the control of public sector wages is a tool of government policy used to reduce expenditure (option D). It may have been that the question was misread and that the candidates thought they had to identify a reason for workers choosing a private sector company rather than government employment.

For **Question 31**, 26% chose the correct option, A, while 20% chose option B and 48% chose option C. The question stated that unemployment had fallen but that the numbers in employment had not increased by the same amount as the fall in unemployment. The candidates had to decide, therefore, where those who were unemployed did not take up employment. The option that they went into full-time education was the correct answer. The total size of the labour force (option D) would not explain the difference; neither would option B, that there was a loss of skills.

Question 37 asked about the migration of skilled workers. The correct option, A, was chosen by 22%, while 40% chose option B and 29% chose option C. It is most likely that newly trained, skilled workers would be, on average, younger workers. As a result, if they left the country, the average age of the remaining workforce would increase (option A).

ECONOMICS

Paper 2281/13
Multiple Choice

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

This 40-question multiple choice examination was taken by 281 candidates and the mean score was 22.5.

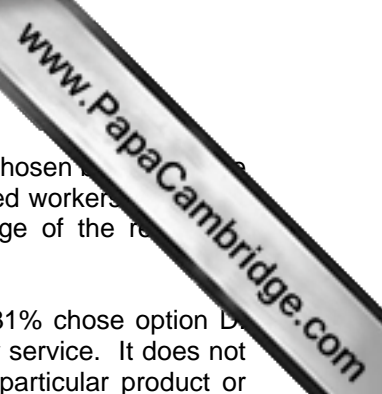
The questions to which most candidates gave the correct answers were **1, 2, 3, 5, 11, 30** and **40**. Over 80% of the candidates gave correct answers to these questions, which covered a range of topics from the syllabus and also the skills of knowledge and analysis and interpretation.

The questions that were answered correctly by fewer candidates were **17, 34** and **38**, with 30% or fewer choosing the correct option.

For **Question 17**, the correct option, B, was chosen by 25% of the candidates, while 20% chose option C and 47% chose option D. It is unsure why candidates thought that governments rather than private companies were primarily motivated by risk-taking (option C), nor why it was thought that workers were likely to gain productivity bonuses, especially as the control of public sector wages is a tool of government policy used to reduce expenditure (option D). It may have been that the question was misread and that the candidates thought they had to identify a reason for workers choosing a private sector company rather than government employment.

Question 34 asked about the migration of skilled workers. The correct option, A, was chosen by 23% of candidates, 45% chose option B and 23% chose option C. It is most likely that newly trained, skilled workers are, on average, younger workers. As a result, if they left the country, the average age of the remaining workforce would increase (option A).

For **Question 38**, 30% chose the correct option, C, while 26% chose option A and 31% chose option D. Specialisation involves concentration on a particular part of the production of a good or service. It does not cause workers to have 'varied tasks' (option A). Having decided to specialise in a particular product or service, the firm is also less likely to be able to adapt to an alternative product or service if demand falls (option D).



ECONOMICS

Paper 2281/22
Structured Questions

General Comments

The quality of the responses varied a great deal. There were some very good answers from a number of candidates, who were able to demonstrate successfully a sound knowledge and understanding of economics and a sensible and mature ability to explain and discuss a number of key economic concepts and issues. There were also, unfortunately, a number of relatively weak answers where the candidates needed to demonstrate much greater knowledge and understanding of the subject.

There were relatively few rubric errors, although some candidates did answer all seven questions on the examination paper when the actual requirement was to answer **Question 1** in **Section A** and just three questions in **Section B**. This meant that a great deal of valuable time in the examination was wasted, a fact which would almost certainly have affected the eventual grade achieved.

Candidates need to pay very close attention to the precise wording of the questions, especially in terms of the command or directive word being used. For example, if the question asks the candidate to identify something, as in **Question 6 (a) (ii)**, where candidates were required to identify **two** other factors that influence the size of a country's population, or to define something, as in **Question 1 (a) (i)**, where candidates were asked to define fiscal policy, then a relatively brief answer is needed. However, if the question requires the candidate to discuss something, as in **Question 4 (c)**, where candidates were required to discuss the advantages and disadvantages of monopoly, or in **Question 6 (c)**, where candidates were asked to discuss whether a change in the occupational structure of a country would be beneficial for the economy, candidates need to go into much more detail, often giving two sides of an argument and then coming to a logical, well-reasoned and justified conclusion.

Candidates also need to look very closely at the number of marks given to each part of a question, as this gives a very clear indication of how much detail is required and how much time should be taken to answer it. For example, **Questions 1 (a) (i)** and **6 (a) (i)** and **(ii)** were given just two marks each, whereas **Questions 4 (c)** and **6 (c)** were each allocated ten marks.

Comments on specific questions

Question 1

- (a) (i) Most candidates were able to define fiscal policy as a tool of government economic policy operating through the raising of money via taxation and the spending of that money on various areas of the economy. A few, however, confused the term with monetary policy.
- (ii) The majority of candidates were able to explain how fiscal policy could be used to increase domestic demand, either through an increase in government spending or through a reduction in taxation or possibly through elements of both.
- (b) This part of the question was not answered quite so well as the previous parts, largely because candidates did not read the question carefully enough. Some candidates only wrote about public spending on health care or public spending on state benefits and the candidates that did write about both did not always assess which would be the **more** successful.
- (c) Many candidates were able to identify two possible reasons why so many people in Asia have to live on US\$1.25 or less a day, such as low productivity, a basic level of education or over-dependence on agriculture, but they did not always go on to explain these reasons in any depth. It is vitally important that candidates read the question very carefully, especially in terms of the command or directive word being used.

- (d) There were a number of good answers to this part of the question, with candidates offering a discussion of the possible effectiveness of government policies to reduce poverty, such as improving education and the introduction of minimum wage legislation. Weaker answers were characterised by two particular issues. Firstly, some candidates wrote about spending on health care and state benefits, although the question explicitly stated policies other than these (because these two aspects had already been covered in part (b)). Secondly, a number of candidates simply described the policies without actually discussing their possible effectiveness in reducing poverty. These two issues again demonstrated the importance of candidates reading the whole question very carefully before starting to construct an answer.

Question 2

- (a) Many candidates were able to define the four factors of production correctly and provide appropriate examples of each. The one factor that seemed to cause the most problems was capital. A number of candidates defined this in terms of the money spent by a business and gave spending as an example. The correct definition of capital is man-made resources used in the production of goods and services and an example would be tools, machinery or equipment. Some candidates still only refer to three factors of production, but the syllabus clearly states four: land, labour, capital and enterprise. A number of candidates tended to focus on the rewards to factors of production, which was not asked for in the question.
- (b) There were some very good examples given in response to this part of the question. Most candidates were able to explain the nature of the economic problem as the conflict between unlimited wants and limited resources to satisfy those wants in terms of what to produce, how to produce and for whom to produce. This will, therefore, give rise to a situation of scarcity, leading to the need for a choice to be made.
- (c) The majority of candidates were able to compare how resources were allocated in market and mixed economic systems. They commented that resources were allocated through the price system in a market economy without the need for any government intervention, whereas in a mixed economic system the government would intervene in certain aspects of the economy, especially where problems arose as a result of market failure. A few candidates were confused and believed that a market economy was run by the government.
- (d) There were very mixed responses to this part of the question. A number of candidates were able to discuss both the advantages and disadvantages of a country's economic system changing from a mixed to a market economy, but some offered a one-sided view, arguing that there would be no disadvantages, despite the fact that there could be various examples of market failure. A few candidates misread the question and wrote about an economic system changing from a market to a mixed economy, again showing how vitally important it is for candidates to read the questions very carefully.

Question 3

- (a) Many of the answers to this first part of the question were rather disappointing. A number of candidates were able to describe money as a medium of exchange, but few were able to describe the other three functions - a unit of account, a store of value and a standard for deferred payments. Some candidates misread the question and wrote about the characteristics or attributes of money, such as portability and divisibility; no marks were awarded for such answers.
- (b) There were some good answers to this part of the question. Most candidates were able to draw the diagram accurately, showing a shift of the demand curve to the right, leading to an increase in the wages of pilots. Common errors included labelling the diagram incorrectly and having the demand curve shifting, incorrectly, to the left. A few candidates shifted the supply curve, rather than the demand curve, which could not be rewarded as no information was provided which might have brought about a change in the conditions of supply.
- (c) This part of the question was answered reasonably well. Most candidates were able to describe how an individual's earnings were likely to increase over their lifetime, for example as a result of greater experience, more skills and a number of possible promotions, but relatively few candidates went on to state that earnings will eventually fall after a certain age.

- (d) When responding to this part of the question, it was expected that candidates would discuss how some individuals spend less than their income while others spend more, for example the impact of rates of interest on savings accounts or uncertainty about the future. Many candidates misread the question and wrote instead about possible reasons for the difference in income between various individuals, for which they could not gain credit.

Question 4

- (a) Most candidates appeared to have some understanding of the main characteristics of a multi-national company. Candidates need to understand that the key characteristic of a multi-national company is that it produces in different countries, rather than that it is a company selling abroad.
- (b) This part of the question was answered reasonably well by most candidates. They demonstrated a clear understanding of possible reasons why small firms continue to exist in all economies, such as because of the personal service that they can provide or because the size of the market may be small, as in a niche market.
- (c) Most candidates demonstrated a good knowledge and understanding of the possible disadvantages of monopolies, such as the barriers to entry which eliminate competition and the fact that the price tends to be higher and the output lower when compared with firms in perfect competition. The question also required candidates to consider the possible advantages of monopolies. These could include the scope for economies of scale that lead to a fall in costs and possibly prices, and also the use of abnormal profits to fund research and development so that consumers would eventually benefit from improved products. Many candidates simply referred to the disadvantages and paid no, or very little, attention to the possible advantages.

Question 5

- (a) Many candidates had some idea of what was meant by full employment, such as when all those willing and able to work at a given wage are working, so that all unemployment is voluntary. A number referred to it in relation to frictional unemployment and some referred to a particular percentage of employed in an economy.
- (b) This part of the question was answered reasonably well by the majority of candidates. A number of different types of unemployment were explained, including demand deficient/cyclical, structural, frictional, technological, seasonal and regional. A few candidates offered an essentially list-like answer and so did not explain any of them in the depth required to gain full marks.
- (c) Answers to this part of the question varied a great deal. Many candidates offered a very good answer which described the main features of a retail price index, including the establishment of a basket of goods, the idea of a base year of 100 and the allocation of weights to different items in the index. Answers that focused on the different causes of inflation could not gain credit. This again showed the importance of careful reading of a question before attempting to answer it.
- (d) To gain higher marks on this question, candidates were expected to give a two-sided response. A number of candidates assumed that inflation was always harmful to everybody in an economy and only wrote about the disadvantages, such as the reduction in the purchasing power of a nominal sum of money and the negative effect on those on fixed incomes. It was also necessary to discuss the possible advantages of inflation, such as the stimulus it could provide to firms wanting to take advantage of the higher prices as long as the costs of production could be sufficiently controlled so that profits increased.

Question 6

- (a) (i) Many candidates gained full marks in this part of the question by explaining that net migration referred to the difference between immigration and emigration.
- (ii) Again, many answers to this part of the question also gained full marks by identifying birth rate and death rate as two factors, other than net migration, that could influence the size of a country's population.
- (b) There were some reasonable answers to this part of the question, with many candidates recognising the consequences of population growth for developing and developed countries. For example, they pointed out that it would be more of a problem for developing countries, given their faster rate of population growth and the effect of this on the scarce resources in such countries. The rate of increase of population in developed countries tended to be slower and any population growth would have less of an effect, given the higher standards of living in such countries.
- (c) This question did not appear to be well understood by some candidates. Some recognised that this referred to a movement away from the primary sector and towards the secondary and, especially, the tertiary sectors, but they then needed to go on to discuss whether such a change would be beneficial for an economy. The better answers stressed that such a change in the occupational structure of an economy was likely to help a country on its path to development, leading to higher standards of living.

Question 7

- (a) The majority of candidates were able to describe the structure of the current account of a country's balance of payments in terms of the visible account in goods and the invisible account in services. Better candidates went on to describe the other two features of the current account, these being income flows and current transfers.
- (b) This was answered reasonably well by the majority of candidates, who explained the various policies that a government could use to reduce a deficit on the current account of the balance of payments. Possible examples included a reduction of imports, possibly through the imposition of tariffs and/or quotas, and an expansion of exports, possibly through providing subsidies to firms. Answers which focused on increasing exports or decreasing imports only could not gain more than four marks.
- (c) A number of candidates demonstrated a sound understanding of the concept of specialisation by referring to the process by which individuals, firms, regions or whole economies would concentrate on producing those goods and services in which they had an advantage. Some candidates only referred to the division of labour, which limited the number of marks that could be awarded.
- (d) Most candidates were able to discuss the benefits and disadvantages of specialisation at the national level. For example, one advantage would be the greater degree of productive efficiency, while one disadvantage would be the problem of specialising in particular products where there was a decline in the demand for such products. As in part (c), some candidates referred to the division of labour only and this again limited the number of marks that could be awarded.

ECONOMICS

Paper 2281/23
Structured Questions

General comments

There are several key issues that stand out from the analysis of responses received.

For most candidates, there seemed to be a good link between the number of marks on offer and the length of answers given. Exceptions were **Question 1 (b)**, where answers from strong candidates were often in too much detail, and **Questions 4 (c)** and **7 (c)**, where some answers were too brief for 10 marks.

Candidates also need to be aware of key words, often highlighted in the question, which give guidance to candidates to ensure they do not write too much and encourage them to restrict their answers so that they can give a more detailed response. **Question 1 (c)** limited the response to three reasons and **Questions 2 (b)**, **4 (b)** and **7 (a)** limited the response to identifying two ways or factors. Generally speaking, this appears to have worked well.

In addition, there was a key word used in several questions which gave direction to the answer required. **Question 2 (d)** asked whether “it is a disadvantage to rely just on market forces”. **Question 3 (d)** used the key word “always” and this word was also used in **Questions 6 (d)** and **7 (d)**. **Question 4 (c)** referred to “better”. Essentially these words are used to encourage candidates to give a two-sided view or balanced view with perhaps a conclusion. Full marks cannot be obtained if only a one-sided view is given. This is explained in more detail below in the comments for each of these individual questions.

Comments on individual questions

Question 1

This question was generally well answered, although a few candidates found part **(d)** challenging. The length of answers was broadly in line with the marks available, although quite a few candidates wrote more than they needed to for the five marks available for part **(b)**.

- (a)** Most candidates were able to explain that a takeover meant one company buying or taking a controlling interest in another company, in some cases following a hostile bid. Responses on a merger needed to stress the fact that there was an agreement between the companies involved. Candidates also needed to understand that a merger would result in one company. In quite a few cases, candidates' responses were about forms of integration, which was not relevant to this particular question.
- (b)** The majority of candidates were clear that economies of scale resulted in lower average costs. Some candidates gave a very thorough explanation of the main economies of scale. This was principally internal, although a few identified external costs as well. Almost all candidates successfully related it to the car industry. A few weaker candidates answered in terms of the strengths of a larger company in selling cars, increasing market dominance and increasing revenue, which was not correct. Alternatively, they described the types of economies without naming them. This part of the syllabus seems well understood by most candidates.
- (c)** This was generally well done and most candidates successfully identified three possible reasons. The most popular were: the recession (in the stem material); competition from other car companies; increased costs of complementary goods, especially petrol/oil; and cheaper or improved alternatives, for example public transport. Other relevant reasons were poor advertising/promotion by General Motors, poor management and inefficiency in production leading to higher costs and therefore prices, governments imposing higher taxes and import restrictions. A

few candidates provided more than three reasons. Most candidates related the General Motors, which was very pleasing to see.

- (d) In general, most candidates identified the central issue around opportunity cost of using public funding to support a private enterprise. Most candidates were able to give reasons for providing support from public funding, which essentially was about the high costs for the economy if the firm should fail. For example, unemployment, loss of home production, higher imports, the possibility of creating a stronger company with the ability to increase exports, generating additional profits resulting in the company repaying the loan and providing higher tax receipts. The opposite view was also well presented by some candidates. For example, the opportunity cost of the public funds not being used to support education and infrastructure, the possible creation of a monopoly and, if the company grew, greater pollution and consumption of scarce resources. Most candidates were able to give reasons for and against but a significant minority only gave one view with perhaps a one-sentence comment on the opposite view. Very good candidates gave a balanced conclusion. Very weak candidates tended to list a few uncoordinated reasons in bullet points or merely lift information from the stem. A few candidates unfortunately interpreted the question as being about the advantages and disadvantages of privatisation. There were also a few candidates, not always the weakest overall, who did not attempt to answer this part of the question.

Question 2

- (a) Most candidates were generally clear about the entrepreneur being the fourth factor of production. There was some confusion between the role of an entrepreneur and a manager, in respect of the organisation of factors of production. Most candidates identified the risk involved but fewer identified that the reward for risk was profit. The weakest candidates gave a much more generalised response.
- (b) Some candidates interpreted the word “promote” in the question as meaning their responses should focus on advertising, road shows and encouraging people to become entrepreneurs, for example, by supporting business courses at university and skills training for budding entrepreneurs. This was a perfectly acceptable response to make. However, other ways of encouraging enterprise were commonly put forward. These included those that supported new firms and infant industries with, for example, subsidies, grants, capital allowances and reductions in taxes on firms. A few candidates suggested regional policy, encouraging foreign companies and privatisation of public corporations. Answers that mentioned giving land and making general tax cuts not specifically targeted at encouraging enterprise gained few marks.
- (c) This part of the question, which asked for explanations with the aid of diagrams, proved to be challenging for many candidates. The expectation was that candidates would show scenarios in which either the demand curve would shift or the supply curve would shift, with the resultant effect on the equilibrium price and quantity in the market. Some candidates did this and, in some very good answers, the candidates used two different products for the two diagrams to show the effect of a fall in demand for one product and the shift of resources to another product. A significant number of candidates drew only one diagram and this was often confusing, since it showed shifts in demand and supply. In other cases, they drew just a demand and supply diagram with the equilibrium price and quantity and with lines drawn to show the effect of changes in price levels on demand and supply. Quite a few candidates drew a diagram where a shift in the demand curve to the right, resulting in a short-term rise in price, automatically resulted in a shift of the supply curve to the right, so that the market equilibrium price returned to its former equilibrium price. This is often not the case, but the written explanation seemed to give the impression that it would always happen. Other candidates just dealt with a shift in demand. Explanations were often related to the diagrams drawn. Some were very clear and precise but, where diagrams were confusing, the written explanations also often lacked clarity. Some weaker candidates were not confident in addressing the term “re-allocated”.
- (d) This was generally well done by good candidates. They were stronger at identifying the weaknesses of market forces, for example favouring the rich, failing to provide public goods and underproviding merit goods and overproviding demerit goods. Although these terms are not explicitly in the syllabus, many candidates were fully conversant with these terms and with market failure, including external costs, in general. Overall, candidates gave less information on the advantages of market forces in terms of efficiency and meeting consumer wants. This might have been because of what they had already written in part (c). Candidates needed to be aware that the key word “just” should trigger a two-sided response. Weaker candidates who did not interpret this

successfully gave answers that were one-sided and so lost marks. There were some candidates who did not answer this part of the question.

Question 3

- (a) This question proved to be challenging for most candidates. There were a few candidates whose responses were concise and clear. Most identified savings and loans but often the functions were confused with central banks and other financial institutions. Often answers were a few sentences long with a few well-known facts about banks listed in an uncoordinated way. The majority of Centres need to ensure that candidates are better prepared for explaining the main functions of a commercial bank.
- (b) The really good answers on the role of a stock exchange were provided by candidates in just a few Centres. Good candidates were able to explain the stock exchange's role in acting as a coordinated market for buying and selling shares and the strategic impact this had on personal savings and the ability of firms to raise additional funding, which could lead to economic growth. Quite a few candidates referred to how changes in the general share values on the stock exchange acted as a barometer on how well the economy as a whole was doing. There were several common misconceptions by some candidates. These centred on interpreting stocks as goods with reference to balance of payments or stock exchange relating to currencies.
- (c) This question proved to be challenging for most candidates. For full marks, it was expected that candidates would select two or three reasons for the differences and analyse why they existed, with reference to demand and supply. Weaker answers tended to be poorly structured and lacking analysis. Answers that were purely a description of what differences existed on the basis of skills, education, responsibilities, location, risk, gender, age, part- or full-time, sectors of the economy and strength of trade unions, for example, could not gain full credit. Candidates should be encouraged to select two or three reasons for in-depth analysis rather than trying to write down as many reasons as they know.
- (d) The majority of candidates were able to explain the reasons why someone on a high income would save more than someone on a low income. In some cases, this was supported by mathematical examples, although in some the calculations were inaccurate. The difference between the average and good candidate was in how they addressed "always". The expected response was that there were factors other than income that influenced savings, such as age, family, confidence in ability to earn in the future, level of debts, spendthrift or high spender by nature. Thus some high earners may save little and some low earners would save more. Candidates who did not address "always" were limited to no more than 4 marks. Weak candidates often gave a very short response, stating that high earners always saved more.

Question 4

- (a) This did not appear to be fully understood by many candidates. Most candidates were able to explain that a public corporation was owned or controlled by the government and went on to give examples of the type of organisations. Some candidates confused public corporations with public limited companies. Fewer candidates were clear about co-operatives, with some referring to partnerships instead. Better candidates did identify correctly worker or producer co-operatives and explained how they worked.
- (b) Again, this proved to be challenging for many candidates. The most common correct answers identified that labour is a derived demand and therefore demand for labour will rise if demand for the good or service rises. Equally good candidates wrote about productivity of labour affecting demand and the ability to substitute between capital and labour. Candidates who identified supply side factors rather than demand or who wrote about the level of wages determining the level of demand for a job could not be rewarded.
- (c) Given that this type of question has not been asked before in this format, there were a number of very encouraging responses. Stronger candidates started with the points that there was better job security in the public sector but higher wages in the private sector and were then able to develop the analysis further in terms of other benefits of working in the public sector such as, better promotion opportunities, better job satisfaction, better pension provision and the downsides of lack of opportunities for creativity and reward for excellence. For the private sector, the added advantages discussed included better working conditions, incentives for working hard and

contributing to higher profits, taking initiatives, with a general emphasis upon efficiency and the ability to set up your own firm. The downsides also included poor pension provision and a lack of security for poorly-organised firms. Weaker answers were characteristically brief and limited to pointing out the better job security in the public sector versus higher wages in the private sector. There was a general lack of clarity on what was the public or private sector. Candidates need to ensure that the length of their answers matches the number of marks available. This part of the question carried 10 marks but many candidates' responses were too short compared with their answers for parts (a) and (b).

Question 5

- (a) This was generally done well by most candidates, who demonstrated a good understanding of the economic indicator. To gain full marks, candidates needed to explain that inflation is persistent or sustained. The weakest candidates tended to make reference to prices rising or the value of money falling.
- (b) Most candidates were able to identify at least two possible causes of inflation, such as demand-pull and cost-push, although not all used the names accurately. These two causes of inflation are well understood by most candidates. However, with demand-pull it was not always understood that prices rose because supply was unable to respond to increased demand because the economy was close to or at full employment. On cost-push inflation, most candidates were able to identify rising costs of raw materials or labour as the main factor. A large number of candidates also made reference to an increase in money supply by the government, the rising of indirect taxes, imported inflation and cost-pull by monopolies as possible causes of inflation. The weakest candidates were able to name the two main causes but were unable to explain why it happened.
- (c) Again, most candidates were able to explain that a subsidy was a payment by the government to a firm which lowered costs of production, although in some cases the latter was replaced by reference to firms lowering prices. Also acceptable were answers that referred to payments by the government that directly resulted in lower charges by the public sector, such as health and education fees. Answers that related subsidies to taxation did not gain credit.
- (d) There was some overlap in the answers between parts (c) and (d). Candidates on the whole were able to identify that subsidies resulted in lower costs passed on to consumers as lower prices and/or increased supply. This was particularly important for the provision of staple commodities such as rice and other essential services. Answers also often related to supporting infant or sunset industries and the impact that this had on employment and the balance of payments and how subsidies helped the poor and were a means of redistributing income. Another strong argument put forward for subsidies related to the provision of merit and public goods and addressing market failure. Candidates were generally weaker on identifying the possible disadvantages. A common response related to opportunity cost and what the funding could have been used for. There were also concerns about encouraging inefficient firms and firms not passing on the subsidy as lower prices (good candidates made reference to inelastic demand). Other concerns related to overproduction and distorting competition and how it was unfair to those firms not receiving the subsidy. Mention was also made of firms becoming dependent on the subsidy and retaliation by other countries if it affected their exports. An error made by some candidates was to say that a subsidy would result in higher prices since firms could now charge more. As an alternative, some candidates in a few Centres highlighted subsidies for consumers rather than producers and it was possible for them to gain full marks by taking this approach. Again, a balanced answer was required and so one-sided responses were limited to 4 marks.

Question 6

- (a) Answers were generally encouraging, given that this was the first time unemployment had been examined this way. Stronger candidates gave a good definition of the unemployment rate and then went on to explain reasons why data might be inaccurate. Common reasons given included the hidden/informal market, people who did not claim since they were working for their family, the fact that data collection was weak in some rural/remote areas of undeveloped countries and that in some industries inefficient use of labour meant that some workers were significantly under-used, which represented capacity in the labour market. Weaker candidates tended to concentrate on types of unemployment, such as seasonal and frictional unemployment, and argued that because there were always people entering and leaving employment it was difficult to calculate the rate.

Very weak candidates only made reference to other factors, such as changes in birth rates and overall size of the population, rather than numbers employed.

- (b) This was generally approached well and most candidates were suitably prepared. Good answers related to waste of resources, lower growth rates and standard of living, and some related this to the opportunity cost of full employment. A second common issue related to higher government expenditure and lower tax revenue that could result in higher taxes for those in work. Again, there were links to opportunity cost arising from re-allocating resources away from areas such as education and improvements in infrastructure. Another common issue was the impact upon those left unemployed, their deskilling if unemployed for a long period and an increase in crime rates. A few candidates misinterpreted the question and wrote about the causes rather than the consequences of unemployment.
- (c) Most candidates to a greater or lesser extent were able to state that the economic indicator measures the value of output and services in a country. To gain full credit, they also needed to mention that it related to the time period of a year. Candidates need to be aware of the meaning of the term “real”. Weaker candidates tended either to relate it to the size of the population and per capita calculation or to offer no explanation at all.
- (d) As with some earlier questions, the key discriminator in this question was the word “always”. Most candidates have at least a reasonable idea of why developed countries have a higher standard of living than developing countries. The usual explanation would be in terms of standards of education, health, life expectancy and reference to real GDP per capita and HDI. The discriminator between those candidates who gained up to 4 or 5 marks and those that went on to gain more was whether or not standard of living was the same thing as quality of life and whether all residents had the same quality of life. A common argument put forward by the strongest candidates was that GDP per capita was an average calculation and that in the developed countries there were pockets of great poverty and that in developing countries there were often very wealthy people. Equally, many candidates stated that quality of living took account of stress levels and pollution, which were often common in developed economies.

Question 7

- (a) Most candidates gave good answers to this question. The common correct answers related to the removal of import controls, increases in the standard of living, inflation in the home country and imports becoming cheaper and better in quality including new technologies. There were few incorrect answers and the usual reason for not scoring full marks was lack of depth.
- (b) The standard of responses was variable on this part of the question. The common correct answers included that a stable exchange rate made it easier to plan exports and imports since it removed risk and uncertainty. Amongst weaker candidates, this tended to be the extent of the answer given. Better candidates went on to state that this encouraged trade, especially tourism. Another advantage was that it reduced the possibility of speculation driving the exchange rate either up or down. Some candidates then extended this further by saying that this meant that the government needed to intervene to keep the exchange rate stable and that this meant having good reserves. Strong candidates explained that it also meant that the government needed to keep inflation in the country under control.
- (c) This question proved to be challenging for many candidates. It was expected that candidates would identify that a fall in the exchange rate would make exports cheaper and imports more expensive. Most made an assumption that exports would rise, imports would fall and the balance of payments would improve. A few candidates explained that this was dependent upon price elasticity of demand and made the point that if imports were raw materials then imports might rise and this could trigger cost-push inflation. It was hoped that candidates would also make the point that foreign reserves were not needed as for a fixed exchange rate. Strong candidates explained that if exports rose significantly and imports fell significantly, there would be upward pressure on the exchange rate to rise again. Weaker candidates tended to give the opposite argument to part (b) and few candidates gave sufficient depth in their answer to get close to the 10 marks available. Candidates needed to recognise the significance of the key word “always” as a trigger for a two-sided discussion, as one-sided answers were limited to a maximum of 6 marks.