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ECONOMICS

Paper 0455/12
Multiple Choice

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

General comments

2150 candidates took this 30 question multiple-choice examination and the mean score was 23.4 which was slightly higher than the mean score last year of 22.5. Candidates are to be congratulated on such a result.

The questions for which most candidates selected the correct answer were **1**, **2**, **3**, **6**, **8**, **11**, **14**, **24**, **25**, **26** and **28**. 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 that were answered correctly by fewer than 60 per cent of the candidates were questions **5**, **20** and **23**.

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Comments on specific questions

Question 5 was answered correctly by 59 per cent of the candidates who chose option **B**. 23 per cent chose option **A**, 9 per cent chose option **C** and 9 per cent chose option **D**. The question implies that the provision through the market mechanism would lead to a market failure. Candidates had to choose an option that did not work through the market mechanism. That was option **B**. Those who chose the next popular option, **A**, did not recognise that the market mechanism would still operate and the firm could chose to ration water supply through the market which could lead to a situation of market failure.

Question 20 was answered correctly by 57 per cent of the candidates who chose option **D**. 13 per cent chose option **A**, 27 per cent chose option **B** and 3 per cent chose option **C**. Both the stem at the start of the question and option **D** refer to a current situation. The next most popular option, **B**, refers to a changing situation and those who chose that option did not allow for the case that a country with the fastest growth rate could still need considerable development to reach the country with the highest GDP in the world.

Question 23 was answered correctly by 58 per cent of the candidates who chose option **A**. 6 per cent chose option **B**, 35 per cent chose option **C** and 1 per cent chose option **D**. Those who chose the next most popular option, **C**, recognised that prices would be decreasing but did not account for consumer and producer confidence. When there is already deflation in an economy, there may be further deflation and further falls in prices. So a consumer may postpone purchases in the expectation that prices will fall further, and investors may postpone new developments because they fear a lower return on a new investment. The confidence of both consumer and producer would, therefore, decrease.

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ECONOMICS

Paper 0455/22
Structured Questions

Key messages

Some candidates' performance would have been improved by:

- Allocating their time better. A relatively high proportion of candidates devoted too much attention to the low mark questions. For instance, a number of candidates gained the two marks available for **Question 1(a)** in the first sentence they wrote. These candidates went on to explain, in some depth, how monetary policy could reduce inflation and the impact of a low price for imported oil on the costs of production. The question carries only two marks and asked candidates are only asked to identify – they did not have to explain.
- Concentrating on the question being asked. A number of candidates wandered off the point of the question. For example, in answering **Question 1(f)** some candidates wrote that a high rate of inflation can cause unemployment. They then moved away from the question by explaining disadvantages of unemployment.
- Recognising it is the quality rather than the quantity (length) of answers that is important. Some answers, especially to the **(d)** parts of the optional questions were not well thought out. They gave the impression that the candidates were thinking through their answers as they were writing them, instead of before starting their answers. For instance, in answering **Question 5(d)**, a number of candidates wrote unnecessarily about various aspects of mergers, including differences in the types of mergers, before focusing on whether any merger will increase profits.
- Understanding the difference between changes in economic data, and changes in the rate of change of economic data. For instance, a fall in the price level (a change) means that, on average, prices are lower. In contrast, a fall in the inflation rate (change in the rate of change), as in **Question 1(f)**, means that prices are rising but rising more slowly.
- Giving precise answers to the **(a)** parts of questions. Some candidates' identifications or definitions were too vague and did not use appropriate economic terms
- Providing explanations in the **(b)** part of questions. A number of candidates each session identify points but do not go on to explain them.

General comments

There was, again, an increase in the number of candidates sitting the examination. As in previous sessions, there were some outstanding scripts. These revealed an excellent knowledge and understanding of economics and an ability to apply that knowledge and understanding to the questions asked.

Some other candidates wrote long answers that were not based on relevant concepts or which revealed confused thinking.

Generally, there was an improvement on the performance on the **(c)** parts of the optional questions. A relatively high proportion of candidates showed good analytical skills. For instance, in answering **Question 6(c)**, a pleasing proportion of candidates analysed, in a clear and relevant way, how taxation may reduce market failure.

The two most frequently omitted questions were **Questions 1(c)** and **1(d)**. The vast majority of candidates, however, attempted the required number of questions and very few answered more than three optional questions. Most candidates attempted **Question 1** first and then the optional questions. The most popular question answered was **Question 5** and the least popular was **Question 2**.

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Comments on specific questions

Section A

Question 1

There was a wide range of performance on this question. Some candidates found **Question 1(f)** particularly challenging.

(a) A number of candidates explored this question in more detail than required. The two marks available could be gained in relatively few words. It was not necessary to *explain* why a reduction in oil prices and monetary policy reduced India's inflation rate.

(b) Many candidates recognised that demand is price-inelastic if a rise in price results in a rise in revenue. It was disappointing that a relatively high number of candidates thought that demand must be price-elastic if a rise in price causes demand to fall. As demand will fall in the case of both elastic and inelastic demand; what candidates need to consider is the *extent* of the change. How revenue is affected by the price change indicates the extent of the change.

(c) There were some good answers to this question which identified the two relevant internal economies of scale from the extract; managerial (labour) and financial.

Some candidates wrote about internal economies of scale that were not in the extract so did not do well. A small proportion of candidates did not understand internal economies of scale.

(d) A pleasing number of candidates calculated the correct percentage. Some only got part way through the calculation by calculating the size of the labour force in 2016, while others incorrectly calculated the percentage of India's labour force employed in the vehicle industry in 2014.

(e) The candidates who did well on this question examined and compared trends in the two rates. A number developed their answers further by also analysing how the differences in the rates would have affected GDP per head.

Not all candidates considered carefully what Fig.1.1 showed. A number of other candidates just stated what happened to the economic growth rate and population growth rate on a year by year basis; the question required analysis.

(f) There were some excellent, well considered answers to this question. These examined how a low rate of inflation could increase confidence and make it easier for consumers and firms to make efficient decisions and plan ahead. They also explored the possible advantages of allowing a higher rate of inflation. Some recognised that demand-pull inflation is more likely to be beneficial than cost-push inflation.

Some candidates who struggled with this question wrote about the effects of low prices rather than the rise in prices being low. Some candidates got into difficulty over the possible effect of low inflation on export prices by ignoring the initial effect of low inflation on export prices.

(g) There were some good answers to this question, particularly in terms of the impact of growing optimism and an increase in the labour force on consumer expenditure. Some candidates did identify two relevant reasons but did not go on to *explain* them.

(h) There were some strong answers to this question. These made logical discussions about the effects of having a young population, particularly in terms of the impact on the labour force.

Some candidates made unsupported statements, for example writing that a young population would mean a higher dependency rate without explaining why. Other candidates focused more on a young*er* rather than a young population. Some candidates showed confusion between unemployment and economic inactivity.

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Section B

Question 2

Those candidates that selected this question tended to do well on the **(a)** and **(b)** parts. There was a mixed range of performance on the **(c)** part and some candidates struggled with the **(d)** part.

(a) The vast majority of candidates were able to identify two relevant reasons.

A few candidates' reasons were too vague – for example, they stated that MNCs want to earn a high profit, but not why this could be achieved more easily in a foreign country.

(b) Most candidates were able to identify two relevant reasons, but not all went on to explain them. For example, high wages is a relevant reason why someone may want to work for an MNC, but because it will improve their living standards, is a good explanation.

(c) There were some logical answers which provided relevant links between an increase in exports and an improvement in a country's macroeconomic performance.

A relatively high number of candidates incorrectly assumed that a rise in export revenue will increase government revenue and others did not analyse how higher government revenue could lead to higher government spending.

(d) Some strong answers contrasted the effects of higher government spending on the quality and quantity of exports produced and discussed the effects on demand for imports.

A number of other candidates showed confusion between a surplus on the current account of the country's balance of payments and a surplus on the country's budget.

Question 3

As with **Question 2**, some candidates appeared to be attracted by the **(a)** and **(b)** parts of the question while finding the **(c)** and **(d)** parts challenging. There were, however, some strong and interesting answers to the higher mark parts.

(a) Most candidates clearly identified two relevant ways, with the three most common being reduce taxes, lower interest rates and increase government subsidies.

Some candidates provided answers that were too vague. For instance, some wrote 'reduce prices' without making clear what prices they were referring to or how lower prices could be achieved. There was some confusion about the nature of contractionary monetary and fiscal policy.

(b) Most candidates answered this question well. They made detailed explanations of the economic problem and why it leads to people having to make choices.

A few candidates wrote incorrectly about what they considered to be a significant macroeconomic problem rather than about *the* economic problem.

(c) There were some good answers to this question, but not many candidates analysed the impact of deflation on the output of capital goods. Where candidates performed well was in their analysis of the impact of the fall in the price level on consumer spending, unsold consumer goods and the resulting fall in the output of consumer goods. A number of candidates successfully analysed the links to firms' profits and the impact on consumers' and firms' views of future economic prospects.

(d) Some strong answers were produced which discussed the impact on unemployment, the current account of the balance of payments, the environment and the rate at which non-renewable resources are used up.

Many candidates wrote that a fall in a country's output would cause a reduction in GDP when, in fact, a fall in a country's output *is* a fall in GDP. Also, a number of candidates made statements about the possible effects on inflation without any supporting discussion.

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Question 4

A relatively high proportion of candidates did well on all the question parts. There was some particularly good analysis on **Question 4(c)**.

(a) This question was well answered. A few candidates identified reasons why firms might want to set up in the USA and some linked these to individuals. For instance, someone may want to migrate to the USA to set up a business if corporation tax is low. A number of candidates, however, restricted their reasons just to firms which limited their answers.

(b) The two main reasons identified were low income and being less well informed. There were some interesting explanations, but not all candidates provided explanations and some candidates only explained *one* reason.

(c) Most candidates were able to analyse clearly how economic growth can reduce absolute poverty. Some answers were impressive, applying relevant economic theory to answer the specific question.

A number of candidates tried to evaluate by explaining why economic growth will not always reduce absolute poverty. Evaluation is not required in part **(c)** questions so those candidates did not use their time well.

(d) There were some clear answers that explored the effect of a cut in the tax on firms' profits on the willingness and ability of firms to increase output. These went on to consider the impact on employment, influenced by whether firms would use more labour or more capital. There was good comparison made between capital as a substitute to labour and capital as a complement to labour. There was also some interesting discussion about how the rewards to shareholders might be affected and the possible impact on the government's ability to generate employment.

Question 5

There were some good answers to all the question parts of this, the most popular optional question.

(a) The majority of candidates were able to identify two relevant fixed costs.

A small number of candidates produced confused answers.

(b) Most candidates were able to explain two relevant ways monopoly differs from perfect competition. The two most popular ways explained were the differences in the number of sellers and in the ability to influence price.

A small proportion of candidates made unsupported comparisons including price being higher and quality being lower in monopoly. This is not always the case.

(c) There was a strong performance on this question. Candidates revealed a good awareness of the influence of demand for the product produced, productivity and the wage rate.

A small number of candidates did not make appropriate use of their time and effort. After analysing the effect of, for instance, a rise in wages on the demand for labour, they then analysed the effect of a fall in wages. Examining the *same* influence/reason *in reverse* does not add to an answer.

(d) Some good economics was applied in answering this question. As well as economies and diseconomies of scale, candidates discussed the impact on market power, rationalisation and increases in the control over raw materials and outlets.

A small proportion of candidates produced vague and confused answers. They stated, for instance, that costs would rise as the new merged firm would be producing more and so profit would fall. Such an approach did not consider *average* cost and *average* revenue, or the relationship between revenue and cost.

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Question 6

Most candidates who selected this question did well on the **(d)** part. The performance on the other question parts was more varied.

(a) This was generally well answered.

Some candidates confused social benefit with external benefit.

(b) Most candidates were able to explain that conserving natural resources will benefit future generations. There was some interesting explanation on the effect on the environment and tourism.

Not all candidates identified and explained a second advantage.

(c) There were some strong answers, a number of which showed understanding beyond the scope of the syllabus. This is commendable, and can add to the depth of answers, but it is not necessary.

Some candidates confused market failure with business failure. Other candidates thought incorrectly that the purchase of imports is a sign of market failure.

(d) This question was very well answered. Most candidates appeared to have a strong awareness of the advantages and disadvantages of a market economic system. There was some particularly good discussion of the influence consumers may play in a market economic system. Answers revealed both depth and width of evaluation. Some candidates even went beyond the syllabus to consider public merit and demerit goods.

Question 7

The best performance on this question part was probably on the **(d)** part. Some candidates did not seem to think carefully enough about some of the earlier question parts.

(a) Some answers were vague. A number of candidates defined a market economic system rather than a market and a few restricted their answers to the buyers of a product.

(b) A number of candidates concentrated on reasons why the demand rather than the *supply* of oil may rise in the future. Of those who did focus on supply, not all explained the reasons they identified. There were also some good answers, particularly in terms of the effect of advances in technology and government subsidies.

(c) Most candidates accurately drew the demand and supply curves and correctly labelled the axes.

A relatively high proportion of candidates, however, only shifted the demand curve and some candidates' written analysis considered only the impact on price and ignored the effect on the quantity traded.

(d) There were some interesting answers to this question part. These made good use of demand and supply analysis in the context of the car travel market with in-depth discussion on the effects on car travel of changes in income and changes in the price of complements and substitutes to car travel. Some candidates developed a second point by discussing how the price of train travel may fall if the government decides to subsidise, or increase the subsidy on, train travel.

Some candidates wasted time by repeating the same point in reverse without adding any more depth to the answer. First, a rise in the price of train travel would cause an increase in demand for car travel as the two can be substitutes and second, a fall in the price of train travel would cause a decrease in demand for car travel. While both these comments are accurate, the second comment adds nothing to the discussion; it is just the reverse of the first comment.

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