

ECONOMICS

Paper 0455/01

Paper 1 (Core)

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	21	C
2	D	22	B
3	C	23	A
4	C	24	C
5	D	25	A
6	D	26	A
7	B	27	B
8	A	28	C
9	C	29	C
10	D	30	C
11	C	31	B
12	B	32	B
13	C	33	B
14	A	34	B
15	A	35	A
16	B	36	D
17	D	37	A
18	D	38	A
19	B	39	C
20	A	40	A

General comments

552 candidates took this paper this session and the mean mark was 19.4. The number of candidates was considerably more than the 387 from last year when the mean mark was 21.7. The mean mark in 2005 was 20.6 and in 2004 it was 20.1.

The most difficult questions proved to be 2, 9, 12, 14 and 32 with fewer than 30% of the candidates choosing the correct option.

Question 2 was answered correctly by 22% of the candidates who chose option D. Option B was chosen by 37% and option C by 30%. It is possible to see why candidates might think that protection encourages specialisation but in fact, of course, it does not encourage the best use of resources which is the essence of specialisation. It is unclear why candidates might think that barter is linked to specialisation.

Question 9 was answered correctly by 29% of the candidates who chose option C. 34% chose option A and 26% option D. It is uncertain why candidates might think the company was a co-operative but those who chose multi-national as the answer forgot the use of other firms in other countries is not the criterion for a multi-national company.

Question 12 was answered correctly by 29% of the candidates who chose option B but 40% chose option C. Those who chose option C forgot that the software is a complementary good and a fall in price of a complementary good will increase the demand for the other good which will result in a rise in price, not a fall in price as stated in the question.

Question 14 was answered correctly by 22% of the candidates who chose option A. Option B was chosen by 25% of the candidates and option C by 38%. Those who chose option B forgot to take account of the change in demand caused by the report which was issued and those who chose option C did not realise that government schools are an alternative to independent schools.

Question 32 was answered correctly by 20% of the candidates who chose option B. 46% chose option C which was probably because they confused absolute and percentage figures. It is not possible to determine the absolute figure for the population from the information provided. The intersection of two lines does not lead to the conclusion in option C.

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Paper 0455/02 Paper 2 (Core)

General comments

There were many excellent scripts from lots of Centres. Sadly, however, in other answers there were too many careless mistakes. For example, despite warnings in previous reports, too many candidates did not label diagrams correctly, sometimes inter-changing demand and supply curves, sometimes omitting labels for each axis. This could so easily have been corrected with a consequent improvement in the mark.

Question 1

- (a) It was expected that candidates would calculate the answer as $36 + 6 = 42/5 = 8.4$. If candidates averaged the yearly loss over four years and not five this was accepted.
- (b) Most candidates were able to identify the reasons as high airport taxes, high ticket taxes, competition and higher fuel prices.
- (c) The essential point that candidates had to mention was that variable costs vary with output changes and fixed costs do not vary in the short-run with output changes. Fuel is a variable cost. Labour is usually regarded as variable but some longer term contracts might be regarded as fixed.
- (d) It was expected that candidates would identify the four factors of production and comment briefly how each might change. Capital would probably increase, labour would probably decrease, there would probably be no change to entrepreneurial skills and land might be no change, but there might be a decrease as less offices might be needed. Many candidates did attempt this well although not all of them commented on all of the factors of production.
- (e) There were some good attempts at the question and the suggestions included the following: the company could try to reduce costs, either fixed or variable costs; it could try and increase revenue by promoting demand; it could advertise more, but would have to place adverts carefully as its budget will not be extensive; it could see if another company was willing to buy it, or merge with it; it could close down; it could alter its factors of production using more of those which are more efficient; it could change its product mix; it could change the market it was aiming at.

Question 2

- (a) Very few candidates answered that the statement was incorrect. Partnerships are not necessarily two people. Public companies are not owned by the government. Public companies issue shares and are owned by the private sector. A majority of candidates correctly answered the part about partnerships but stated that public companies are owned by the government.
- (b) Candidates suggested a variety of reasons including; small firms can give personal service and provide specialist products; small firms may not advertise much and may not reach a large market; small firms may prefer to remain small; small firms may not have profit maximising or growth aims.

Question 3

- (a) Candidates made a good attempt at explaining the idea of concentration on a particular part of production with labour divided into separate tasks and the product passed along a production line or service. Some candidates mentioned the idea of specialist teams, particular training required or the boredom from repetitive work.
- (b) Some good suggestions included the fact that maybe the worker is in part-time employment, is unskilled, has no other work available, needs to supplement other income, requires a temporary job, is nearer home or seeks other non-wage benefits to compensate for lower income.

Question 4

- (a) Many candidates were able to comment that, in developed countries, there is likely to be a lower birth rate and a lower death rate and, therefore, a lower natural rate of increase. Migration is likely to be higher from developing to developed countries. Some candidates still stated that a developing country has a high population, although this is a common misconception. Developing countries might have a total population which is much lower than some developed countries.
- (b) Occupationally, the structure in developing countries is likely to be based on the primary sector. Some informal employment might occur which is not recorded in official statistics, especially in rural areas. Developed countries are likely first to move to the secondary manufacturing sector and then to the service sector. The types of occupation in the service sector change as the population becomes richer and as the population has more leisure and more income to spend on leisure activities. Numbers in government service may also decline as there could be a switch to more market economies. There may be an informal sector as well, but more in cities than in rural areas, and this sector is not agricultural based. Better candidates were able to attempt this question well but many struggled with the notion of occupational distribution of a population and how that distribution changes as a country develops.

Question 5

- (a) Candidates were able to make a good attempt at defining the terms although a significant number stated that labour intensive meant either a 'lot of work' or a 'lot of labour'. The latter statement was not linked to a comparison with the amount of capital.
- (b) Candidates were asked to discuss the difference between no limitations on trade and a preferential agreement in trade. Sadly this question was not well attempted.

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Paper 0455/03
Paper 3 (Extended)

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	B	21	C
2	D	22	B
3	B	23	D
4	B	24	D
5	D	25	D
6	D	26	B
7	C	27	D
8	A	28	C
9	C	29	C
10	D	30	B
11	C	31	B
12	C	32	A
13	C	33	B
14	A	34	B
15	A	35	A
16	B	36	D
17	D	37	B
18	B	38	A
19	D	39	D
20	A	40	A

General comments

2813 candidates took this paper this session, a marginal increase compared to last year, and the mean mark was 26.8, which is slightly lower than the mean for last year.

The easiest questions proved to be 5, 10, 11, 17, 18, 34 and 40 with over 85% of the candidates choosing the correct answer. These questions were on different sections of the syllabus and tested different skills. **Questions 5 and 10** tested knowledge, **Questions 11, 17 and 34** tested application and **Questions 18 and 40** tested analysis. There is no one skill or one section of the syllabus, therefore, that the candidates find easier than others.

None of the questions proved to be more difficult than the limits expected by the examination. The most difficult questions were 2, 14, 16, 36 and 39 but even these were well above the 'guessing rate' of 25%.

Question 2 was answered correctly by 34% of the candidates who chose option D. Option B was chosen by 31% and option C by 29%. It is possible to see why candidates might think that protection encourages specialisation but in fact, of course, it does not encourage the best use of resources which is the essence of specialisation. It is unclear why candidates might think that barter is linked to specialisation.

Question 14 was answered correctly by 41% of the candidates who chose option A. Option B was chosen by 21% of the candidates and option C by 23%. Those who chose option B forgot to take account of the change in demand caused by the report which was issued and those who chose option C did not realise that government schools are an alternative to independent schools.

Question 16 was answered correctly by 45% of the candidates who chose option B. 31% chose option C and 21% option D, which demonstrated a confusion between income and wealth.

Question 36 was answered correctly by 39% of the candidates who chose option D. 27% chose option A and 25% chose option B. Changes in quotas often confuse candidates. Quotas are quantities of goods and a reduction in the quota means a reduced amount which is allowed into the country.

Question 39 was answered correctly by 47% of the candidates who chose option D while 37% chose option C and 13% chose option B. Those who chose option C forgot that the external benefit is credited to those other than the car drivers and those who chose option B or A confused the two terms private cost and external benefit.

All the other questions were answered correctly by at least 55% of the candidates and sometimes by as many as 96% of the candidates. Well done, to those candidates who scored high marks on this paper.

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Paper 0455/04
Structured Questions(Extended)

General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates who demonstrated a sound knowledge and understanding of economics and a mature ability to explain and discuss, rather than just describe, key economic concepts and issues. There were also, unfortunately, a number of relatively weak answers where the candidates failed to demonstrate very much knowledge or understanding. There were relatively few rubric errors although a few candidates did manage to answer all seven questions on the paper.

Candidates do need to pay close attention to the precise instruction in the question. For example, if the question asks the candidate to identify something, as in **Question 1(b)**, then he or she needs to simply write a brief answer. However, if the question requires the candidate to explain something, as in **Question 3(a)** or **7(c)**, or to discuss something, as in **Question 2(d)** or **5(b)**, he or she needs to go into much more detail. In the case of a discussion, the candidate will often be expected to give two sides of an argument and then come to a 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 clear indication of how much time to allocate to each part and how much detail is required. For example, in **Question 2(c)**, some candidates wrote more in this section than they did in the final part of the question, despite the fact that only two marks were available compared to eight marks in the last part.

A number of candidates fail to put the answers in the correct order, often mixing up answers to different questions. Candidates should allow sufficient time at the end of the examination to make sure that their work is in the correct order.

Comments on specific questions

Question 1

- (a)** Most candidates were able to correctly calculate the estimated average yearly loss between 2001 and 2005. The answer was \$8.4 billion and this was calculated by adding together \$36 billion and \$6 billion to get \$42 billion and then dividing this figure by 5. An answer of \$10.5 billion was also acceptable as this was arrived at by dividing \$42 billion by 4, as it was thought that some candidates might think that a period of four, rather than five, years was involved. Candidates who at least got the \$42 billion correct were awarded one mark.

- (b)** The majority of candidates were able to correctly identify four causes of the airline industry's losses in North America and these included the higher fuel prices, high labour costs, high airport taxes, high taxes on ticket sales and competition from smaller low-cost airlines charging cheap fares.

- (c)** Most candidates were able to show a knowledge and understanding of the distinction between fixed and variable costs in their discussion, pointing out that while fuel would be a variable cost, labour could be either a fixed or a variable cost and that the airline industry was likely to include examples of both types of cost.

- (d) Candidates needed to identify the four factors of production and then consider how the replacement of paper tickets might affect the demand for each of them. Capital would probably increase because of the equipment required to produce the tickets and labour would probably decrease as less workers would be required as a result of the move towards electronic tickets, although candidates were rewarded for saying that it could increase the demand for more highly skilled workers. Entrepreneurial skills would probably not change but there might be a change in relation to land and many candidates pointed out the effect on resources of producing more paper.
- (e) Many candidates produced some good answers to this final part of the question. There were two approaches which needed to be considered. Firstly, the need to reduce the costs of production and there were a number of suggestions made in this respect, such as reducing the labour employed, putting them on productivity deals and possibly switching to more cost effective methods, such as becoming more capital intensive. Secondly, the need to increase revenue and there were also some useful suggestions in this respect, such as more effective promotion and a reduction in prices, especially if the price elasticity of demand for the company's goods and/or services were elastic.

Question 2

- (a) There was quite a lot of confusion in the answers to the first part of the question, especially in relation to public companies. In terms of partnerships, it was not correct to say that partnerships could be owned by only two people. The second part of the statement was also incorrect because public companies were part of the private sector and were owned by shareholders, not the government. A number of candidates still seem to be confused by the fact that public companies operate in the private sector.
- (b) This part of the question was answered much better and many candidates were able to explain why some firms remain small in size, due to the fact that they often provide personal services or produce specialist products. It could also be the case that the market is relatively small and that the funds for expansion are not available.
- (c) Most candidates were able to explain two types of integration available to a firm. These were, in most cases, horizontal and vertical (either backward or forward) but some of them referred to lateral and conglomerate integration.
- (d) This was a broad question and gave the candidates a lot of scope to write on a range of possible types of intervention by a government in the private sector. Examples included taxation, subsidies, various rules and regulations, such as on land use, legislation, such as anti-monopoly laws, financial support, such as through some form of regional policy, training schemes and different forms of protectionism, such as import quotas.

Question 3

- (a) Most candidates were able to explain what was meant by specialisation and the division of labour, pointing out how workers could concentrate on particular parts or operations of the production process. A number of them gave examples of the production process being broken up into a sequence of different tasks. Some candidates went further to give examples of regional and national specialisation.
- (b) There were a number of good answers to this part of the question and many candidates were able to discuss why some people would be prepared to work in low-paid occupations. Reasons included a lack of skill or qualification, a supplementary income if people were 'hard up', a temporary situation until a better job came along, convenience, especially where mobility was limited, perhaps for family reasons, and a compensation through various non-wage benefits.
- (c) This part was also answered reasonably well by many candidates. In terms of spending, they pointed out that the poorer person would spend a high proportion on basic necessities compared to the spending pattern of a richer person who would be likely to spend a greater proportion on luxuries. In terms of saving, it was pointed out that, on average, richer people were likely to save a higher proportion of their income than poorer people.

- (d) Whereas **Question 2(d)** focused on the 'how' of government intervention, this question focused on the 'why'. Candidates were able to suggest a number of possible reasons why a government might wish to influence people's spending, such as to control inflation, limit the demand for imports to reduce a balance of payments deficit, encourage a higher rate of employment and economic growth or to try and reduce the extent of negative externalities in the economy.

Question 4

- (a) The majority of candidates were able to suggest a number of differences in the factors affecting population growth in developed and developing countries. For example, a developed country would be more likely to have both a lower birth rate and a lower death rate and therefore a lower natural rate of population growth. Migration would also be a significant factor and it was likely that this would be higher from developing to developed countries. There were also some useful comments on the provision of health care and education in different types of countries.
- (b) Some candidates seemed confused by the term 'occupational distribution of the population' and mixed it up with geographical distribution. The majority, however, clearly understood what was involved when a country became more developed and wrote fully about the change in structure away from the primary sector to the secondary and tertiary sectors, giving a range of examples to support their answers.
- (c) Most candidates showed that they understood what was meant by a country's economic output, explaining that it was the value or amount of production in a country in one year, usually measured through Gross Domestic Product.
- (d) There were some very good answers to this final part of the question with many candidates recognising that there could be both advantages and disadvantages of an increase in population. In terms of advantages, an increase in population could mean an increase in the supply of labour and therefore the possibility of increased output; it could also mean an increase in the demand for goods and services and this could stimulate economic growth. On the other hand, there was no guarantee that the extra jobs would be available and so it could lead to an increase in unemployment; this could have an impact on a government's fiscal policy if more money had to be spent on unemployment benefits. The better candidates, having looked at both points of view, then came to a reasoned conclusion.

Question 5

- (a) Most candidates were able to explain the meaning of the two terms. Investment was explained in terms of expenditure on capital equipment and labour-intensive in terms of a high proportion of labour involved in the production of goods in comparison to other factors, such as capital.
- (b) Most candidates understood the difference between free trade and a trade agreement and were able to offer a useful discussion. Free trade involved no limitations on trade between countries whereas a trade agreement would involve either a restriction of trade with some countries or preferential treatment, as in this case where Namibia entered into a preferential trade agreement with France, Italy and Austria.
- (c) The majority of candidates recognised what was meant by the idea of the conservation of resources in terms of keeping some resources back so that they would be available for future use. There were some interesting comments on the contrast between immediate consumption today and reduced consumption in the present to allow for the greater availability of scarce resources in the future.
- (d) Many candidates were able to discuss what benefits the trade agreements might bring to Namibia and these included a greater amount of capital and technology which would be likely to increase productivity and output in manufacturing industry, leading to a greater degree of economic growth and development and an improvement in the standards of living and quality of life. There was also likely to be a positive effect on the country's balance of payments.

Question 6

- (a) Most candidates were able to demonstrate a good knowledge and understanding of the main differences between a planned and a market economy, pointing out that in a planned economy, the allocation of resources would be determined by the government whereas in a market economy, this allocation would be determined in the private sector through the interaction of the forces of demand and supply without the need for government intervention.
- (b) This proved to be quite a difficult question for some candidates but many of them, however, recognised that there was likely to be a conflict between the different aims of a government. This was particularly the case between the aims of increasing employment and reducing inflation. There could also be a conflict between the aim of sustained economic growth and the need to try and avoid persistent deficits in the balance of payments.
- (c) There were some good answers to this part of the question. Most candidates were able to discuss why most countries have decided to have a mixed economy by pointing out the disadvantages of the planned economy, such as too much reliance on bureaucrats, and the advantages of the market economy, such as the importance of price signals in a free market. They also argued that government intervention was useful in certain circumstances, such as the discouragement of demerit goods and the provision of merit goods, and that the market economy had its disadvantages, such as allowing for huge disparities of income and wealth. They then came to the conclusion that a mixed economy was able to benefit from the 'best of both worlds'.

Question 7

- (a) The first part of the question proved to be quite difficult for some candidates who thought that if inflation was the lowest it had been for three years, then prices must have fallen during the past year. This, however, is not the case and many candidates recognised that even though the rate of inflation may have fallen, prices must still be increasing.
- (b) Most candidates were able to describe how an index of consumer prices or retail price index was calculated and they went through the various stages of the process of constructing the index through the selection of the basket of goods and services, the weighting of these, the collection of the prices, the selection of the base year and the final method of calculation.
- (c) This part of the question was answered reasonably well by the majority of candidates who were able to distinguish between the different types of unemployment and these included frictional, regional, structural, cyclical, technological, seasonal, voluntary and residual. They then went on to consider which of these might be the most serious and to give a reasoned support of why they came to that particular judgement.

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Paper 0455/06
Alternative to Coursework

General comments

The quality of the answers varied a great deal, as is likely to be the case with a paper taken by both Core and Extended candidates. There were some very good scripts with marks well into the 30s but sadly there were also a number who scored very few marks.

Question 1

- (a) (i)** Many of the candidates confused productivity with production and spoke about a decrease in total production in an economy. It was expected that candidates would state that productivity relates to output, in this case from the factor of labour. The expression asked about, therefore, means a decrease in output per worker over a measured time period.
- (ii)** Candidates were able to give a clearer explanation to this question than part **(a)**. Many commented that a decrease in productivity could lead to a decline in output, a decline in incomes, a decline in spending, all of which would mean that there is less employment and possibly less economic growth overall. This may well lead to the need for foreign aid for developing countries.
- (b)** Candidates were required to produce a demand diagram showing a movement along the demand curve to reflect either a rise or a fall in price. Some of the diagrams were done very well but some candidates are still not labelling their diagrams clearly and correctly. Sadly a considerable number of candidates thought that the demand curve would shift as a result of a price change. No marks were given for such a statement.
- (c)** Candidates were asked to draw two diagrams. On the diagram for bottled water they should have shown a shift in the supply curve to the left. On the diagram for a substitute the demand curve should have been shown as having shifted to the right. An explanation of the changes should have been given. Many were able to produce these diagrams accurately and scored full marks. Others did not label the diagram correctly or shifted the curves the incorrect way. Some made the diagrams so small it was difficult to see which way the curve had been moved.
- (d) (i)** Candidates could have given a number of reasons such as, the good is cheaper than alternatives, it has different preferred characteristics, it is more readily available and it is currently fashionable. They might also have commented that sometimes the preference is for better quality even though the good is dearer, or the good is preferred because it is perceived as having a certain status. Good answers were given to this question.
- (ii)** The answer to this question depended on the reasons given in part **(i)**. However, from the information given, it could be stated that bottled water is not perceived as being cheaper than tap water, it is not as available, but it is fashionable and preferred and it is regarded as superior as it is believed to be better. No information is given on changes in price. Thus, there is some support in the extract for the traditional analysis in economic texts.
- (e)** Most candidates answered this question correctly. The answer was obtained as follows: $\$9.3b + \$1.7b = \$11b$. This is 25% of the $\$44b$ spent on bottled water.

- (f) This is an Alternative to Coursework paper so candidates are expected to be able to think of the questions that they might need to ask to enquire about a particular topic and formulate a plan for an investigation.

If the conclusion were correct then developing countries might benefit, but the industries supplying bottled water might not. If the production of bottled water declined some would be unemployed and incomes would be reduced. However, candidates could remember that they have just calculated that only 25% of the money currently spent on bottled water would be required to improve sanitation in developing countries. This still leaves 75% to be spent on bottled water. Also, if developing countries improved, there might be extra income generated and this extra income from developing countries might be spent on imports from developed countries. All of this could have been used to form questions that might need an answer, for example, what is the actual cost of improving sanitation, what areas need improved sanitation, how many might become unemployed and what is the current level of imports from developed countries? Candidates are not expected to know the answers to the questions and the overall conclusion is likely to be uncertain. However, they are expected to be able to think of appropriate investigative questions. Sadly this question which carried 8 marks was very poorly answered.

Question 2

- (a) Candidates could have stated that female workers earned the same as males aged 20-24; began to earn slightly more than males after 25 but, by the time 50+ is reached, they earned up to \$5 an hour less than males. Most were able to give some valid interpretation of the chart.
- (b) The table cannot be used. If it is just an average of salaries then the average female rate is \$3 less than males, while the rate for females remains roughly the same from age 25-50. However, the male wage rate increases from 15-24, especially during the period 24-44 when promotion is more likely to occur. If this is based on an hourly rate, which is related to productivity, then again there is no support for the suggestion. Candidates needed to make clear what assumptions they were using to answer the question. For example, they might have stated that the increase in wages might have been because of increased productivity or might have been because of promotions. The table does not make this clear and the assumption needs to be stated.
- (c) This was not answered correctly by many candidates. In the introduction to the table it was stated that the information had been adjusted for inflation. Most candidates appeared to miss this piece of information. Those who noticed it were able to state that there is a need to take account of the price rises which affect the level of real wages. Actual wages would have risen by more than 10% because the figure given allows for price rises. If, therefore, the employer was referring to actual wages, not real wages, he was correct. It is important that candidates develop the skill of interpreting and using all the data which is given, although it is accepted that the idea of 'real' wages is a difficult concept.