

# ECONOMICS

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

381 candidates took this 30 question multiple-choice examination and the mean score was 19.3, which is slightly lower than the mean score last year.

The questions for which most candidates selected the correct answer were 1, 2, 8, 11, 15, 25 and 29. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 4, 6, 9 and 18. These questions were answered correctly by 40 per cent or fewer candidates. The rest of the questions gave results which were well within the levels expected except for **Question 13** which will be dealt with at the end of the report.

**Question 4** asked candidates about the functions of money. It was answered correctly by 38 per cent who chose option C. 18 per cent chose option A, 14 per cent chose option B, 30 per cent chose option D. Bank notes are generally acceptable as money. The other options are not necessarily true about bank notes.

**Question 6** asked about an external economy. 36 per cent chose the correct option, A. 12 per cent chose option B, 27 per cent chose option C and 24 per cent chose option D. B, C and D could all occur within the firm and be the responsibility of the firm. They are, therefore, internal to the firm. The only option from which the firm could benefit without necessarily being involved is option A.

**Question 9** asked about fixed costs. 38 per cent of the candidates chose the correct option, A. 14 per cent chose B, 29 per cent chose C and 19 per cent chose D. Average total cost is calculated by adding the average fixed cost and the average variable cost. At zero output there are no variable costs. So, whatever costs there were must be fixed costs. The highest fixed costs are shown on diagram A.

**Question 18** involved an application of the concept of market failure. 17 per cent of the candidates chose the correct option, C, 6 per cent option A, 17 per cent option B and 60 per cent option D. The concept of market failure was introduced in the syllabus fairly recently. Option D concerns a change in tastes. A change in tastes and the consequent result can be taken account of within the market. The result, in the example in the question, is a surplus of supply. This could be shown on a demand and supply diagram. The change in price necessary to eliminate the surplus supply can also be shown on a market diagram and is within the usual market representation for the good.

# ECONOMICS

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

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

2303 candidates took this 30 question multiple-choice examination and the mean score was 19.1, which is slightly lower than the mean score last year of 20.4.

The questions for which most candidates selected the correct answer were 1, 2, 5, 6, 10, 11, 12, 17, 20, 22 and 24. These questions were answered correctly by 75 per cent 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, 18 and 26. These questions were answered correctly by 40 per cent or fewer candidates. The rest of the questions gave results which were well within the levels expected.

**Question 8** involved an application of the concept of market failure. 11 per cent of the candidates chose the correct option, C, 5 per cent option A, 9 per cent option B and 76 per cent option D. The concept of market failure was introduced in the syllabus fairly recently. Option D concerns a change in tastes. A change in tastes and the consequent result can be taken account of within the market. The result, in the example in the question, is a surplus of supply. This could be shown on a demand and supply diagram. The change in price necessary to eliminate the surplus supply can also be shown on a market diagram and is within the usual market representation for the good.

**Question 18** asked about fixed costs. 30 per cent of the candidates chose the correct option, A. 18 per cent chose B, 28 per cent chose C and 24 per cent chose D. Average total cost is calculated by adding the average fixed cost and the average variable cost. At zero output there are no variable costs. So, whatever costs there were must be fixed costs. The highest fixed costs are shown on diagram A.

**Question 26** required an understanding of the features of a developing country. 31 per cent chose the correct option, A, 21 per cent chose option B, 29 per cent chose C and 19 per cent chose D. Candidates were required to choose the option that would **not** necessarily be found in a developing country. While many developing countries do have a large population not all of them do. However, the other options are all part of the standard criteria which distinguish developing countries from developed countries.

# ECONOMICS

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

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

651 candidates took this 30 question multiple-choice examination and the mean score was 21.6, which is slightly lower than the mean score last year of 23.4.

The questions for which most candidates selected the correct answer were 1, 2, 3, 4, 6, 9, 10, 12, 14, 15, 20, 22, 24, 26, 28 and 29. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 5, 15, and 30 which were answered correctly by 40 per cent or fewer candidates. The rest of the questions gave results which were well within the levels expected.

**Question 5** concerned the result of an external benefit. 36 per cent chose option A, 56 per cent chose option B, 3 per cent option C, 5 per cent option D. The existence of an external benefit does not imply anything about the existence of either a private cost or an external cost. No judgement can therefore be made about a comparison between benefits and costs. All that is known is that the social benefit must be higher than the private benefit by the extent of the external benefit.

**Question 15** concerned economies and diseconomies of scale. 26 per cent chose the correct option, D. 7 per cent chose option A, 43 per cent option B and 24 per cent option C. Those candidates who chose B presumably thought that the economy from bulk purchases was an external economy because of the expansion of the company into four cities. Similarly, those who chose C presumably thought that the organisational problems caused by distance were external to the company. However, these new branches in the other cities became part of the company and, therefore, any economy was an internal economy to the company.

**Question 30** was on the balance of trade and economic growth. 34 per cent chose the correct option, B. 1 per cent chose option A, 64 per cent chose option C and 1 per cent chose option D. The effect on the balance of trade would be uncertain. The rise in the price of oil would be likely to have a detrimental effect but there has also been a fall in demand, higher unemployment and the closure of businesses. Total demand for imported oil would be likely to have fallen and the overall effect on the balance of trade would depend upon the relative changes of the increase in price and the decrease in demand.

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Paper 0455/21  
Structured Questions

## Key Messages

It was noticeable that more candidates than previously now understand how to approach the examination in terms of the higher level skills of evaluation and judgement. In these “discuss” questions the best approach is to look at both sides separately and then, where necessary, draw a supported conclusion based upon the evidence presented. In addition, it was apparent that many of the economic ideas covered in this paper had been learned and understood by a large number of candidates: substitutes, capital as a factor of production, supply and demand for labour correctly drawn and labelled, trade unions, central banks, economic growth and GDP. On the other hand few candidates understood the link between price changes and revenue in **Question 1(c)**, the difference between absolute spending and proportions in **Question 3(c)**, or the importance of a homogeneous product in perfect competition for **Question 4(c)**. Equally for many candidates there was only a vague understanding of the HDI in **Question 6(a)**, where the important points involve GDP per head, life expectancy and education.

In most questions the key to performing well is to focus clearly on the wording of the question. This is particularly important in the longer questions where key words like “most useful” and “always” can often be overlooked. “Always” was used in **Question 4(c)** and **Question 5(c)**, whilst “most useful” appeared in **Question 6c**, and this means that the candidate is being asked to make a judgement. Without this judgement the marks available for a conclusion cannot be given.

Most candidates understood the requirements of the command words such as explain and discuss, using analytical and evaluative skills to answer the question appropriately. The main problems occurred in shorter questions, where some candidates were intent on giving more than was required. In **Question 1(a)** for example, candidates were asked to give the numerical calculations but not reasons, whilst in **Question 1(b)(i)** two examples could be given without any further explanation for 2 marks.

## General Comments

Although it only affected a small number of candidates, there are still those who attempt all seven questions. This invariably affected the quality of the answers and, apart from **Question 1**, for these candidates it was rare to see high marks scored on any question. Time management problems, however, affected a considerable number of candidates and it was common to see the fourth question incomplete, with steadily deteriorating handwriting evidence of the pressure the candidate was under. The chief cause of this problem was spending far too long on the first question and including too much superfluous material. It is good practice to allocate approximately the same amount of time to each of the four questions. In some cases the balance within questions was also wrong, with much more material provided as answers to the 4 mark sections than the 10 mark sections. Finally, although it was rare, there are still scripts where the handwriting is almost illegible, and this makes it very difficult to ensure that candidates are correctly assessed. In addition, use of red pens for question numbers and diagrams causes problems for Examiners who also mark in red.

## Comments on Specific Questions

### Section A

#### Question 1

- (a) A majority of candidates answered this question correctly; however there were also considerable numbers who found percentage calculations difficult. The correct approach was to calculate the percentage falls as 20 per cent and 15 per cent, but it was common to see candidates gave 80 per cent and 85 per cent as answers without subtracting this from 100 per cent, and therefore concluding incorrectly that employee numbers had fallen by a greater percentage. There were also those who ignored percentages altogether and incorrectly compared the absolute reductions in numbers for mail and employees.
- (b)(i) This question was answered successfully by most candidates. The idea of a substitute was well understood and correct examples from the extract provided, although irrelevant examples such as Coca-Cola and Pepsi were also often provided. This, added to long unnecessary explanations of the reasons for the USPS substitutes, meant that some candidates wasted far too much time on this 3 mark question, leaving less time for longer questions.
- (ii) There was a good understanding of the term 'capital equipment' and most candidates were able to give two reasons for replacing employees with it. Better candidates were able to develop sound explanations, although there were some who confused the terms revenue, costs and profit.
- (c) This question was not well answered on the whole. The chief reason for this was an inability to see the link between the higher prices and revenue in the question. This involves the concept of price elasticity of demand (PED), but most candidates limited their answer to the simplistic point that increasing price would reduce demand without alluding to the extent of that reduction. The few candidates who used PED tended to score well on this question but large numbers of candidates failed to score any marks.
- (d) Most candidates could produce a competent answer to this question, with the good practice of examining both sides of the argument evident. As above, however, there was confusion about costs and revenue, with some candidates believing that cutting costs implied increasing revenue. It was also a positive feature of many answers that candidates were using their knowledge of the wider economic environment to comment on technological changes in postal services. Unfortunately this sometimes went too far and led to long expressions of opinion about the superiority of the Internet over conventional mail. Some of these answers also ignored the data given when asserting that the USPS was only a small irrelevant business now, without realising that the extract gave 176 billion items being carried by USPS in 2010.

### Section B

#### Question 2

- (a) There was a significant divide in this question between those who clearly separated supply factors from demand factors and those who confused the two. Better answers stuck to factors such as population and age structure but a large number used demand factors such as the various reasons firms might need workers. Three supply factors, simply explained, were sufficient to gain 6 marks.
- (b) The supply and demand diagram was generally well presented, with clear labelling of axes and a shift of the supply curve to the right. Some candidates, however, only showed the change in equilibrium with an arrow and did not indicate the points on each axis: wages falling from  $w_1$  to  $w_2$  and quantity increasing from **Question 1** to **Question 2**. This was required for two of the marks. Encouragingly, very few answers confused supply and demand curves in the diagram and most candidates could state that the wage had fallen, even when the diagram was incomplete. The last mark proved difficult to obtain, however, requiring candidates to comment on the extent of the change in supply. Finally, as noted in other questions, there was often far too much detail given, with candidates providing detailed reasons for the increase in supply, which were not required by the question.



- (c) There was good understanding of trade unions' ability to achieve wage increases, with most candidates able to highlight the number of members and the proportion in the union. Less common were answers which covered the wider economic environment and the demand for the product produced by the workers. Unfortunately, few candidates gave a definition / explanation of a trade union, for which 2 marks were available in this case.

### Question 3

- (a) Most candidates had some understanding of what is meant by a central bank but unfortunately many then went on to give the roles that it plays in an economy. Roles were the focus of **Question 3(b)**, and this meant that time was wasted on points which should have been left until that section. All that was required for a full answer was a general explanation of a central bank, such as government ownership and overall responsibility for the banking system of a country. It is important, however, to avoid vague answers, such as "the country's bank" or "the most important bank", which do not explain the meaning.
- (b) There were many good answers here, with the role of a central bank clearly understood. There were, however, a significant number of candidates who confused monetary and fiscal responsibilities in a country. Fiscal policy and the collection of tax is not carried out by central banks but by another arm of government, usually the treasury. This question also tempted some candidates into a list-like approach, and it is worth emphasising that lists of points can gain no more than half marks, no matter how comprehensive the list.
- (c) The key to a successful answer in this question was to consider the proportion of income spent in each case. Unfortunately, large numbers of candidates concentrated on the amount spent and so produced a superficial answer, in addition to making rather obvious points, such as the poor spending less than the rich. There were also those who changed the topic of the question to age and size of family, for which no credit could be given, and this underlines the great importance to candidates of sticking closely to the focus of the question. Terminology was also a problem for some candidates, with class rather than income group examined, and money and wealth incorrectly used.
- (d) Discussion of non-wage factors was generally very good and most candidates could provide points such as job satisfaction and working hours. Weaker answers tended to focus on women who are married with children, whilst better answers understood that women are not a homogeneous group. Discussion of wage factors was fairly limited, with only a small number of candidates discussing the importance of wages in maintaining living standards, and other wage factors such as overtime and bonuses.

### Question 4

- (a) There was a wide range of answers to this question, with the better answers focusing on the importance of the ability to sell shares on the stock exchange, and thus to raise funds for expansion. Weaker answers digressed into features of multi-national companies or commented on limited liability, which was irrelevant in this context. As noted earlier, confusion of terminology was evident, especially revenue, capital and profit. It is important that these terms convey their exact meaning when answering questions.
- (b) Most candidates could provide some analysis of external growth, with good explanations of horizontal, vertical and conglomerate integration given. Internal growth however was often ignored, and so only a minority tended to achieve more than four marks for this question.
- (c) Perfect competition was not always satisfactorily understood and there were a variety of assertions from candidates which did not fit the model. In particular many answers contained references to a wide variety of products rather than suppliers, examples of brands such as Nike and Adidas, and the different prices of firms. Only a minority appreciated that firms in perfect competition are price takers and that the product will be homogeneous, thus providing an ability to develop a satisfactory comparison with monopoly. The model of monopoly was better understood but there was a tendency for candidates to ignore the focus and give benefits for producers, rather than consumers as required by the question. It should also be noted that 2 marks were available for a conclusion but this had to be supported by evidence produced, rather than simply being an expression of opinion.

### Question 5

- (a) Most candidates could give a satisfactory explanation of economic growth involving GDP. There were, however, some who omitted the word “increase” and merely gave the level of output, thus scoring no marks on this part. Some tautological explanations were also apparent and “growth of a country’s economy” for example, is too vague to be worth any credit. Unfortunately most candidates scored only half marks because there was no further development in terms of long run factors, such as quality of resources. It is worth noting that in a 4 mark question, it is unlikely that a brief explanation, no matter how accurate, will score maximum marks and that some further development will be required.
- (b) The best answers in this part explained government actions in terms of fiscal policies, monetary policies and supply-side policies. Candidates were then able to develop this in terms of specific policies, such as subsidising training. Unfortunately a significant number of candidates opted to answer this question in terms of protectionism and it should be emphasised that such a policy is not generally regarded as one which will promote economic growth. Boosting exports will indeed promote growth but tariffs and quotas will not help to achieve this. Instead candidates needed to explain how, for example, lower interest rates could promote trade by keeping the value of the currency low and making exports cheaper.
- (c) There were many excellent answers to this question, especially those which balanced benefits of economic growth with a wide range of problems associated with growth. Better answers discussed in depth issues such as the risk of inflation, depletion of resources and potential pollution. Reduction in unemployment was seen as a key factor for the majority of candidates but not all managed to link this to the incomes of those employed in order to develop the point fully. It is also important to note that economies are not the same as governments and that the better answers will distinguish between the two. So, for example, growth will increase tax revenues but in a developing economy it is important to see how these revenues are used to benefit the citizens of that country.

### Question 6

- (a) In this part candidates were required to define GDP per head and then contrast it with the Human Development Index. A large number, however, ignored the need to divide GDP by the total population and therefore missed the first mark. HDI was not very well understood by the majority of candidates and GDP per head as a component of it was frequently ignored. In addition many responses gave vague points about the quality of life and items not included in the HDI, such as birth rate and pollution.
- (b) One mark was available for a definition of the birth rate but most candidates did not use this opportunity. It was nevertheless possible to gain full marks without this definition, and candidates were able to show three ways in which birth rate changes can affect GDP per head. It was rare however to see longer term factors given, such as more births eventually producing more output, and very few candidates considered other factors such as death rates and migration.
- (c) Most candidates were successfully able to give policies which were likely to reduce poverty but further development of these ideas often proved problematic. In particular, the importance of the link between increased employment and reduced poverty was frequently ignored, with no mention of increasing incomes provided. The focus of the question was policies but some candidates tended to ignore this, concentrating instead on the macroeconomic consequences rather than the policies required. For example, when considering low inflation, it was important to bear in mind the policy which would achieve this, and the link with reducing poverty, through lower prices of necessities. On the other hand there were some very good answers which used improvements in education and training to show how poverty could be reduced through increases in future earnings.

### Question 7

- (a) The majority of those who attempted this question were able to offer a good explanation of the advantages of specialisation. These answers tended to focus on the economic theory of comparative or absolute advantage and were thus able to demonstrate an understanding of resource use, often with appropriate examples. The best answers developed the point further and showed how this benefited consumers through trade with other countries.

- (b) Answers to this part, which asked for the disadvantages of specialisation, were on the whole less successful. Better answers focused on the risks inherent in specialisation, namely relying on too few products and the possibility, especially for developing countries, of crop failure and the problems which this could cause. Very few candidates looked at diseconomies of scale, an approach which was easy to develop, involving an explanation of possible disadvantages in terms of increased production costs.
- (c) There was only limited understanding of exchange rates demonstrated by most candidates in this part of the question. Answers tended to concentrate on the certainty given by fixed exchange rates but there were few answers which looked at the benefits of automatic adjustments under floating exchange rates. Several candidates focused on the type of country, wrongly assuming that all developed countries would have floating rates whilst all developing countries would have fixed rates. It was also surprisingly common to see EU countries being given as examples of fixed exchange rates, when the reality is that France and Italy, for example, both use the euro, a single currency which has a floating exchange rate. The few good answers gave a balance of the advantages and disadvantages of the two systems, with appropriate examples provided. Credit was also given to those answers which noted that some countries try to incorporate the best features of each system with “dirty floating” or managed exchange rates.

# ECONOMICS

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Paper 0455/22  
Structured Questions

## Key Messages

Centres and candidates need to recognise the different demands of questions in **Section A** and **Section B**. In answering the questions in **Section A**, candidates need to read through and use the data carefully. In the case of **Section B**, candidates need to select their three questions carefully. It is important that candidates do not base their selection on just their perceived ability to answer parts (a) and (b). All parts of a question should be considered.

In answering questions in both sections, candidates must take into account the command words and the marks allocated. For instance, more time should clearly be allocated to a question with a mark allocation of eight, than to a question with a mark allocation of four. A question which requires candidates to 'discuss' will be more demanding than one which asks them to describe.

The questions must be read very carefully before candidates start to answer them as it is important that candidates answer the specific questions set. Some candidates misread a question whilst others seek to change the question to fit an answer they wish to give. It might be useful for candidates to underline or highlight key words in questions.

In answering questions which require candidates to explain, analyse or discuss, it is important that candidates do not just assert points. For example, it would not be sufficient for a candidate to write that a cut in income tax may increase the number of people employed. They would have to explain why, bringing out the links between e.g. lower income tax, disposable income, consumer expenditure, total demand, output and employment.

It is also important that candidates avoid common confusions. As in previous sessions, the answers to the questions on this paper revealed a number of confusions including between social and external costs and between the functions and characteristics of money.

## General Comments

There was a wide spread of performance on this paper. Candidates generally performed well on **Question 1**, making good use of the information in extract 1. **Question 2** proved to be the most popular question from **Section B**, with a very high proportion of candidates selecting to answer it. In contrast, **Question 7** was answered by only a small proportion of candidates.

There was little evidence of candidates running out of time and most allocated their time quite well. There were few rubric errors with most candidates answering **Question 1** and the required three questions from **Section B**. Most candidates answered the question parts in order which is to be recommended as there is a logical structure to the questions.

There was some interesting and lucid writing although a number of candidates lost the opportunity to establish the points they were seeking to make by writing in note form.

## **Comments on Specific Questions**

### **Section A**

#### **Question 1**

- (a) Most candidates were able to identify at least three pieces of evidence from the extract. The three most popular factors identified were that Ghana is mainly an agricultural country, nearly a third of the population live in poverty and the infrastructure is poor. A number wrote at greater length than required, seeking to explore these factors.
- (b) This question was generally well answered. A relatively high number of candidates explained that people may move from rural parts of Ghana to the cities in order to gain employment or better jobs and so raise their living standards and in order to obtain better education as a result of more schools and/or the existence of universities in cities.
- (c) Only a small number of candidates transposed the demand and supply curves but more labelled the axes incorrectly. A pleasing number drew an accurate diagram, shifting the demand curve to the right and clearly indicating the original equilibrium and the new equilibrium, and provided a lucid explanation of how an increase in demand would result in a rise in price. Some, however, also shifted the supply curve and not all linked the higher demand to a rise in price.

Candidates need plenty of practice in drawing demand and supply diagrams to analyse real world events and in explaining the sequence of changes in market conditions.

- (d) There were some strong answers to this question. These drew on the extract and developed the points, making good use of relevant economic theory. For instance, some candidates explored how the local tribespeople could use any payment they might receive to improve the quality of their lives whilst also considering that the loss of their land might reduce their long term earnings. There was also some good discussion of the impact on the economy of Ghana, particularly in terms of the benefits of higher GDP and reduced pollution whilst recognising that the project will involve an opportunity cost. A number of candidates, however, wrote in note form, which prevented them from being able to discuss the points.

### **Section B**

#### **Question 2**

- (a) There was less evidence than in previous sessions of confusion between factors of production and stages of production. The two most popular factors of production described were labour and land. These were generally well described although some candidates did not provide examples. Of those candidates who selected capital, most correctly described it in terms of human made goods used to produce other goods and services but some wrote about money. Most of those who selected enterprise/the entrepreneur were able to produce good answers.
- (b) Most candidates showed an accurate understanding of the term 'opportunity cost'. Most also recognised that people have unlimited wants whilst there are limited resources. The strongest answers went on to state that this results in the economic problem of scarcity and to explain that this gives rise to choices and these choices have to be made carefully, taking into account opportunity cost. A number of candidates, however, wrote about particular problems including unemployment and inflation rather than the economic problem.
- (c) Candidates identified a number of reasons for government intervention and a number of ways in which such intervention occurs. The strong answers developed arguments both for and against, for instance, redistributing income, reducing unemployment, providing public goods and increasing the output of merit goods. There were some very good comments on why market forces might result in an inefficient use of resources and also why government intervention may result in disincentive effects.

### Question 3

- (a) A high proportion of candidates struggled with this question. As in previous sessions, there was confusion between social costs and external costs. Most candidates could identify costs of constructing a railway but few described the nature of these costs, in terms of private costs and external costs. A small number wrote about external benefits.
- (b) Candidates did not always make the best use of their time in answering this question. A relatively high number devoted most of their answer to explaining the difference between the private and the public sector, rather than directly answering the question. There was also some confusion about the nature of the public sector funding, with some interpreting it as borrowing from the general public.

The strongest answers explained that a government might not have the money now to spend on the project, that there might be a significant opportunity cost involved in using tax revenue on the project.

- (c) The key to doing well on this question was to apply relevant economics to develop discussion. For example, a high number of answers mentioned that the project would reduce travel time. The strongest answers went on to explore how this might affect firms' costs of production and demand for other forms of transport. Many candidates also mentioned that a high speed railway might damage the environment, with the strongest answers examining the effect this may have on tourism. There was some good application of opportunity cost in a number of answers.

### Question 4

- (a) Candidates often confuse the functions and characteristics of money and this was the case this year with a number of candidates describing general acceptability, durability etc. Not many of the candidates who did write about the functions of money were able to identify and describe all four. The two most common functions that were identified and described were a medium of exchange and a store of value.
- (b) Candidates found this to be a relatively challenging question. The main way identified was to raise the rate of interest and some concentrated just on this. Some others did explore advertising, developing new saving schemes and making it easier to save through opening new branches and increasing opening hours. A number of candidates, however, sought to answer a different question by describing the functions of a commercial bank or the ways in which commercial banks could increase lending.
- (c) Most candidates answered this in very general terms, discussing why some workers earn more than others but not relating the points very closely to workers in the public and private sectors. The strongest answers often related their points to the situation in their own countries. For instance, mentioning that public sector workers receive low earnings because they are compensated with higher pensions or, in other cases, that public sector workers receive higher earnings as the government seeks to ensure workers have a 'living' wage.

### Question 5

- (a) Candidates tended to be quite good describing a co-operative with many mentioning that it is operated for the benefit of members and members have equal voting rights. There were some good descriptions of a public corporation but as in previous sessions, there was some confusion with a public limited company.
- (b) There were some interesting answers to this question, particularly in terms of a public corporation. Some candidates recognised that whilst traditionally a public corporation's key aim is to provide a service, some now act, in effect, as profit maximising multinational companies in other countries.
- (c) This was a well answered question. Most candidates showed a good understanding of both horizontal and vertical integration and provided relevant examples. A small number of candidates confused vertical integration with conglomerate integration.

- (d) Again, there were some good answers which explored some of the possible disadvantages of a monopoly. These were mainly examined from the viewpoint of consumers but some candidates also considered the disadvantages and advantages to the monopoly firm itself. Good use was made of economies and diseconomies of scale and there were some interesting discussions about what factors may influence whether a monopoly will innovate.

In the case of some answers, there was confusion between a monopoly and a sole proprietor. A number of these answers started by stating that a monopoly means a single seller but then interpreted this to mean that only one person owns the business.

#### Question 6

- (a) There was a range of responses to this question. Some explained a range of harmful effects of inflation, including a fall in purchasing power of workers with weak bargaining power and a loss of international competitiveness. A number stated that it might cause unemployment but many did not adequately explain why.
- (b) The performance on this question was stronger than that on **Question 6(a)**. Many candidates seemed aware of the costs of unemployment and how these costs would increase over time. Among the points covered were the loss of income to the unemployed, a reduction in their skills, a fall in the country's output, a loss in tax revenue and the opportunity cost involved in the payment of benefits to the unemployed.
- (c) Candidates found this a challenging question with many struggling to explain why the aims might conflict. In some cases, it appeared that candidates had selected to answer **Question 6** on the basis of their ability to answer **Question 6(a)** and **Question 6(b)** whilst being uncertain how to answer **Question 6(c)**.

The strongest answers discussed how higher total demand might promote a high rate of employment but may result in demand-pull inflation. Some of these also discussed how certain government policy measures designed to achieve one of the aims might harm the other, whilst supply-side policies might enable both a high rate of employment and a low rate of inflation to be achieved.

#### Question 7

- (a) Most candidates showed an awareness of specialisation but not all focused on regional specialisation. There were some good answers which did examine the benefits of a region specialising, particularly in terms of lower average costs, higher living standards and the development of a good reputation.
- (b) This was answered well. A high proportion of candidates revealed a good, accurate knowledge of the components of the current account although a number described only trade in goods and services.
- (c) A relatively high proportion of answers mentioned that changes in demand and supply would cause the value of a floating exchange rate to fall. Not many, however, went on to mention what might cause the demand for and supply of the currency to change.
- (d) There was a range of responses to this question. Some answers were rather vague and a number were limited to defining a floating exchange rate and a fixed exchange rate. Others were stronger and compared a number of features of the two systems, including stability, the role of reserves and adjustment to imbalances and external shocks.

# ECONOMICS

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Paper 0455/23

Structured Questions

## Key Messages

For **Section A**, which is the compulsory question, it is very important that candidates read all the data provided before they start writing and use it where appropriate in their answers. Most candidates made good use of the extract in their answers to parts **(a)** and **(b)** although a few tended to write out the third paragraph in their answer to part **(a)** and the first paragraph in their answer to part **(b)**.

For **Section B**, candidates should read through all questions on the paper before deciding which three questions they may be best at answering. In particular, candidates should look at the last sub-question before deciding which questions to answer since they usually carry the most marks. There were very few examples of candidates changing questions answered which suggests that candidates made the right selections.

Reference to local examples to illustrate answers is welcomed as it shows a candidate's ability to apply economic concepts to their local environment and this was clearly shown in some responses to 2 **(c)**, 4 **(c)**, 5 **(b)** and 6 **(a)** and **(b)**.

## General comments

There were very few rubric errors this year and very few examples of candidates not completing four questions. There also appeared to be fewer examples of candidates using bullet points as their main method of answering questions. List-like answers were also seen less frequently. Answers to questions also broadly reflected the number of marks available, especially the last parts of some questions. These are all encouraging signs.

Most economic terms and concepts were well understood by candidates and good explanations or definitions were given which would have been rewarded. E.g. "inflation" (**Question 1**), the terms "capital", "enterprise" and "opportunity cost" (**Question 2**), "price elasticity of demand and supply" (**Question 3**), "tax" and "subsidy" (**Question 5**), "net migration" and "poverty" (**Question 6**), and "floating exchange rates", "quotas" and "embargoes" (**Question 7**). However, there still does not appear to be a good understanding of what the "Human Development Index" means and how this may differ from other ways of measuring the standard of living. Equally, not all candidates understood what was meant by a "very competitive market" (**Question 1**) and this led to some answers that received low marks.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a)** Most candidates drew correct diagrams with clear labelling showing a shift to the right in the supply curve, with a new equilibrium having a higher price and reduced output. Most candidates explained why there would be a rise in price. Two common errors were to label the quantity axis as either demand or supply but not both or leave it simply as quantity; and to show a shift in the demand curve to the right.



- (b) Most answers correctly identified that cost-push inflation arose from the increase in wheat prices and some candidates went on to explain how this affected the price of bread. A few candidates explained how this might trigger demand for higher wages which would also affect cost push inflation. A few gave a definition of cost push inflation. However, in some cases candidates made reference to higher wheat prices being the result of the ban on exports which does not explain the higher prices in Russia. These were the result of a fall in output caused by the wildfires and many candidates recognised this and explained inflation arising from supply falling whilst demand remained unchanged.
- (c) Answers to this part of the question differed significantly between Centres. Many candidates correctly defined inflation but there were errors in explaining how it was measured. Candidates in some Centres were able to give very full answers relating to the use of the Consumer Price Index or Retail Price Index and how it was constructed. Others made reference to base years, weighting and basket of goods without much conviction. There are still some Centres where candidates prepare very complex tables which probably take some time to set out and this is not required to gain full marks. However, there was a sizeable minority that stated that inflation was measured through GDP which is incorrect.
- (d) Some candidates were very clear about what a “very competitive” market meant. Many wrote about such markets having many sellers and no barriers to entry. Advantages mentioned included, low prices, high quality of goods, efficiency and quick response to meeting consumer demand. Disadvantages identified varied considerably. Common responses included production of demerit goods, failing to take account of external costs, small firms not benefiting from economies of scale and lack of differentiation between goods. Some candidates went down the route of stating that competitive markets could lead to firms going out of business and loss of jobs as firms attempted to reduce costs. A few candidates saw very competitive markets becoming monopolised if firms could differentiate products and gain from economies of scale. Whilst this is a plausible explanation, some answers purely wrote about monopoly, which was a narrow focus and therefore were restricted in the total marks they were awarded.

## Section B

### Question 2

- (a) The response to this question was generally disappointing. Far too many candidates still explain capital in terms of being money used to purchase the other factors of production, and in some cases relate it to financial investment. However, many answers correctly identified capital as man-made goods and were able to give examples such as machinery. The question invited candidates to go beyond a definition and explain how capital was important to the production process. It was encouraging to see a number of responses where candidates explained how capital was essential to the modern production process and the complexity of products made using specialist equipment. Speed, efficiency and replacement of labour were often given as reasons why capital was important.
- (b) There was some overlap in the use of the terms “enterprise” and “entrepreneur” but the majority of candidates were clear that the entrepreneur was responsible for the decision making on what goods and services were provided and how they were produced. Only about half of the candidates referred to risk-taking and that profit was the reward for that risk. Good answers wrote about not only what were the characteristics of a successful entrepreneur but also why some entrepreneurs failed.
- (c) The concept of opportunity cost was well understood by nearly all candidates. However, some candidates had difficulty in explaining how this concept applied to consumers, firms and governments. This was particularly true for firms where explanations tended to be about what to produce and how to maximise profit rather than the opportunity cost of one decision over another. In some cases, candidates used production possibility curves to explain opportunity cost to firms and this worked well. Most candidates were comfortable in explaining opportunity cost as it related to consumers and answers were also generally sound for governments. Here, a common response was around how government allocated resources to meet the different macro policies. For example, spending extra funding on education would result in better skilled workers which would generate economic growth but it would reduce spending on the health service with an explanation of what this might mean for the general health of the public.

### Question 3

- (a) Price elasticity of supply was understood by nearly all candidates although a few mistakenly saw changes in supply affecting price or level of demand. Most candidates were able to explain the range of values from 0 to more than 1. Few stated that it was a positive relationship i.e. supply rose when price rose. A few explained in some detail why supply might be inelastic or elastic but this was not required by the question. A problem with this approach was that some answers to part C were very thin on price elasticity of supply perhaps because candidates had explained this in part A. A number of candidates drew examples of supply curves which showed their understanding of price elasticity of supply, but this was not necessary to gain full marks.
- (b) A number of candidates started their answer by giving a definition of price elasticity of demand and this would have been rewarded. There were some very good answers on what influenced price elasticity of demand and a sizeable minority of candidates gained full marks on this section. However, quite a few candidates did not do so well and there were two main reasons for this. Firstly, what they explained was factors affecting demand e.g. growth in population would lead to higher demand. Secondly, they identified a relationship e.g. goods which are a necessity tend to have price inelastic demand but then did not develop the answer by explaining why demand would be inelastic e.g. because even if the price rose, consumers would still buy the product.
- (c) This part of the question was not as well done as the first two parts. Most candidates had the basic understanding that if firms lowered the price of a product with price elastic demand, demand would rise by more than price fell and therefore revenue would rise. Some candidates illustrated this with a diagram showing revenues gained and lost. The same applied to goods with price inelastic demand. However, some candidates confused revenue with profits and some wrote in very general terms about how revenue might be affected. Some related price elasticity of demand with the imposition of taxes on goods which again illustrated the impact of price elasticity of demand and would have been given some credit. Answers on price elasticity of supply were generally poor. The answers for some confused demand and supply. Some just repeated what price elastic and inelastic supply was. However, some candidates were able to explain that price elasticity of supply affected the ability of the firm to respond to a change in demand and that making your supply more elastic by storing goods or increasing capacity would assist in responding to changes in demand. Indeed, some very strong candidates explained the impact of a good with both a high price elasticity of demand and supply.

### Question 4

- (a) This part of the question was generally well understood. Candidates were aware that shareholders received dividends and that they would make a capital gain if share prices rose. Fewer candidates went on to explain that shares carry voting rights enabling shareholders to influence the running of the company.
- (b) Again candidates had a good understanding that the Stock Exchange provided a market for the buying and selling of shares although fewer were aware that it also enabled the government to raise funds. The explanation that the share prices on the stock exchange provided an indicator of how well the economy was doing was more limited. There were a few misconceptions about the role of the Stock Exchange e.g. that it was a place for buying and selling goods or currencies.
- (c) This part of the question was reasonably well done in that the majority of answers indicated that pay, fringe benefits and working conditions were likely to be better than many other jobs especially in developing countries. Reference was made to skills and level of education needed to do such jobs and that status might be a factor in attracting some people to working in the financial sector. Some candidates related jobs in financial services to other jobs in the primary and secondary sector and therefore why such jobs would be more appealing in their country.

- (d) Most candidates were able to give a reasonable understanding on the role of trade unions and how they assisted their members. However, the question went beyond this and asked candidates to discuss the extent to which trade unions could benefit the economy. For a sizeable minority of candidates, there was no direct acknowledgement of the impact of trade unions on the economy with answers purely being how trade unions affected pay and working conditions for their members or affected individual firms. Whilst this would have gained some marks, there was a need to explain for example how raising qualifications and skills of trade union members would raise productivity, output and therefore growth within the economy. Most candidates were generally able to explain that higher wages could result in inflation; better candidates would have stated this was cost-push inflation and made reference to the loss of international competitiveness of home based companies if wages rose too fast.

#### Question 5

- (a) This should have been a straightforward answer for most candidates to gain all four marks. However, a considerable number did not make reference to the government in their answer and many others spent too long explaining why taxes were used to change prices of goods without any reference to income tax, which generates considerable revenue in some countries. Answers were generally better on subsidies although here again often answers were too long and the response given was more relevant to part b. A few confused subsidy with a substitute good.
- (b) This was generally well answered with many gaining full marks. Common reasons given related to provision of merit goods, providing support for infant and sunset industries in respect of international trade, reducing prices of necessities e.g. rice for poor families in time of inflation and generally reducing the prospect of unemployment. In some cases diagrams were drawn to support the text but this was not required to gain full marks.
- (c) Generally speaking, the length of answers given to this part of the question reflected the fact that 10 marks were available. Answers as to why income tax should be raised were generally sound. Typical responses included reducing aggregate demand and addressing demand-led inflation, providing additional revenue to allow government expenditure on education, health services etc. and redistributing income from rich to the poor. There were some incorrect comments which suggested for example that income tax be used to reduce consumption of demerit goods. Arguments put forward against increasing income tax were generally weaker. The common responses related to demotivation for those paying tax which could have an impact on output, and that lower demand at a time of recession could lead to higher unemployment. Other comments included that it could lead to a “brain drain” and discourage multi-national companies from coming to the country. Some candidates wrote instead about reasons for reducing income tax, which whilst often correct, was not the question asked and therefore gained few if any marks.

#### Question 6

- (a) The majority of candidates understood the term net migration, although a few explained it as an outward flow only. For some countries migration was a big factor in determining the overall change in the population. For some candidates more could have been written about other factors such as birth and death rates and indeed which factor was likely to be the main factor affecting the size of the population. Good answers often explained how in a developed country with low birth and death rates, net migration could well be the main factor.
- (b) Most candidates showed an understanding of what were health programmes, however for many there was a misconception that people paid for them and therefore often reached a conclusion that health programmes would not reduce poverty. Good answers explained that if the result of better health programmes was to reduce illness and enable more people to work this could reduce poverty. The most common viewpoint was that health programmes would contribute but were not enough in themselves to reduce poverty and could even divert resources away from actions that would reduce poverty. There was a good understanding that spending money on education, creating jobs and improving infrastructure would enable more people to have jobs and therefore move out of poverty.

- (c) Detailed understanding of the Human Development Index was limited to a few Centres although many candidates had a broad understanding of the sorts of indicators that measured living standards. Many candidates struggled to explain how useful HDI was in comparing living standards in different countries and overall this part of the question was not well done. In many cases candidates were not aware that HDI consisted of GDP, life expectancy and education e.g. literacy and argued that these indicators were more relevant. Common concerns expressed related to the use of GDP and unequal distribution of income and hidden economies.

#### Question 7

- (a) Demand and supply were commonly identified as factors influencing the value of a currency in a floating exchange rate. Fuller answers also made reference to interest rates, speculation and changes in the level of imports and exports affecting demand and supply. A few candidates also made the point that there was no government intervention.
- (b) This part of the question was also generally well done. Answers often correctly identified that exports were now more expensive and demand would fall; whereas imports were now cheaper and this would lead to a rise in imports and that overall there would be a deficit on the current account. Stronger answers referred to the fact that there could also be a fall in growth and rise in unemployment. Some commented that because imports of raw material were now cheaper, this might benefit some firms and that overall this could have a favourable effect on prices in the economy.
- (c) Most candidates were able to explain fully the difference between a quota and an embargo and in many cases an example of a quota or an embargo was given.
- (d) Trade protection was well understood and there were many competent answers on the reasons why a government would protect a home industry. The most common reasons related to infant and sunset industries, strategic industries (including agriculture) and as an anti-dumping measure. Potential advantages of free trade were generally well explained as well with higher world output and standard of living and wider choice for consumers often given as reasons for supporting free trade. Some candidates, however, did not state the reasons in support of free trade but instead explored why the impact of trade restrictions could be negative e.g. retaliation from other countries and less choice and higher prices for consumers. This was equally acceptable as an approach.

# ECONOMICS

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Paper 0455/31

Analysis and Critical Evaluation

## Key Messages

In preparing for this paper, candidates need to develop not only knowledge and understanding of economics but also their data handling techniques, analytical and critical evaluation skills. They need to know how to interpret written, statistical and diagrammatic data.

It is important that candidates do not rush their answers. They have time to consider the questions carefully before they start answering them. They need to answer the question directly by using relevant economics.

## General Comments

The performance varied from question to question. There were, for instance, some very strong answers to **Question 1(f)** whilst a high proportion of candidates struggled with **Question 2(c)(ii)**.

There were few unanswered questions. The two main questions that a small proportion of candidates did not attempt were **Questions 1(e)** and **2(b)**. Most candidates wrote at an appropriate length, taking into account the mark allocation. A number of scripts were somewhat difficult to read and it is important that candidates write in a legible way.

## Comments on Specific Questions

### **Question 1**

- (a) Most candidates were able to define inflation, recognising that it means a rise in the price level and one which occurs over time rather than a once-off increase. A number, however, wrote in microeconomic terms by referring to a rise in the price of a product. A few revealed some confusion by referring to a rise rather than a fall in the value of money.
- (b) This question required candidates to recognise from the extract what is meant by 'a harmful fall in the price level' and then to examine whether the statistical information in Table 1 supported the view that Japan was experiencing such a fall. There were some very good answers. These recognised that the table showed that as the price level fell over the period, unemployment rose and that this indicated that total demand fell over the period and so the country was experiencing a harmful fall. A number of candidates, however, concluded that the fall in the price level must have been beneficial because they apparently did not consider the unemployment data.
- (c) The majority of candidates were able to identify GDP as another economic indicator.
- (d) Candidates found this question relatively challenging. The key to a good performance here was for candidates to have first studied the extract carefully to recognise what would be happening to demand during a period of a harmful fall in the price level.

Most candidates who appreciated the nature of a harmful fall provided a good explanation of why spending on capital goods may decrease. Those who did not examine the extract carefully confused it with a beneficial fall in the price level. A number of candidates suggested that spending on capital goods would fall as firms would replace machinery by labour as wages would decline. This approach failed to recognise that during a period of a harmful fall in the price level, the price of capital goods would also decline and that the need for both capital goods and labour would decrease.

- (e) A number of candidates showed some confusion between fiscal and monetary policy. A relatively high proportion referred to taxation but not many also mentioned government spending.
- (f) There were some excellent answers to this question, exploring a number of reasons why a central bank should reduce its interest rate. These included: to reduce unemployment, to stimulate economic growth and to reverse a harmful fall in the price level. The answers explained the links between a fall in the rate of interest, consumer expenditure, total demand and the macroeconomic variables. Some candidates even explained how the central bank's interest rate is linked to commercial banks' interest rates. These strong answers went on to examine circumstances when a central bank should *not* reduce its interest rate. There were some particularly interesting comments about the risks of encouraging people to build up unsustainable debt.

There were, however, some answers which were not as well developed. Some of these stated that banks should not lower their interest rates as this would reduce their profits. These answers did not recognise that banks' profits arise from the difference in the interest rate they charge borrowers and the rate they pay to savers. A lower interest rate paid by borrowers could be matched by a lower interest rate paid to savers.

## Question 2

- (a) (i) Most candidates recognised the appropriate private benefit although a number gave an external benefit.
- (ii) The vast majority of candidates identified the relevant external benefit.
- (b) There was some confusion shown about the nature of regulation. A relatively high proportion of candidates wrote about taxes and subsidies rather than about rules and laws.
- (c) (i) This was a straightforward answer and there was a wide range of acceptable examples.
- (ii) A relatively high proportion of candidates struggled with this question. Some described market, mixed and planned economic systems but did not answer the question directly. A number recognised the role of the private sector but did not go further. There were, however, a small number of very strong answers, recognising how the price mechanism reflects changes in demand and supply and provides a profit incentive to allocate resources to reflect consumer demand.
- (d) Most candidates recognised that government intervention to reduce pollution had, in some cases, failed. The strongest answers clearly linked this to market failure. Some candidates quoted lines from the extract with little or no interpretation.
- (e) Most candidates recognised that whilst Pakistan is a relatively important user of biofuels, a reduction in the consumption of palm oil by the European Union would have a more significant impact. Stronger answers explored the issue in more depth and/or width. There were some interesting comments about the significance of what form of energy Pakistan might switch to and the other causes of CO<sub>2</sub> emissions.

# ECONOMICS

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**Paper 0455/32**

**Analysis and Critical Evaluation**

## Key Messages

In preparing for this paper, candidates need to develop not only their knowledge and understanding of economics but also their data handling techniques and analytical and critical evaluation skills. They need to learn how to interpret written, statistical and diagrammatic data.

It is important that candidates do not rush their answers. They have time to consider the questions carefully before they start answering them. They need to answer the questions directly by using relevant economics.

## General Comments

The performance varied from question to question. There were, for instance, some very strong answers to **Question 2(d)** whilst a high proportion of candidates struggled with **Question 1(c)(i)**.

There were few unanswered questions. Most candidates wrote at an appropriate length, taking into account the mark allocation. A number of scripts were somewhat difficult to read and it is important that candidates write in a legible way.

## Comments on Specific Questions

### **Question 1**

- (a) (i) The majority of candidates were able to identify two relevant reasons. The most common reasons identified were greater skill, higher qualifications and favoured gender.
- (ii) There was a mixed performance on this question. A number of candidates recognised that the figures indicate that men earned more than women in Japan and that women earned more than men in Costa Rica. Some mentioned that the figures show that the gender gap was greater in Japan. Others, however, did not interpret the data and just quoted the figures. Some misinterpreted the figures and wrote that wages were 33 per cent higher in Japan than in Costa Rica or that wages rose by 33 per cent in Japan but fell by 3 per cent in Costa Rica.
- (b) Most candidates were able to identify two relevant costs of poverty and the strongest answers went on to explain how these arise or why these are costs. There were some particularly interesting comments on how poverty can result in low productivity due to the effect it can have on workers' health and their access to education and training.
- (c) (i) Some candidates did not refer to the data in Table 1 in their answers. They wrote about the differences in the components of the two measures but did not analyse the figures. Some of those who did refer to the figures did not examine the relationship. A number just quoted the figures.
- (ii) A number of candidates made good use of the information in the extract on the MPI measure to identify reasons such as access to clean water and children finishing primary school. Some candidates, however, did not make good use of the extract and as a result mentioned, for example, malnutrition and children not finishing primary school.

- (d) There were some strong answers to this question. These examined a range of ways in which increasing government spending might reduce poverty. There were some particularly good links provided in terms of higher government spending on education and health care, labour productivity and earnings.

In addition, there was some good discussion about whether higher government spending on benefits might discourage the unemployed from seeking work and whether the government spending being financed by taxes might influence the outcome.

There were, however, a number of one-sided answers, especially in terms of how the higher government spending might be successful. Some answers also did not link their points sufficiently to reducing poverty. For instance, a number mentioned that higher government spending might create jobs but did not explain why higher employment may reduce poverty.

## Question 2

- (a) A number of candidates showed an awareness of variable costs by correctly selecting two out of the three variable costs given in the extract. Some candidates, however, listed all five costs given in the fourth sentence. Others gave the first two costs mentioned in the sentence, one of which, insurance, is a fixed cost.
- (b) Some answers revealed a good understanding of price elasticity of demand and correctly interpreted the meaning of the figure  $-1.5$ . A relatively high proportion of candidates, however, were confused by the minus sign into thinking that the figure indicated inelastic demand. Some also thought that the figure meant that a 15 per cent rise in price would cause a 10 per cent fall in demand rather than a 10 per cent rise in price causing a 15 per cent fall in demand.
- (c) Most candidates were able to identify two reasons for the increase in demand for tickets on Emirates Airline. The stronger answers went on to explain the reasons. The two most popular reasons explored were the firm spending money on advertising and rival airlines increasing their prices. Some of the candidates who selected lower hotel prices in Dubai made some perceptive comments on the relationship between demand for the accommodation and demand for tickets on airline flights.
- (d) Most candidates made good use of the extract. They selected a range of evidence to support the view that the airline industry is not operating under conditions of perfect competition. A small proportion of candidates revealed some confusion about the nature of perfect competition and a lack of close attention to the extract by stating that easy entry into the market indicated that the airline industry is not perfectly competitive.
- (e) What distinguished the stronger answers here was the relevant application of economic theory. Some candidates wrote in very general terms about, for instance, extra flights. The strong answers, however, explored how the merger might influence price, quality and choice by considering the impact on how the new firm might respond to its increased market power, whether it would experience greater economies of scale or diseconomies of scale and the extent to which rationalisation might occur.



# ECONOMICS

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Paper 0455/33

Analysis and Critical Evaluation

## Key Messages

In preparing for this paper, candidates need to develop not only their knowledge and understanding of economics but also their data handling techniques and analytical and critical evaluation skills. They need to learn how to interpret written, statistical and diagrammatic data.

It is important that candidates do not rush their answers. They have time to consider the questions carefully before they start writing them. They need to answer the question directly by using relevant economics.

## General Comments

There was a range of performance across the questions on this paper. For instance, there were many good answers to **Questions 1(a), 2(a)(i) and 2(b)(i)** but fewer good answers to **Questions 1(c)(ii) and 2(a)(iii)**.

Most candidates wrote at an appropriate length, taking into account the mark allocation. In a number of cases, closer examination needed to be paid to the wording of the questions. This particularly applied to **Questions 1(b)(ii), 1(d) and 2(b)(ii)**.

A number of scripts were somewhat difficult to read and it is important that candidates wrote in a legible way.

## Comments on Specific Questions

### Question 1

- (a) The majority of candidates were able to identify the two relevant benefits of bringing in foreign currency and creating employment.
- (b)(i) Most candidates recognised that Peru spends a higher proportion of its GDP on conservation than Ecuador does. Fewer also mentioned that the rainforest is disappearing more slowly in Peru than in Ecuador.
- (ii) The strongest answers first explained what is meant by conservation. They then went on to explore how not using resources might affect output, incomes, exports and employment and linked these to economic development. There were also some interesting comments on the opportunity cost involved in government spending on conservation. A number of candidates explained why conservation might not restrict economic development but this was not required.
- (c)(i) There was a mixed response to this question. Some candidates correctly identified Petroecuador as a public corporation and explained why. Others revealed the common confusion between a public corporation and a public limited company.
- (ii) Most candidates were able to identify the relevant external costs but very few established why these were external costs. The topic of external costs is one which candidates have generally not tackled well in recent sessions.

- (d) Some candidates did not read the question carefully enough and as a result discussed whether other countries would benefit from Ecuador drilling for oil in the ITT area. There was a range of performance among those candidates who did answer the actual question. Some answers were well balanced, exploring potential benefits and potential disadvantages. There were some strong comments on whether pollution would increase or decrease in the area and on the different effect on countries which import oil and countries which export oil.

## Question 2

- (a) (i) This question was generally well answered. Most candidates were able to identify two relevant reasons and most went on to provide clear explanations. A number of candidates, however, just quoted the fourth and fifth sentences without interpretation and so without answering the question directly.
- (ii) There were some good answers to this question, based on a close examination of the data in Table 1. A relatively high proportion of candidates deduced that the data generally supports the view, provided supporting evidence and identified an exception. A smaller proportion went on to comment on the validity of their findings.
- (iii) Candidates did not always pay careful attention to the extract which actually defines the replacement rate. As a result, they wrote about why the global birth rate might fall in the future.
- (b) (i) Most candidates were able to identify two relevant reasons but not all went on to explain them. Among those answers which did explain the reasons, there were some intelligent comments about why the death rate may fall to offset the effect of the fall in the country's fertility rate and why a natural decrease in population size may be outweighed by a rise in net migration into the country.
- (ii) Some candidates answered a somewhat different question by not taking into account the information needed and just discussing the advantages and disadvantages of a decrease in population. Those answers which did focus on the specific question, discussed a range of information. There were some pertinent comments particularly on the significance of the size of the population, the resources available and the cause of the decrease.

A relatively high proportion of candidates identified the current level of employment or unemployment as a relevant piece of information. The comments on the impact on unemployment, however, varied. Some mentioned that a decrease in population would reduce unemployment as there would be fewer workers competing for jobs. The stronger answers recognised that a reduction in population would not only reduce the number of people seeking employment but also the demand for goods and services and so demand for labour.