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ECONOMICS

Paper 0455/12
Multiple Choice

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

General comments

85% or more of the candidates correctly answered questions **1**, **2**, **8**, **11**, **14**, **15**, **16**, **17**, **18**, **19**, **22**, and **26**.

70% or fewer of the candidates correctly answered questions **3**, **7**, **12** and **20**.

Comments on specific questions

Question 3

41% of the candidates correctly chose option **C**. Of the remainder, 8% chose option **A**, 37% chose option **B** and 14% chose option **D**. The amount that would be forfeited by using the land for farming would be the extra that could have been obtained from oil extraction, ($30 billion) but as this is the amount after taxation, the extra that the government would have received in taxation has to be added to this, ($5 billion). Those who chose option **B** did not include the extra revenue from taxation.

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Question 7

48% of the candidates correctly chose option **D**. 17% chose option **A**, 21% chose option **B** and 14% chose option **C**. All the options apart from **D** would cause a shift in the supply curve and it is assumed when constructing an initial supply curve that these remain constant. Only a change in price, which is not constant, would allow a supply curve to be calculated.

Question 12

60% of the candidates correctly chose option **C**. 4% chose option **A**, 9% chose option **B** and 26% chose option **D**. Average total cost is the sum of the average variable cost and the average fixed cost. Those who chose option **D** calculated the total cost, not the average total cost.

Question 20

68% of the candidates correctly chose option **B**. 13% chose option **A**, 6% chose option **C** and 13% chose option **D**. The unemployment rate is the proportion of the labour force that is unemployed. The labour force is 1 200 000 of which 900 000 are employed. Therefore, 300 000 are unemployed, which is 25% of the labour force.

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ECONOMICS

Paper 0455/22
Structured Questions

Key messages

To do well in the examination, candidates need to:

- Use the time appropriately – approximately 45 minutes on **Q1** and 30 minutes on each of the optional questions selected. Some candidates seem to have spent a lot of time on the **(a)** parts and on **Q1(b)** and **Q1(e)**.
- Refer to the source material in answering **Q1**.
- Think through the questions before writing answers.
- Recognise that to gain the highest level on the **(d)** parts of the optional questions, two sides of the question must be discussed and the answer has to have depth, with clear and relevant links provided.
- Answer the actual question set. Some candidates provided answers to different questions and other candidates lost focus on the question, part way through the answer.
- Read the questions carefully. Some candidates appeared to misread **Q2(a)**, **Q3(b)** and **Q5(a)**.
- Label answers carefully on the Answer Booklet. This is particularly important when candidates answer questions out of order.

General comments

This was the first session with four rather than six optional questions and candidates did not appear to have any difficulties in selecting three out of four questions.

It was also the first use of level-based marking on the **(d)** parts of Section B. Candidates who achieved Level 3 produced two-sided answers with depth in the discussion and clear, strong links. For example, in answering **Q4(d)**, Level 3 candidates provided links between a cut in the rate of interest, a reduction in the reward for saving and the cost of borrowing, a rise in consumer expenditure, encouragement of firms to produce more and for firms to purchase more capital goods. Level 2 answers either provided depth on one side or were two-sided but without depth. A number of candidates, however, missed some of the links. For example, some wrote that a lower interest rate would cause consumer expenditure to rise which would lead firms to invest more, but did not develop sufficient depth in terms of why consumers would spend more and why higher consumer expenditure might cause firms to buy more capital goods. Answers which just stated relevant points achieved Level 1. For example, they just mentioned that a cut in the interest rate would increase spending but did not explain why and did not develop the point.

As in previous sessions, there were some excellent scripts. These revealed not only a strong knowledge and understanding of economics but also the ability to apply that knowledge and understanding to analyse and evaluate where appropriate.

There were a number of imprecise answers, some answers which did not focus on the actual questions set and some confused answers, for example between a free good and a public good in answer to **Q2(b)**.

There was only a small proportion of candidates who did not answer all the required questions. Some candidates, for example, did not answer **Q1(a)** and **Q1(h)**.

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Comments on specific questions

Section A

Question 1

The general performance on this question was good. The candidates that did best were those who considered the source material carefully and used the information in the source material as the basis for their answers.

(a) Most candidates answered this question accurately. A small number produced a confused answer. For example, one candidate wrote: *Economic growth = GDP per head divided by primary sector output.* This candidate did not carry out a calculation and this is not the way to calculate the economic growth rate.

Some other candidates used the correct method to calculate the figure but then at the end made a mistake. This was often in terms of the size of the figure. Candidates should have recognised, for example, that a 70% growth rate would be unlikely.

(b) Most candidates were able to identify two relevant methods of protection. A number wrote at some length. This was not required. The question only asked for identification. Some candidates identified subsidies. The source material does mention government subsidies to bus travel but, in this case, the subsidies are not used as a method of protection.

(c) This question was generally well answered, with most candidates showing a good understanding of a mixed economy. A small proportion of candidates misinterpreted the term.

(d) There were strong answers to this question explaining how external costs affect markets and economic agents.

An example of a good answer was:
Market failure occurs when market forces result in an inefficient allocation of resources. External costs are levied on those who are not involved in the consumption or production of the good or service. Firms may only consider private costs, without considering external costs, thus causing market failure.

(e) Most candidates drew clear and well-labelled diagrams and recognised that supply would increase, the price would fall, and the quantity traded would rise. A very small number confused the demand and supply curves and an even smaller number had price and quantity on the wrong axes. A relatively high proportion of candidates wasted time by also writing an explanation of the effects which was not asked for in this question.

(f) In analysing a relationship shown in a table or graph, candidates are advised to:

- consider if the relationship shown is generally positive or negative (direct or inverse)
- provide evidence for the general relationship found
- comment on whether this is the expected relationship or not
- explain the expected relationship
- comment on whether there are any exceptions to the general trend
- provide evidence of exceptions

An example of an answer which provided this clear analysis of the data was:
The relationship between the size of the country's primary sector output and GDP per head is a negative relationship. This means that as the primary sector output decreases, GDP per head increases. This can be observed as US has the lowest primary sector output of 1% and the highest GDP head of $59 600. While India has the second highest primary sector output of 18% and the lowest GDP per head of $7200. This trend might be occurring as primary output is of a lower value. Philippines is an exception as it has the highest primary sector output of 30% but not the lowest GDP per head.

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(g) There were some strong answers to this question. Most candidates were able to provide relevant links between subsidies given to bus travel and a reduction in the overall volume of traffic. There were some interesting comments on how the measure might not be very effective if bus and car travel are not seen as close substitutes and the reason why this might be the case.

An example of a good answer:
By increasing subsidies given to bus travel, pollution in India can decrease. Subsidies make the costs of production for bus travel lower and this benefit is passed on to consumers in the form of reduced prices. This increases demand for bus travel and reduces demand for substitute goods such as cars and motor vehicles which leads to lower emissions, and therefore less pollution. Moreover, the subsidy might be used to improve the quality of bus travel which will further increase demand. However, depending on the subsidy, it could increase inefficiency within bus travel companies. This means that fares may increase in the future. Some people may not see bus travel as a substitute for car as they like the comfort of car travel.

Some candidates who did not develop sufficient depth wrote that increased bus travel would lead to more buses on the roads and so higher pollution, without considering whether car travel would be reduced and the type of fuel used.

(h) Candidates found this a rather more difficult question than **1(f)**. This may be because, generally, candidates find international trade topics more challenging. A number of candidates did make good use of the information in the source material and developed the relevant points that they found. The three main pieces of information explored were the predicted rise in the exchange rate, the removal of trade restrictions and the link between pollution and foreign tourism. There was some strong discussion/development on how rises in income may affect net exports and how increases in government spending on education can affect the price and quality of exports.

An example of a good answer:
India's current account deficit might increase in the future as a result of higher exchange rates, as this would make exports more expensive and imports cheaper, thus the country's import expenditure will exceed its export earnings. Also, removal of quotas will increase imports, increasing the balance of payments deficit.
However, the increasing car production and rising productivity should increase its export earnings and international competitiveness. Also, foreign tourism may increase as pollution may be reduced.

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Section B

Question 2

(a) Most candidates were able to state the formula correctly. Some candidates, however, omitted 'percentage' before the change in quantity supplied and before the change in price. Others included the percentage and then, for some reason, multiplied by 100. A small number of candidates did not read the question carefully enough and gave the formula for price elasticity of demand.

(b) There were some excellent answers to this question. These recognised the significance of opportunity cost in the context of using resources. Some of these answers were appropriately succinct and accurate, for example:

Economic goods require resources to be produced. These resources could be used to make something else and so economic goods have an opportunity cost. Free goods are freely available and do not require resources to be produced e.g. sunlight and so no opportunity cost is involved.

(c) Most PPC diagrams were accurate but a few mislabelled the diagram with 'price' and 'quantity' on the axes. A few candidates did not draw the curves from/to the axes. The written analysis did not always recognise that it was productive capacity which would increase.

(d) The key difference in the answers to this question was the depth of the comments made. For example, weaker answers simply stated that skilled workers are paid more because they produce more. Stronger answers went on to explore how productivity influences firms' costs of production and demand for labour. Other strong answers explored why productivity of skilled workers is higher. Most of the strong answers included good use of demand and supply analysis, sometimes shown by including appropriate diagrams. A number of candidates showed some confusion by writing that unskilled workers may be paid more if they became skilled.

An example of a Level 1 answer was:
People that are unskilled may be asked to work in dangerous circumstances but may receive a high income. Unskilled workers may receive a good income if they start to do what they are good at.

In this brief answer, the candidate stated one reason why unskilled workers may be relatively well paid in the first sentence but did not develop it. The second sentence was too vague.

Question 3

This was the most popular question.

(a) There was some confusion shown between profit and revenue but a relatively high proportion of candidates produced an accurate answer.

(b) There was a mixture of responses to this question. Most candidates were able to recognise that capital is a human-made resource whereas labour is a human resource. Not all candidates went on to give a relevant second difference. A few candidates misread the question and wrote about the difference between land and labour.

(c) This was a well-answered question. Candidates provided good links between a merger and, for example, the prices consumers pay for the product. There was some excellent analysis of how price and quality could be influenced by how costs of production and monopoly power could be affected. A small number of candidates did not relate the possible effects to consumers. For instance, they wrote that the merger could result in economies of scale but did not go on to analyse how lower average costs of production could benefit consumers.

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(d) As with **Q2(d)**, the depth of answers varied. Some candidates just stated that demand may increase if incomes rose but did not explain why. Other candidates produced strong answers which, for example, explored the relationship between coffee and its substitutes and complements.

An example of a Level 2 answer was:
Brazilian coffee experienced a fall in demand and a fall in total revenue. Coffee producers may get subsidy from government by which they can improve the quality of coffee so demand increases. Demand may also rise because the prices of a substitute may rise. But demand may fall if the price rises and if incomes fall as people will not be able to afford coffee. A tax may be put on coffee.

The candidate identified a number of influences on the demand for coffee, and on both sides of the question. The influences of quality and income have limited development, but the other influences did not.

Question 4

(a) A number of candidates wrote about income inequality between males and females rather than the proportion of males and females in the population.

(b) There were many good answers to this question with most candidates exploring two relevant benefits of a higher economic growth rate. The two main benefits explored were higher living standards and reduced unemployment.

(c) Some candidates did not analyse the points they made. For example, some stated that a rapidly growing population would increase the number of dependents but did not explain why. A proportion of candidates wrote about both the disadvantages and advantages of a rapidly growing population. Candidates were not required to analyse the possible advantages – this is not a Discuss question requiring two sides. The strongest answers based their analysis of the disadvantages on the possible causes of an increase in the population.

(d) There was a wide range in the quality of responses to this question. Some candidates only mentioned the effect of a cut in the rate of interest on consumer expenditure and saving, they did not go on to explore how these changes could affect investment. Other candidates produced strong answers, contrasting, for example, firms' greater willingness to borrow to finance investment and the reduction in the willingness of banks to lend.

An example of a strong Level 3 answer was:
A cut in the rate of interest will discourage saving and encourage spending as the returns on saving fall and it becomes cheaper to take loans and overdrafts to finance spending. Total demand will likely rise as consumers spend more and borrow to finance their spending. The increased demand means higher profits for firms which allows them to invest more. They may also invest more regardless to take advantage of increases in demand. It also becomes easier and cheaper for firms to take loans and overdrafts to finance their investment. Expecting higher demand in the future they may invest to increase output.
Investment may not rise if there is uncertainty in the economy. If firms do not know how demand will change in the future, they may not change output through investment. Firms will also not invest if there is a lack of confidence or if the country lacks financial institutions to provide loans and overdrafts. If the rate of interest is already low, lowering it further may not affect investment much.

Question 5

(a) The three most common reasons identified were to raise revenue, to redistribute income, and to discourage the consumption of demerit goods. A number of candidates answered a different question. They stated two reasons for reducing rather than levying taxes.

(b) The strong answers recognised that a progressive tax not only takes more of the income of the rich than those on low incomes but also a greater percentage. Similarly, these answers recognised that a regressive tax takes a greater percentage of the income of those on low incomes.

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(c) Some candidates' answers did not examine the points made in sufficient depth. For example, some wrote that a cut in the rate of corporation tax, would result in firms keeping more of any profits they earn but did not analyse why this might encourage MNCs to set up in the country. Other candidates did explore the effect of both a reduction in corporation tax and a reduction in income tax on MNCs location choices.

(d) There was a mixed response to this question. Some candidates produced limited answers. They mentioned that people in a high-income country may be able to enjoy more goods and services than people in low-income countries. They did not, however, explore this in depth and did not cover other influencing factors. A number of candidates wrote strong answers which discussed, for example, why greater spending on education can result in higher living standards.

An example of a strong Level 3 answer was:
Living standards are not always measured accurately. Income may however be a good indicator in some cases. A higher income means that there will be higher spending and higher aggregate demand so firms will earn higher profits, providing workers with further high income, benefits and good working conditions. There will also likely be increased government revenue, leading to increased government spending on areas such as education and benefits to help people in poverty/unemployment. High-income families are also likely to be able to afford education leading to better productivity and higher living standards.
There may be greater income inequality in the country. While there may be high-income groups, these may only represent a small part of the country with a lot of people living in poverty. People, while on low incomes, may be enjoying high standards of living through government spending on areas such as education, healthcare, infrastructure, etc. There may also be gender inequality in the low-income country with better attitudes to women, less crime as well as better working conditions for workers in general, and the low-income country may offer things such as political freedom and less discrimination.