

# ECONOMICS

Paper 0455/01  
Multiple Choice

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

4,425 candidates took this 30 question multiple choice examination and the mean score was 16.8.

The questions for which most candidates selected the correct answer were 1, 2, 4 and 23. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test differing skills.

The questions for which the fewest candidates selected the correct answer were 5, 16, 21, 22, 25 and 28. These questions were answered correctly by 40% or fewer candidates.

**Question 5** was answered correctly by 29% of the candidates who chose option A. 55% chose option C. Subsidies are given by the government and, therefore, would not encourage the use of the market system but interfere with the normal working of the market. Option B was chosen by 9% and option D by 6%.

**Question 16** was answered correctly by 26% of the candidates who chose option C. 32% chose option B which is an internal economy. 21% chose options A and D.

**Question 21** was answered correctly by 39% of the candidates who chose option A. 26% of the candidates chose option C which only includes males in the labour force and ignores females. 22% chose option D presumably thinking that the labour force was the total population. 12% chose option B.

**Question 22** was answered correctly by 34% of the candidates who chose option A. 28% chose option B, and 31% chose option C. This topic often confuses candidates and it might be useful for candidates to understand the operation of a maximum price and make themselves aware of the differences if a maximum price is fixed above or below the equilibrium price.

**Question 25** was answered correctly by 20% of the candidates who chose option D. 42% chose option A, 13% chose option B and 24% chose option C. Options A and B would increase the average age. It is likely that the younger members of the population would emigrate but it is more likely that immigration would reduce the average age.

**Question 28** was answered correctly by 18% who chose option B. 40% chose option C. Specialisation is customarily thought to involve repetitive jobs which concentrate on a small part of the whole process and are, thus, likely to become tedious to the employee more quickly. Job satisfaction would, therefore, decrease not increase.

# ECONOMICS

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Paper 0455/02  
Structured Questions

## General Comments

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

There were relatively few rubric errors, although some candidates did answer all seven questions on the examination paper when the requirement was to answer **Question 1** in **Section A** and three other 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 question, especially in terms of the particular command or directive word being used. For example, if the question asks the candidate to explain what is meant by something, as in **Question 3 (c)** where candidates were required to explain how an individual's earnings might change over time, or in **Question 4 (a)** where candidates were asked to explain whether milk was a fixed or variable cost for Cadbury, then the candidate simply needs to write a relatively brief answer. However, if the question requires the candidate to analyse something, as in **Question 3 (d)** where candidates were required to analyse why different income groups have different spending patterns, or to discuss something, as in **Question 6 (c)** where candidates were asked to discuss whether it was likely to be better or worse for a country's inhabitants if a country increased the tariffs and quotas it put on international trade, there is a need to provide a much more detailed answer, often giving two sides of an argument and then coming to a logical and well reasoned 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, **Question 4 (a)** was given just three marks whereas **Questions 2 (c), 6 (c) and 7 (c)** were each allocated ten marks.

As a general reminder, candidates are allowed to use calculators during the examination should they wish to do so. Please refer to the Handbook for Centres (2010) for further guidance about the use of calculators.

## Comments on specific questions

### Question 1

- (a) In the first part of the question, candidates were required to explain whether a decline in the birth rate would mean that the population of a country was declining. A number of them simply wrote about the birth rate, but the better answers made reference not only to the birth rate but also to the death rate and the net rate of migration (i.e. the difference between the number of immigrants and emigrants). They explained that you would need to have information about all of these to decide whether the population of a country was declining or not.
- (b) In this part of the question, candidates were required to analyse the possible effect in the employment market of a fall in the number of school leavers for a ten year period. A number of candidates struggled, but the better answers recognised that the supply of workers would, therefore, decrease unless more of the older workers could be persuaded to stay in, or go back to, work and/or the number of immigrant workers increased. A number of candidates went on to point out that if there was a decrease in the supply of workers, this was likely to lead to an increase in the wages paid to them.

- (c) Most candidates were able to offer a good answer to this part of the question, explaining why governments were involved in spending on education. They recognised that education had wider benefits to the general society, above any particular benefits to individuals, and so governments ought to encourage as many as possible to gain an education. For example, there would be potential benefits in terms of increased skills and, therefore, enhanced levels of productivity. The term 'merit good' is not specifically on the syllabus, but many candidates recognised that education was a very good example of such a concept.
- (d) The majority of candidates were able to demonstrate a knowledge and understanding of the concept of opportunity cost in terms of the next best alternative foregone and recognised that the concept could be applied to changes in government spending in terms of the sacrifice that would need to be made by spending on one activity rather than another. The better answers, however, went beyond this and pointed out that the concept of opportunity cost would be less of an issue in this particular context given that the number of children in senior schools would fall by 11%. In other words, extra expenditure would be less likely to be required if the number of candidates was falling.

### Question 2

- (a) In the first part of the question, the majority of candidates recognised that there was likely to be a fall in demand for air travel as a result of increased delays at airports because of the tightening of security controls. This could be shown by a leftward shift of the demand curve causing the equilibrium price and output to fall. Many of the diagrams were drawn and labelled clearly and correctly, but some were rather poor. For example, some candidates failed to label the axes at all, while others, although correctly shifting the demand curve to the left, failed to indicate the changes in the price and quantity.
- (b) Most candidates were able to identify a complementary good or service connected with cruise ships, such as the travel agencies that arranged the bookings, but some identified an example which had nothing to do with cruise ships. The majority of candidates were able to discuss the possible employment prospects in the industry which they had identified as a result of the increase in airport delays and the increase in demand for holidays using cruise ships.
- (c) The majority of candidates recognised that the delays at airports could have a very damaging effect on an economy that relied very heavily on the tourist industry, especially in terms of the damage it could cause to employment prospects if the number of tourists visiting the country decreased significantly. A number of candidates, however, went beyond this, pointing out that in many cases there could well be alternative forms of transport, such as sea or rail, so that the impact of the delays at airports might not be as damaging to the economy as might have been supposed.

### Question 3

- (a) There were some very good answers to this first part of the question; comparing the relative advantages of getting a job, such as the remuneration offered, and with staying in education at a college, such as the extra qualifications that could be obtained. Some candidates, unfortunately, only considered one or the other of the two options and so limited the possible mark that could be awarded to such an answer.
- (b) Again, some of the answers to this part of the question were very one-sided, stressing the potential advantages of specialisation, such as the increased efficiency it could contribute to. The better answers, however, went beyond this narrow approach and made a genuine attempt to offer a more balanced response, arguing that although specialisation clearly had potential advantages, it could also have some disadvantages, such as a greater degree of boredom and monotony.
- (c) There were a number of very good examples to this part of the question, with candidates explaining how an individual's earnings might change over time. For example, they would be expected to increase as a result of an individual gaining more experience, enhanced skills and possible promotion over a number of years.



- (d) There were some good answers to this part of the question, with candidates recognising that wealthier groups would be likely to spend a higher proportion of their income on luxury goods and a smaller proportion on basic necessities, whereas it would be the opposite situation with the poorer groups in society. Some candidates, unfortunately, misread the question and offered an analysis of why various people earned different amounts of money rather than of why they spent it in different ways. This showed the importance of candidates reading a question as carefully as possible.

#### Question 4

- (a) The majority of candidates were able to explain that milk would be a variable cost for Cadbury because the demand for milk would change directly with any change in the production of chocolate. Some candidates, however, argued incorrectly that it would be a fixed cost for Cadbury.
- (b) There were a number of good answers to this part of the question, with candidates demonstrating sound knowledge and understanding of the concept of price elasticity of demand, both in terms of how it could be calculated and of the factors that could affect it. There was some good application of the concept to the context of chocolate, with candidates making some useful comments on the extent to which it might be regarded as a necessity, the proportion of income spent on it and the availability of substitutes.
- (c) Answers to this part of the question varied a great deal. Many candidates recognised, from the information given about shareholders and the size of the profits, that it was most likely to be a public limited company and possibly a multinational company. Some candidates, however, gave a private limited company as the answer, while others sat on the fence and simply said a company. A few, unfortunately, selected a partnership as the most likely type of business organisation. Some candidates mistakenly referred to a public corporation.
- (d) There were some good answers to this final part of the question. Many candidates clearly recognised the need to contrast revenue and costs. The majority of candidates pointed out that the effect on profits would depend on the proportion of total costs that was represented by the milk costs, but that the likely effect might be a fall in profits. However, if the firm decided to increase its prices to offset the higher milk costs, profit levels might be maintained, but this would depend on the price elasticity of demand for the product and the degree to which an increase in price of the product affected the demand and, therefore, the revenue received.

#### Question 5

- (a) The majority of answers to this first part of the question were of a good standard. Candidates were able to successfully describe what was meant by a mixed economy in terms of it comprising both a public and private sector, involving some resources being allocated by a government and some being allocated through a market system.
- (b) This part of the question was also answered quite well. Most candidates were able to identify and explain three macro-economic aims that a government might have, such as those in relation to inflation, employment, economic growth, the balance of payments and the distribution of income and wealth. Some, however, wrote about the same aim twice, such as those in relation to standards of living and economic growth. A number of candidates seemed to ignore the word macro and wrote about various micro economic aims. Candidates must be able to recognise the differences between possible macro and micro economic aims of a government.
- (c) Most candidates had some idea of what was meant by a government's budget, in terms of a statement of the income and expenditure for a year. In other words, where the revenue would come from and how it would be spent.
- (d) The final part of the question was, unfortunately, not answered very well by many candidates who seemed to focus on the last word in the question 'expenditure' and offered a discussion of what a government spent its money on, ignoring the reference to 'how a government might finance'. A number of candidates, however, did understand what was required in the question and offered a useful discussion of how a government might obtain its revenue, such as through different forms of taxation. This question clearly showed the importance of candidates reading the question very carefully.

### Question 6

- (a) Most candidates did quite well in this first part of the question, offering a clear explanation of what was meant by the balance of payments. There was a clear distinction between the visible and invisible parts of the current account. A number of candidates made reference to the capital account, but it should be noted that the syllabus only refers to the current account of the balance of payments and so maximum marks can be obtained by candidates through demonstrating a clear knowledge and understanding of the current account only.
- (b) This part of the question was also answered reasonably well by the majority of candidates. There was generally a good recognition of why countries trade with each other, especially in terms of being able to benefit from the advantages of specialisation and the greater degree of choice that it offered to consumers in different countries.
- (c) There were a number of good answers to this part of the question, with candidates recognising that an increase in tariffs and quotas could have both advantages and disadvantages to the inhabitants of a country. An advantage would be that it would offer protection to a domestic industry, especially an infant or a declining industry, and this would enable the country to avoid the damage of increased unemployment. A disadvantage would be that a quota would restrict the degree of choice offered to consumers while a tariff would increase the price of an imported good; consumers could still choose to purchase the product, but it would cost them more. Some candidates, unfortunately, offered a very one-sided answer and this limited the possible mark that could be awarded. Candidates need to understand that where the command word 'discuss' is used, there is usually a need to offer a contrast between two points of view and then come to a conclusion.

### Question 7

- (a) There were some very good answers to the first part of the question. Candidates demonstrated a useful knowledge and understanding of some of the key characteristics and features of a developing economy, such as in relation to per capita income, housing, education, health, life expectancy and infrastructure.
- (b) A number of candidates offered a balanced discussion of the use and conservation of resources, contrasting the advantages of using the resources, such as a source of income, with the possible disadvantages, such as leading to the depletion of non-renewable resources. Some candidates, unfortunately, offered a very one-sided answer, and this limited the mark that could be given.
- (c) There were a number of good answers to this final part of the question. Candidates were able to demonstrate a sound understanding of how living standards may be compared between countries, such as in relation to GDP or GNP, especially differences in real GDP per capita. A number of candidates went beyond GDP and considered the Human Development Index which includes criteria other than just GDP.



# ECONOMICS

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<p><b>Paper 0455/03</b> <b>Analysis and Critical Evaluation</b></p>
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## General comments

There were some excellent scripts which made good use of relevant economics and explained points in sufficient detail. There were also a few scripts where candidates struggled to answer the questions and, in some cases, did not attempt all the questions. One of the key differentiations between scripts in the mid-range was the ability to explain, where necessary, rather than just identifying points.

It is important that candidates:

- write legibly. This session a number of candidates' scripts were very difficult to read.
- take careful note of the directive words of the questions. For instance, if a question asks candidates to identify two causes of an increase in demand, they can briefly state e.g. an increase in disposable income and a rise in the price of a substitute. In contrast, a question which asks them to explain two causes of an increase in demand would require them not only to specify two causes but also to explain why they would result in higher demand. A question which has the directive word 'discuss' is requiring them to make judgements. This may involve them considering, for instance, advantages and disadvantages or, in the case of a question that asks them to discuss the causes of an increase in demand for cinema tickets, relating the causes to cinema tickets and to comment on how significant they are in this case.
- avoid common confusions. For instance, productivity is not the same as production and external costs are not the same as social costs.

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## Comments on individual questions

### Question 1

- (a) This was generally well answered with most candidates being able to identify two relevant reasons from Extract 1.
- (b) Strong answers followed the instruction to describe. A number of candidates, however, just identified functions. The most popular functions selected were providing loans, accepting deposits, enabling customers to make payments and enabling customers to change currencies. A few candidates, unfortunately, described the functions of a central bank.
- (c) The strongest answers developed good links between the improvement in financial services and a reduction in poverty. Some candidates correctly wrote that poverty might be reduced because saving would be encouraged but failed to explain why higher savings would be expected to lead to higher incomes and so reduced poverty.
- (d) A number of candidates discussed differences in wages rather than differences in working conditions. A surprising number failed to discuss one of the two aspects of the question. They considered the differences in occupation but did not comment on the differences in working conditions. Some wrote very vague comments such as 'working conditions are worse in rural areas'.

- (e) A relatively straightforward question which elicited some excellent answers. These discussed a range of interesting issues, including the impact that outward migration may have on the economy of the rural area the people have left and the need to consider not only the wages on offer but also the cost of living.

## Question 2

- (a) A number of candidates struggled with this question. Some vague answers were produced. Some candidates stated it was a benefit enjoyed by a private firm as opposed to a state owned enterprise and a few defined a private good. Those candidates who stated that a private benefit for a firm is profit gained one mark. Those whose explanation was more developed, for instance, explaining that it is a positive return, in the form of profit, gained by those producing a product, gained the full two marks. Similarly, candidates who explained that it is a positive return to households from consuming a product such as the satisfaction gained from buying electricity gained two marks. A few candidates did successfully explain a positive benefit with reference to the difference between social and external benefits and a few others referred to a benefit gained by first and second parties.
- (b) Many of the answers to this question revealed the common confusion between social costs and benefits and external costs and benefits. Most candidates actually explained social costs and/or social benefits. Most, however, were able to pick up two marks by identifying the relevant examples from the Extract.
- (c) This question elicited a full range of answers from some which contained very generalised comments to those which included some excellent discussion with good analysis and relevant application. Some candidates, however, failed to gain full marks because they focused only on the large HEP project and did not consider another method or methods.