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ECONOMICS

Paper 0455/12
Multiple Choice

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

Key messages

To score highly in this paper candidates require a thorough understanding of all topics across the syllabus. This is more so where an item tests the candidate's ability to respond to graphical, numerical and/or diagrammatic data, the specifics of which are unfamiliar to the candidate.

To select the best response, candidates need to read each item carefully, taking particular note of any bold text, before making their response.

General comments

The questions for which most candidates selected the correct answer were **2**, **8**, **18**, **22**, **25**, and **26**. These questions 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 **6**, **17**, **20**, **27**, and **29**. These were answered correctly by the fewest candidates.

Comments on specific questions

Question 6 was answered correctly by 47 per cent of the candidates who chose option **C**. 50 per cent chose option **B**, 3 per cent chose option **A** and 0 per cent chose option **D**. The question asked which price signals would the market system send to reallocate resources to meet specified changes in consumer preferences. Those selecting the correct option understood that reallocating resources towards increasingly preferred products would require an increase in the product's price. Similarly, decreasing the product's price would

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reallocate resources away from less preferred products (option **C**). Option **B** represents the price changes that would have resulted in the changes to the quantity demanded implied by the question, and this accounts for the strength of this incorrect response. Options **A** and **D** were not correct and the majority of candidates recognised this.

Question 17 was answered correctly by 44 per cent of the candidates who chose option **C**. 45 per cent chose option **A**, 8 per cent chose option **D** and 3 per cent chose option **B**. The reduction in income tax (option **C**) would address both the issue of deflation and rising unemployment as identified in the question. Option **A** was incorrect because while it would address the issue of unemployment over the longer term, it would also add to the deflationary pressure over that period. Option **B** and **D** were the least popular choices with most candidates understanding that the policies of increased interest rates and reduced unemployment benefits would not successfully address the issues identified in the question.

Question 20 was answered correctly by 40 per cent of the candidates who chose option **C**. 45 per cent chose option **B**, 8 per cent chose option **A** and 7 per cent chose option **D**. The question presented three separate policy measures and required candidates to select the option that gave the combination that would enable the government to make the income distribution more equal. Improved education and training and a reduction in the basic rate of income tax were the two correct measures (option **C**). The third measure 'regulation' was incorrect and featured in the other three options.

Question 27 was answered correctly by 50 per cent of the candidates who chose option **B**. 28 per cent chose option **A**, 14 per cent chose option **D** and 8 per cent chose option **C**. The question concerned specialisation and trade at a national level. This item required candidates to select the conditions under which trade between two nations is most likely. The resource allocations of the two countries being 'different' and it being 'easy' for each country to reallocate its resources were the two correct conditions (option **B**). The majority of incorrect answers chose option **A**, thinking that it being 'difficult' for each country to reallocate its resources would make international trade more likely.

Question 29 was answered correctly by 37 per cent of the candidates who chose option **B**. 24 per cent chose option **A**, 21 per cent chose option **C** and 18 per cent chose option **D**. This item presented the candidate with a foreign exchange market diagram in equilibrium and suggested a change in import activity of one of the countries represented. The candidate was required to correctly select one of four different potential new equilibrium points based on shifts right and left in both the demand and supply curves. The candidates who answered correctly realised that the additional import activity would cause a rightward shift of the currency's supply curve making option **B** the correct answer. The majority of incorrect answers (24 per cent) selected option **A** which would have resulted from a rightward shift of the currency's demand curve. 21 per cent incorrectly thought there would be a reduction in demand for the currency (option **C**) and 18 per cent incorrectly thought there would be a reduction in the supply of the currency (option **D**).

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Paper 0455/22
Structured Questions

Key messages

- Candidates need to ensure that they do not confuse a deficit on the current account of the balance of payments and a government budget deficit.
- Candidates need to recognise that it is possible for a firm's production to increase without productivity rising.
- Candidates need to ensure that their answers to the **(d)** parts are based on economics rather than general knowledge. They should think about what economic concepts they can apply in their answers. Some candidates may find it useful to write down brief notes before answering the question. For example, before answering **Question 3(d)**, a candidate might have noted down:

Advantages	Disadvantages
merit good	need for a subsidy
improve health and productivity	opportunity cost
reduce poverty	affect government budget

When writing their answers, they should explain the points they make in some depth. For example, in answering **Question 3(d)**, after establishing that eating more fruit could make people healthier, they could link the better health of workers, to higher productivity and higher employment and output.

General comments

The number of candidates taking this paper continues to increase. Most candidates answered the required number of questions and question parts. In terms of the optional questions, **Question 5** was the most popular. Most candidates allocated the appropriate time to the different question parts and there was little evidence of candidates running out of time.

As in previous sessions, there were a number of candidates who misidentified the question parts they answered. For example, writing **Question 3(a)** when they were answering **Question 4(a)**. It is important that question answers are correctly identified.

The performance on **Question 1** continues to be generally good. Most candidates now make good use of the stimulus material in their answers, provide good analysis of the data and produce good answers to **Question 1(g)** and **Question 1(h)**.

The performance of candidates on **Questions 2 – 5** varied. Some candidates just made statements which they did not explain. Other candidates did explain points but did not always examine these in sufficient depth. Some did examine the questions in depth, making good use of economics.

Comments on specific questions

Section A

Question 1

(a) Most candidates provided an accurate answer. There was some confusion over the size of the figure with some candidates giving an answer of either $84 or $84 m rather than $84 000. It is important that candidates recognise the difference between billions, millions and thousands.

(b) Most candidates successfully identified two relevant opportunity costs from the source material. Some candidates wrote an explanation of opportunity cost which was not required.

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(c) The straightforward answers here tended to focus on HDI. Most of these showed a good awareness of its components.

(d) There were some good answers to the question with candidates explaining how the length of time it takes to produce ships and the high cost of storing ships makes it difficult to respond quickly and fully to changes in price. However, some candidates wrote about reasons why demand for sea travel may be demand elastic. Candidates need to be careful to avoid confusing price elasticity of supply and price elasticity of demand.

(e) There were some excellent answers to this question. These approached the question in a clear, analytical way. They explained the expected relationship, recognised how most of the years' data supported the expected relationship and identified an exception. Some candidates made no use of the data in the table. A small proportion of candidates wrote about changes in GDP per head rather than GDP.

(f) This was generally well answered with some strong diagrams. A small proportion of candidates mislabelled the axes. For example, some labelled the vertical axis as birth rate. A small number of candidates confused the demand and supply curves.

(g) There were some good answers to this question which focused on the macroeconomic effects of a surplus on the current account of the balance of payments on the Danish economy, building on the information in the stimulus material. For example, a clear and straightforward answer given to this question was:

A surplus on the current account of the balance of payments might benefit the Danish economy. Greater exports may encourage firms to increase their output. This may lead to a rise in GDP and so economic growth in Denmark. As output may rise, firms would be willing to employ more workers. This could reduce unemployment and raise the incomes of the Danish people. This can cause an increase in living standards.

In contrast, a surplus on the current account of its balance of payments may not benefit the Danish economy. A higher amount of exports would mean that there are fewer number of goods and services available for the Danish population. This could result in demand-pull inflation in the country. Many consumers may not have access to high quality imported products, which can lead to lower consumer goods and services being consumed and lower living standards.

A relatively high number of candidates confused a surplus on the current account of the balance of payments with a government budget deficit. Others mentioned that more export revenue would increase government revenue without explaining why.

(h) This was particularly well answered. There were some very interesting answers with points well explained on both sides. An example of a strong answer:

Working from home may be a benefit for economies in several ways. Firstly, workers may enjoy flexibility and so be satisfied. As a result, they may be more productive and produce a higher output. Secondly, firms may also incur fewer costs since they would not have to maintain good working conditions or incur fixed costs such as rent. As a result of fewer costs an economy may not experience cost-push inflation. Lastly, the economy may benefit through pollution. This fall in external costs may be caused by a fall in the time to commute for workers.

However, there are several harms as well. Firstly, firms have no way of monitoring workers and as a result productivity and efficiency could fall. Secondly, firms may not be able to communicate with workers easily. For example, an outage in internet/power may completely halt work. Lastly, this may not be possible in all industries.

Section B

Question 2

(a) This was well answered. The two most popular benefits identified were high income and good job opportunities.

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(b) There was a range of responses to this question. There were some good responses that linked higher incomes with direct tax revenue and higher spending with higher indirect tax revenue. There were also answers that were vague such as referring to a change in age structure without establishing how this might be a relevant reason. Others identified relevant reasons but did not explain how the reasons could influence the amount of tax revenue a government receives.

(c) A number of candidates struggled with this question. Some of these seemed uncertain about the meaning of economies of scale. Others, whilst able to select one or two types of economies of scale, were not able to relate them to a school that is growing in size. There were some good answers. A number of these were particularly strong at analysing how purchasing and financial economies of scale might be enjoyed by a growing school.

(d) Some answers to this question were rather narrow focusing on, for example, higher healthcare costs. Others stated points without explaining them. The stronger answers examined several aspects in depth. There were some particularly good comments on how having a high proportion of a country's population aged over 64 might affect the quality of the labour force. Some of these answers also considered how the overall effect would be influenced by whether those over 64 are still workers or are dependents.

An example of a Level 3 answer which was strong on why having a high proportion of a country's population over the age of 64 may not be a benefit to its economy and reasonable on the other side:

Having a high proportion of the country's population over the age of 64 may indicate that the country has a high dependency ratio. This increases the number of dependents in the economy which may serve as a burden to the working population. Moreover, older labour also tend to be less occupationally and geographically mobile. As a result, costs for firms may increase – thereby not incentivising economic growth. Having an older population may also burden the healthcare industry of a country – which may cause a decline in the quantity provided. As a result, potential economic growth may be compromised due to a high proportion of dependents in the economy. Older people also may tend to consume fewer goods and services and may choose to save for retirement or inheritance. As a result, economic growth may be compromised due to a fall in consumption.

However, older labour may also tend to be more experienced. This may reduce costs for the firms. Due to a fall in costs, cost-push inflation in the economy may also decrease, thereby benefitting it. Thirdly, since older people may also tend to save more, there may be lesser demand-pull inflation in the economy. This may increase certainty in the economy, increasing investment and so promoting potential economic growth.

Question 3

(a) There was some confusion shown in some of the answers to this question, with some candidates appearing uncertain about the meaning of the external growth. Some candidates thought it related to exporting.

(b) There was some good use of demand and supply analysis in some of the answers linked to the danger or unpleasant nature of the jobs undertaken. There was also some good explanation of how membership of a trade union could strengthen the bargaining power of low-skilled workers. Some candidates did not seem to have read the question carefully enough. These candidates wrote about how low-skilled workers may be highly paid for reasons that would suggest they are highly skilled e.g. they are very productive.

(c) Most candidates showed an understanding of the meaning of fiscal policy. There were some good answers which, for example, explored how expansionary fiscal policy could involve lower personal income tax rates, higher disposable income and higher total demand. They went on to explain how higher total demand could encourage firms to expand and employ more workers. Some candidates stated points but did not go on to develop them. For example, some wrote that the government could spend more on education. They did not explain the effect this could have on workers' skills and their chances of being employed. Other candidates developed the point well including exploring how better education could reduce structural unemployment.

(d) The strong answers here made good use of relevant economic concepts in exploring both sides of the question. There was some good use of the concepts of merit goods, social benefits, external

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benefits, productivity, absolute poverty and relative poverty. Some candidates wrote in very general terms. A number seemed to think that the government providing free fruit to consumers would mean that it would not pay anything to farmers.

An example of a Level 1 answer which stated some relevant points but did not explain them. For example, the candidate did not explain why fruit is a merit good and why the consumption of merit goods should be encouraged. There was a reference to a demerit good which may have been a mistake.

Yes, a government should provide free food to customers from which more merit good will be produced and people do not get addicted to demerit goods.

Also people who are in absolute poverty get help from the fruit and will survive.

If government imposes taxes on food then they earn more and can spend more for the economy.

Also people will be healthy from eating fruit. I think government should not impose taxes on fruit.

Question 4

(a) There were some clear answers to this question, although some candidates defined scarcity instead. The stem should have helped candidates avoid this confusion.

(b) There was some confusion shown about how lowering price might affect a firm's profits. A relatively high number of candidates assumed that lower prices would have to raise revenue and profit. The stronger answers recognised that lowering price would increase revenue if demand was elastic. There were some clear answers based on a firm lowering its average cost of production and exploring how this could be achieved.

(c) Again, there were some strong answers to this question which showed a good awareness of the influences on the price elasticity of demand for a product and an ability to apply these to a luxury brand of chocolate and to salt. Some candidates wrote in rather vague terms. For example, some wrote about elastic demand as being where a change in demand is lower than a change in price, ignoring the significance of the percentage change.

(d) There were strong answers here with candidates exploring what may influence the best allocation of a country's resources and how, for example, a country might have a good climate, soil and experienced workers to produce food. There were some good comments on the possible greater benefit of concentrating on the secondary or tertiary sectors, the risks that higher tariffs could be imposed on imported food and how supply could be reduced by the food being sold to other countries. As with **Question 3(d)**, some candidates wrote in general terms. Some candidates assumed that the government imports products and wrote about a budget deficit.

An example of a Level 2 answer which provided clear explanation on both sides. To achieve Level 3, it needed to establish and develop its points rather more. For example, the reference to the quantity of land could have been linked to population size. Other reasons why it might be advisable to concentrate on other industries might have been examined and other reasons why the price of imported food may increase and the impact this could have on poverty.

A country should import most of the food it consumes. This is because it may be cheaper to import it than produce it in the country. There may not be enough quantity of land so using it for farming to produce food could involve a high opportunity cost. The country may use its resources to specialise in some other industry rather than allocating it to produce food. This would enable them to concentrate on the production of one item so economies of scale could be achieved. The foreign exchange rate may be extremely high making the imports to be cheaper.

However, a country should not import most of the food it consumes. Firstly, it may lead to a high import expenditure compared to export revenue. This could lead to a current account deficit on the balance of payments. Also, dependency on other countries may be considered risky as climate changes may affect supply of food. This may create shortage if demand exceeds the supply. Lastly, the foreign exchange rate of the currency may be low so imports could be expensive. This may raise prices of the products in the country.

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Question 5

(a) Most candidates were able to define the unemployment rate. Some candidates wrote about people who do not work. Such a response did not distinguish between those who were unemployed and those who are economically inactive.

(b) This was particularly well answered. Candidates showed a good understanding of how discouraging smoking may correct market failure. There was good awareness shown about how cigarettes are a demerit good which are overconsumed and which cause external costs.

(c) There was a full range of answers to this question. Some candidates only mentioned higher price. Others explained why the price of exports may increase and analysed other reasons why exports may decrease. There were some good comments based on changes in income at home and abroad, trade restrictions and the need to maintain supplies on the home market. There was some confusion shown about the possible effects of a recession. Some candidates did not seem to understand that a fall in demand on the home market might encourage firms to try to export more.

(d) There were some strong answers to this question. Many were well structured, explaining the possible impacts on an economy's macroeconomic performance and the environment. There were also some interesting comments on how the ownership of the oil companies and growth of renewable energy may affect the outcome. These answers explored the possible impacts on economic growth, employment, inflation and the current account of the balance of payments.

An example of a strong Level 3 response which explored the question with clarity and depth:

The discovery of oil in a country might benefit its economy. The demand for oil is price inelastic as it is a necessary good. This will ensure that there are always sales in the country and abroad. This will encourage more firms to set up and increase output and GDP of the country. As oil is likely to be exported due to high global demand, a country may be able to export more. This can help remove a deficit on the current account. Oil is also often sold at relatively high prices which can increase the profits earned by firms, again encouraging higher output. As firms would increase their output, they can take the advantages of economies of scale, which will lower their long run average costs.

However, the discovery of oil in a country might not benefit its economy. Oil is a very scarce resource, and so constant extraction of it would cause a rapid depletion of resources, which would harm the economy in the long run. Extraction of oil would also cause high negative externalities, such as noise and air pollution. The initial cost of setting up an oil extracting firm and processing it may be too high, discouraging firms to set up. The extraction of oil can also be a dangerous job for workers as it often involves accidents. Moreover, as an oil firm is likely to be very large, they can experience diseconomies of scale, which will increase their long run average costs.

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