

ECONOMICS

Paper 2281/11
Multiple Choice

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

163 candidates sat this paper. The mean mark was 27.1 which is a commendable result on the part of the candidates as it is measurably higher than the mean of 24.9 for last summer's examination.

The questions for which most candidates selected the correct answer were **1, 6, 13, 15, 16, 22, 31** and **40**. These questions were answered correctly by 85% or more of the candidates. They 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 **4, 8, 11** and **34**. These questions were answered correctly by 40% or fewer of the candidates. The rest of the questions gave results which were well within the levels expected.

Question 4 was answered correctly by 39% of the candidates who chose option C. 6% chose option A, 46% chose option B and 9% chose option D. The price of the product is the governing factor that determines what is supplied and what is demanded and, therefore, what is distributed.

Question 8 was answered correctly by 38% of the candidates who chose option C. 10% chose option A, 21% chose option B and 31% chose option D. An understanding of market failure is a relatively new area of the syllabus. The question asked about why governments might subsidise research. Of the two more

popular choices (C and D) governments would be unlikely to subsidise research if the external costs of the research were high (option D). They would be more likely to tax or prohibit such research. They are likely to subsidise when external benefits exist.

Question 11 was answered correctly by 41% of the candidates who chose option A. 37% chose option B, 11% chose option C and 11% chose option D. When a payment is made by phone it is settled at the time of the transaction as far as the buyer is concerned. It may take a short time for the money to be transferred to the seller's account but the payment is not deferred until a later date as a debt. The immediate payment is thus a medium of exchange.

Question 34 was answered correctly by 18% of the candidates who chose option B and was the question which caused the most difficulty for the candidates. 71% chose option A, 7% chose option C and 4% chose option D. The implication in the selection of option A must have been that candidates thought conditions would improve if production were to be increased and that this could be achieved by using more machines. However, they forgot that the question states that the majority of the working population are employed in the agricultural sector. The replacement of labour by machines would result in increased unemployment, lower incomes and greater poverty for the local population.

All the other questions produced results which are within the limits expected for a paper of this level.

ECONOMICS

Paper 2281/12
Multiple Choice

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

5234 candidates sat this paper. The mean mark was 26.4 which is a commendable result on the part of the candidates. It is though slightly lower than the mean of 28.6 for last summer's examination.

The questions for which most candidates selected the correct answer were **1, 8, 14, 18, 20, 35, 36** and **40**. These questions were answered correctly by 85% or more of the candidates. They 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 **7, 10, 17** and **32**. These questions were answered correctly by fewer than 40% candidates. The rest of the questions gave results which were well within the levels expected.

Question 7 was answered correctly by 38% of the candidates who chose option A. 21% chose B, 16% chose C and 25% D. The question involved an understanding of price inelasticity of demand and a recognition that, when the price of a good with an inelastic price elasticity is lowered, the proportionate increase in demand would not be greater than the proportionate decrease in price. The result would be that a manufacturer would receive less revenue.

Question 10 was answered correctly by 24% of the candidates who chose option B. 14% chose option A, 26% option C and 36% option D. The question was about market failure which is a relatively new area of the syllabus and covers areas such as positive and negative externalities, public goods and monopolies. Monopolies are said to be an area of market failure because of the high profits they may make. Trade deficits, rising prices and the production of luxury products are not areas of market failure.

Question 17 was answered correctly by 29% of the candidates who chose option D. 25% chose option A, 25% chose option B and 21% chose C. In perfect competition there are a large number of small firms, each produces a small proportion of the total output and, therefore, cannot influence the market price. Rather they have to accept as given the price which is determined by the market. As the distribution of choices by the candidates is fairly close it may be that candidates were guessing. The criteria that exist in perfectly competitive markets is an topic that candidates should be advised to remember.

Question 32 proved to be the question that was answered correctly by the fewest number of candidates. 15% chose the correct option D. 63% chose option A, 12% chose B and 9% chose C. This question has been asked in various ways in the past, is a common question on multiple choice papers and it is often presented with statistical information. It is however regularly a source of confusion. Candidates should realise that whenever there is inflation, prices will be rising. They may be rising at a slower rate than previously if the rate of inflation has declined, but they will still be rising. In answering this question candidates falsely believed that a decrease in the rate of inflation would result in a fall in prices. It would not.

All the other questions produced results which are within the limits expected for a paper of this level.

ECONOMICS

Paper 2281/21 Structured Questions

Key Messages

For **Section A** there was some good evidence that candidates had read the data provided in the extract and used it in their responses to **Question 1**. For **Section B**, candidates should read through all questions on the paper before deciding which three questions they may be best at answering. In particular, candidates should look at the last sub-question before deciding which questions to answer since they usually carry the most marks. There were very few examples of candidates changing questions answered which suggests that candidates have made the right selections. There was also relatively few rubric errors limited to just a few Centres.

Reference to local examples to illustrate answers is welcomed as it shows a candidate's ability to apply economic concepts to their local environment. Good use of local knowledge was shown in answers to **Question 2(c)** and on a more restricted basis in **3(c)**, **5(c)** and **6(c)**.

General comments

There were a number of very good scripts showing that the exam paper enabled well prepared candidates to score well on each question. There were also a number of candidates scoring very low marks usually across all their answers which suggests a lack of preparation. There were encouraging signs again this year that fewer candidates were using list-like responses and using bullet points as their main method of answering questions.

The exam paper made reference to a number of economic terms and concepts. Some were well understood e.g. 'economic problem' and 'market failure' (**Question 2**), 'inflation' (**Question 5**) and 'diseconomies of scale' (**Question 4**) even if the definitions were not always correct. Other economic terms and concepts were less well understood e.g. 'productivity' (**Question 1**), 'profit maximisation' (**Question 4**), 'deflation' (**Question 5**) and 'birth-rate', 'death rate' and 'net migration' (**Question 6**). Mark schemes reward correct definitions and therefore overall marks could be improved if more candidates were able to give clear definitions or explanations. Relatively few candidates understood the features of a co-operative (**Question 1**) and the structure of the current account of the balance of payments (**Question 7**).

There were a large number of candidates, including some good candidates, who did not take into account key words in the final sections of certain questions. This meant that a constraint was applied on the marks that could be achieved even if candidates had a very good understanding of the topic. For example in **Question 2(c)** the word 'most' is highlighted in bold yet many candidates did not state or did not discuss which was the most important market failure in their country. This was also true of **Question 4(d)** where the key word was the 'extent' to which different firms could be affected by diseconomies of scale. **Question 5(c)** asked candidates to discuss whether deflation or inflation was the 'greater problem'. **Question 6(d)** asked whether a rapid rise in a country's population was 'always' a serious problem. Finally **Question 7(d)** asked candidates to discuss the 'best way' of reducing a deficit on the current account. In each case constraints on the level of marks applied if candidates did not focus on addressing these key words and this may have meant that some of the stronger candidates did less well than they could have done had they ensured that their answers took this into account.

Comments on specific questions

Section A

Question 1

- (a) Few candidates accessed all the available marks on this question. Most correct answers related to the types of co-operative – farmers and consumers were most common and the fact that they usually had limited liability. Some candidates would have scored higher marks if they had identified other specific features of a co-operative e.g. it exists for the benefit of its members who shared any profits and that each member had only one vote. In quite a few cases there was confusion with partnerships.
- (b) Most answers correctly identified two or three ways in which small stores could attract customers. Quality of service and products, extended credit, location and delivery service were all common correct answers produced by candidates. Lower prices and advertising were also common correct responses but here many candidates did not take into account of the fact that these were small stores and therefore bulk buying and advertising on TV were unrealistic responses to make.
- (c) Many candidates were unclear about what ‘productivity’ meant. Often the response given by candidates related to production e.g. the level of output produced by a company. Others had a general idea that it was to do with efficiency and was the relationship between input of resources and output. The best answers were those that explained that it was the level of output per worker or unit of capital over a given period of time e.g. per hour or day.
- (d) Most candidates were able to explain reasonably well why small stores find it difficult to compete with large supermarkets. This was often done by explaining about the economies of scale that supermarkets could achieve and that this often meant lower prices (from bulk buying) and a wider variety of goods (given the size of stores). Nearly all candidates managed to relate economies of scale to the retail market. In some cases candidates did not fully answer the question as they wrote a one-sided answer which did not take account of the fact that some small stores could successfully compete through closeness of location, longer opening hours, unique products and personal service. This restricted the total marks that could be awarded even if their response on the advantages that large supermarkets had over small stores was very good.

Section B

Question 2

- (a) The concept of the ‘economic problem’ was well understood by most candidates who were able to relate limited resources to unlimited wants resulting in scarcity. On the other hand, quite often full marks were not awarded because the candidate did not expand their answer to state that this meant that a choice had to be made on what was produced e.g. there was an opportunity cost.
- (b) Some candidates were unclear what was meant by the term ‘market system’ and confused this with a mixed economy and they then commented upon the role of the government as a provider of goods and services. In the majority of cases there was a reasonable understanding that the market system was based on supply and demand. Good candidates were able to relate to the price mechanism and how firms sought to maximise profits. Therefore changes in demand or supply would result in the reallocation of resources to those goods and services where the highest profits could be made. Some candidates went beyond the scope of the question to write about what were the disadvantages of the market system and in some cases partly answered the next question.
- (c) Those candidates who were unclear about the market system usually were unable to explain what was meant by the term ‘market failure’. Common errors included confusing market failure with business failure, government failure or simply that prices were too high. However, there were some very good answers. Common responses related to monopolies, the under provision of some goods and services e.g. health, education, street lighting and the over provision of other goods and services e.g. alcohol and cigarettes. Unemployment was also often identified as a market failure in the labour market. For some countries pollution was a major concern although some answers concentrated on the failure of the government to address this which was really about government failure rather than market failure. Most candidates did relate their answer to their particular country

and some candidates showed some good insight into the issues of market failure. The question asked for candidates to identify the most important failures and many candidates failed to do this and this restricted the marks for some able candidates. Responses on market failure are generally improving but the quality of answers still varies considerably across all entries.

Question 3

- (a) Three demand and supply diagrams were possible: a shift in the supply curve to the left as a result of contraction in supply, a shift in the demand curve to the right as a result of increased demand for labour arising from increased productivity/demand for the product or the introduction of a minimum wage. Most candidates were able to draw either the shift in supply or the shift in demand and explain why this could happen. In some Centres, a complex diagram was drawn showing both the shift in demand and supply with explanation of both reasons. Candidates need to remember that only one example was required to gain full marks. Most candidates were able to relate the analysis to the diagram. There were errors of wrong labelling including confusion of demand and supply curves and putting in the equilibrium.
- (b) This was less well done. Many candidates did not get beyond explaining that it was the reward for gaining a skill through experience, training or education. Others were able to relate to how differences in supply for skilled and unskilled workers affected wage levels. It was relatively common to see different D/S diagrams for skilled and unskilled workers with a higher wage for skilled workers. What was less common was an understanding that skilled workers would have higher productivity which meant higher output and therefore revenue for firms which was why firms would pay higher wages to attract/retain skilled workers which would have been a very good answer.
- (c) Most candidates had some understanding of what trade unions were and what they did for their members. However, the question required candidates to discuss what influenced the ability of trade unions to successfully raise average wages in the country. There were some good answers which identified two or three factors such as the size of the trade union, including proportion of all workers in the industry in that trade union, the quality of its negotiating team and the level of financial reserves it held to support members during strike action, the size of the firm and whether or not it was in a highly competitive or monopolistic market, whether or not the firm was labour- or capital-intensive, whether or not it was a profitable company and whether or not the workers were highly skilled. In addition, some candidates also made reference to the state of the economy e.g. that the ability to raise wages would be restricted in times of high unemployment but that there was a greater likelihood of success during periods of inflation.

Question 4

- (a) This was generally well done with most candidates having a clear understanding of the differences between partnerships and private limited companies. Some descriptions were very short and simply listed several features rather than describe them. The number of partners/owners of shares was a popular comparison as was having limited or unlimited liability. Quite a few candidates were unclear about the maximum number for a partnership of private limited company and in some cases it was stated that a private company had only one owner. On the other hand many candidates knew that private company shares could not be sold on the Stock Exchange. Also, where the distinction was made between private companies having limited liability and partnerships usually having unlimited liability what this meant was not explained.
- (b) The concept of profit maximisation was not well understood and it was common to see profit maximisation being confused with just making a profit. Some answers simply stated 'profit maximisation is where profits are maximised' which would have scored no marks. Most answers were not developed beyond identifying that profit was the difference between total revenue and total costs. Good answers either analysed how firms could increase their profits, e.g. by raising revenue and/or reducing costs, or why firms need to maximise their profits, e.g. to reward owners/senior management or to reinvest in the company so it could expand and make bigger profits.
- (c) This was not well answered by those candidates who did not understand profit maximisation and often their answers included objectives that would in effect increase profits e.g. reduce costs. The most common correct answers related to expansion/increase market share/maximise sales and new firms surviving in the market. Other goals that were explained included not-for-profit firms, e.g. charities, firms delivering public services, firms seeking to improve their image, e.g. brand loyalty,

ethical and environmental considerations. Overall, there was a good understanding shown by most candidates.

- (d) Many candidates were able to correctly identify diseconomies of scale and describe what they were. Popular responses centred upon complexities of management as firms became too big including multinational firms where distance and language could be an issue; poor communications and loss of morale amongst the workforce. Some also wrote about average costs rising and this was sometimes illustrated with a U-shaped long-run average cost curve. Few candidates made reference to external diseconomies of scale. The question required candidates to address the extent that different firms were affected by diseconomies of scale and this was overlooked by most candidates although a few made reference to it being less likely in small firms and that it could differ between different industries. By not addressing the extent of the problem, many candidates were unable to achieve full marks however good their understanding was of diseconomies of scale. There was a minority of candidates who simply did not know what diseconomies of scale meant including those that confused it with economies of scale.

Question 5

- (a) Most candidates had a clear understanding of what the difference was between inflation and deflation, although a few explained deflation as the opposite to inflation. However, many did not relate it to a period of time and therefore did not get full marks.
- (b) Most candidates were able to explain that inflation was measured through the Consumer Price Index (CPI) or the Retail Price Index (RPI). A few mistakenly related it to the increase in GDP. For those that made reference to CPI or RPI there was usually a good understanding about selecting a basket of common goods and services which were weighted according to spending patterns. Most candidates were able to explain the significance of the base year and measuring changes in prices against the base year to calculate the overall percentage change in price which was the rate of inflation. However, some candidates did not have a full grasp of how the calculation was done and this often resulted in some strange calculations of the rate of inflation. Some candidates continue to produce tables which had complex data within it which did not always make sense. There is no need for such tables which can be quite time consuming.
- (c) The quality of answers given depended on the extent to which candidates understood what was meant by 'deflation'. The discussion of inflation was reasonably well done by the majority of candidates who were generally aware of the impact of rising prices on lowering the standard of living, reducing the value of savings and borrowing and having a negative effect on the balance of payments. There was a common misconception that it led to higher savings, a fall in demand and rising unemployment. A few wrote about the problem of it becoming hyper-inflation. Many tackled deflation as having the opposite effects of inflation with reference again to higher standards of living and to delaying spending to benefit from lower prices. This meant that firms cut back on production causing an increase in unemployment. Candidates also referred to the positive impact on export prices but answered that it would also result in higher government expenditure on unemployment benefits and lower tax revenues. Some candidates were confused on the impact of deflation and made reference to lower prices resulting in increased demand and therefore causing inflation rather than recognising the reasons why lower demand had caused lower prices and unemployment.

The fact that inflation was better dealt with than deflation is understandable since there are fewer instances of deflation in the world until fairly recently. The question asked candidates to reach a view on which problem was worse – inflation or deflation. Some attempted to answer this by selecting deflation because of the effect of high unemployment, others felt it was not possible to distinguish between the two and in some cases stated that it depended on the size of the problem which is a reasonable conclusion to make. Quite a few candidates did not address the issue of which was the greater problem and therefore could not gain full marks even if their analysis of inflation and deflation had been very good.

Question 6

- (a) Most candidates scored some marks on the two definitions of birth rate and death rate. A large number did not achieve full marks because they ignored an important aspect e.g. the time aspect was frequently omitted but more frequently there was a lack of understanding that the rate was calculated per 1000 of the population. In some cases birth rate was incorrectly defined as per 1000 of women. It was not necessary to state live births to get full marks for the definition.
- (b) The causes of the fall in birth rate in many countries was usually well understood e.g. better awareness of family planning, better education for girls, lower infant mortality, more jobs for women etc. Some thought it was due to rising infant mortality, rising levels of disease or greater poverty. In many cases candidates, having identified the reasons for the fall, did not explain them sufficiently to gain full marks.
- (c) The concept of net migration was not well understood. Answers were often very vague with reference to movement of people from one country to another or within a country e.g. from rural to urban areas. Few explained that net migration was the difference between the number of immigrants coming into a country and the number of emigrants leaving a country.
- (d) Almost all candidates were able to explain at least some of the problems of a rapidly rising population. The problems identified depended on whether they thought it was due to a rising birth rate, people living longer or net migration, any of which could be a cause. Common problems identified related to overcrowding, lack of public services, greater dependency, greater pressure on government funding and lack of jobs. Fewer candidates were able to identify benefits e.g. increase in labour force leads to increased output or that immigrants could bring new skills and higher productivity and in the long run could lead to greater prosperity e.g. with reference to India or China. Some stated that it depended on whether or not the country was under-populated with some reference to countries such as Australia. In some cases too much emphasis was placed upon political or social affects. The main difference between average and good answers was the extent of the development of issues identified and that some candidates only addressed the problems and gave a one-sided answer.

Question 7

- (a) Relatively few candidates identified all four sections of the current account of the Balance of Payments. Trade in visibles and invisibles were commonly identified but income flows and current transfers were not. Another issue was that the question was to describe the structure and too often answers did not go beyond identification.
- (b) This was not well done. Most identified that it was where imports were greater than exports but there was no development in terms of the sections of the current account. Often candidates expanded their answers in terms of the level of debt and in some cases confused it with government debt.
- (c) This part was at least reasonably well done by most candidates who could identify one or two problems. Common responses included exports being uncompetitive and the fall in exchange rate would make imports more costly. Rising unemployment was also a common feature identified. Good answers were able to develop the explanation of the impact on the economy. Given that there were only four marks for this section, some answers went in to too much detail, beyond that required to secure all the marks.
- (d) For many candidates this was an opportunity to write what they knew about protection measures. Most were able to explain well how tariffs, quotas and embargoes operated. Quite a few wrote about subsidising exports, exchange control and devaluation. Better answers also made reference to government fiscal and monetary policies. However many answers were descriptive only and lacked evaluation. Few addressed the best way of reducing a deficit on the current account and often those who did, did not provide the analysis to back it up.

ECONOMICS

Paper 2281/22 Structured Questions

Key Messages

Candidates should read through the question parts in **Question 1** and then read through the extract which accompanies the question. They should then go back to the question parts and answer them. It is advisable that they answer them in order so that they avoid overlap in their answers, because question parts can build on each other and because the skills required in answering them tend to increase in their demands from knowledge with understanding to critical evaluation.

In selecting the three questions they are going to answer from **Section B**, they need to consider each question part. In some cases, it appears that candidates select a question on the basis that they can answer question part **(a)** and/or **(b)** well without considering how well they can answer the last question part or parts. It is important that candidates base their selection on all of the question parts.

When answering a question, candidates need to pay careful attention to the words of the questions and the marks awarded. Candidates should spend more time on a question part that carries, for instance, eight marks than one with four marks. Some of this time should be spent considering what to include in the answer. This is crucial as candidates need to focus on answering the actual questions set. It is important, for instance, to avoid writing about the characteristics of money when the question is asking about the functions of money. It is also crucial that candidates take into account the directive, also called command or instruction words in the questions. If the directive word is 'discuss' candidates need to evaluate, for example, by assessing arguments for and against or advantages and disadvantages. It is useful to include a conclusion.

Candidates should ensure that their writing is legible. They should clearly indicate which questions they have answered both by the side of the question and on the front cover of the script.

Any diagrams included in answers should be clearly drawn and referred to in the text. It is best to draw diagrams using a ruler and they should be of a size that is clearly visible.

If there is any time left at the end of the examination, candidates should read through their answers to check, for instance, that words have not been omitted.

General comments

There were some excellent scripts. These were lucidly written and included relevant economic terminology and analysis directly applied to answering the question. Some other answers were rather sketchy and seemed to be searching around for points to include.

The majority of candidates answered **Question 1** first. In **Section B**, **Question 3** was the most popular question with a very high proportion of candidates selecting the question to answer. **Question 2** and **Question 4** were also popular questions. **Question 6** and **Question 7** were the two least popular questions. It is difficult to determine whether only a small proportion of candidates attempted **Question 6** and **Question 7** because they appeared as the last questions, they covered topics towards the end of the syllabus or because candidates find the topics difficult.

There were not many cases where candidates answered more than the required four questions but this rubric error did occur in the case of a few centres. There was a small number of candidates who answered fewer than four questions. In some cases, this appeared to be because they had devoted too much time to answering two or three questions. Most candidates, however, allocated their time appropriately.

There was little use of inappropriate abbreviations or slang terms. There was also less evidence than in previous sessions of candidates writing in note form.

As in the case of other papers, there were some examples of confusion over some key economic concepts including a production possibility curve, capital, inelastic demand and fiscal policy.

Candidates did not always produce sufficient depth in their answers. On some of the first question parts, they sometimes only identified points rather than explained them. On the last question part, a relatively high proportion of candidates provided some analysis but did not provide any critical evaluation. Such approaches limited the marks available.

Comments on specific questions

Question 1

- (a) This was reasonably well answered. The two most popular features identified were limited liability and shares being sold to the general public on the stock exchange. Some candidates, however, only identified two features and did not explain them. A number of candidates revealed a confusion with a public corporation by writing about government ownership.
- (b) There was a range of responses to this question. Some were very strong answers which explored, for example, the influence of the size of the market for the product produced and the preferences of the owners of the firms.
- (c) There were some strong answers to this question. Some candidates explored the impact of subsidies in depth with a number including a diagram. There were also some strong answers exploring how setting a maximum price and increasing competition in the market might reduce mobile phone charges. Taxing excessive profits might reduce mobile phone charges but most of the answers which referred to higher taxes did not establish this point. A number wrote that imposing an indirect tax on mobile phones would reduce prices whereas the opposite would be likely to occur. Indeed, there were some good answers which explained how reducing an indirect tax on mobile phones would lower firms' costs and so reduce prices.
- (d) A number of candidates produced excellent answers. These discussed some advantages and disadvantages of monopolies, bringing out key economic concepts such as economies of scale and competition. These answers explained and discussed rather than just asserting points. There was some good discussion about the influence of a lack of competition on price and quality and whether innovation is more or less likely to occur under conditions of monopoly.

Some candidates sought to answer a rather different question, that is, whether multinational companies (MNCs) are always against the public interest. Of course, not all monopolies are MNCs and not all MNCs are monopolies. The candidates who adopted the approach of writing about MNCs did not usually relate the points they raised specifically to monopolies.

Section B

Question 2

- (a) Most candidates could identify the four factors of production. There was some confusion over the nature of capital with a relatively high proportion of candidates describing it as money. A few candidates confused examples of land and capital. They gave, for instance, farm buildings as an example of land.
- (b) The majority of candidates were able to define opportunity cost although some did not make clear the idea of sacrificing the next best choice for this one. Understanding of production possibility curves (PPCs) was rather limited. A number of candidates drew a demand curve, labelling the vertical axes 'price' and the horizontal axes 'quantity'. Most, but not all, of those who drew an accurate production possibility curve, explained how movements along the curve could show the opportunity cost involved in switching the use of resources. Some candidates who labelled a PPC accurately, nevertheless, appeared to think that the diagram shows the demand for two types of goods rather than their potential output. There were references to, for instance, 'the curve shows that if people buy more of good X they will have to buy less of good Y'.

- (c) Candidates had to interpret this question carefully. Of those who did so, most focused on the impact on the price of houses, employment and the possible opportunity cost involved. A number of candidates made some pertinent comments about possible environmental costs and the influence of demand on the allocation of resources.

A relatively high proportion of candidates, however, wrote that the four factors of production were sufficient and then went on to describe how these four factors of production are used to build houses. Such an approach seemed to suggest that the candidates thought there might be more than four factors of production.

Question 3

- (a) This was a well answered question. Most candidates were able to describe a number of influences on the demand for flat screen televisions. The three most common influences described were price, income and advertising. There were also some good answers which described changes in the prices of substitutes and complements to flat screen televisions. A small proportion of answers only identified influences without explaining how these would affect the demand for flat screen televisions.
- (b) This was generally well answered. Many candidates drew a clear and accurate diagram and provided relevant analysis of the impact of an increase in income on the equilibrium price and quantity of televisions. Some candidates, however, labelled the vertical axis 'income' rather than 'price' and a small number did not show the shift in the demand curve. There was only a small number of diagrams in which the demand curve and the supply curve were transposed.
- (c) Most candidates were able to explain price elasticity of demand (PED) either in terms of the responsiveness of demand to a change in price or in terms of the formula. A number of candidates who did seek to give the formula left out 'percentage' and some had the formula round the wrong way. The strongest answers described price elasticity of demand in some depth. A number distinguished between elastic and inelastic demand and some described the influences on PED.
- (d) Candidates found this to be a challenging question. A number did link the degree of PED to price changes and the resulting changes on revenue. These often mentioned what factors influence the PED of flat screen televisions. Some candidates, however, suggested that if, for instance, demand is elastic a reduction in price would increase profit. To discern the effect on profit, information would, of course, be needed on the impact not only on revenue but also on costs. It is interesting to note that candidates do often seem to confuse revenue and profit. Candidates also often show confusion over the nature of inelastic demand, stating that when demand is inelastic, if price changes demand will not change at all. This would only be the case if demand is perfectly inelastic. Not many of the answers produced did actually question the extent to which the concept of PED is of use to a manufacturer of flat screen televisions. Of those who did, the strongest comments related to the fact that the manufacturers' revenue and profit would be influenced by a range of factors including changes in the price of substitutes and price elasticity of supply.

Question 4

- (a) The functions of money are not always well understood. Most candidates showed a stronger understanding of a medium of exchange than of a store of value. The majority of candidates were able to give a reasonable description of the meaning of a medium of exchange. In describing a store of value, some candidates revealed a confusion with a unit of account.
- (b) This was well answered with a high proportion of candidates revealing a good awareness of a range of the functions of a central bank. The most popular functions mentioned were issuing bank notes and coins, acting as a bank to the government and implementing interest rate changes. There were some interesting answers which explained the role in relation to the central bank of the candidate's country. A relatively small number of candidates, unfortunately, confused the role of a central bank with that of a commercial bank.
- (c) Most candidates recognised that the stock exchange provides a market where shares are bought and sold. Not many, however, went into depth discussing how it is important in encouraging firms to expand. Very few recognised that not all types of business can use the stock exchange to raise finance and that even in the case of public limited companies, the issue of shares is not the only

source of finance. A small number of candidates appeared to be confused about the term 'stock exchange' and discussed either the sale and purchase of foreign currencies or the sale and purchase of commodities.

Question 5

- (a) There were some good answers to this question which described economic growth both in terms of changes in gross domestic product (GDP) and in terms of a shift to the right of the production possibility curve. Not all answers recognised that economic growth is measured over time. Some candidates included a variety of macroeconomic variables including low unemployment and low inflation but did not relate to the country's output.
- (b) The majority of candidates who answered this question had a reasonable knowledge of fiscal policy. Again, there were some strong answers which explored how expansionary fiscal policy might encourage economic growth. What tended to differentiate answers was whether they covered both an increase in government spending and a decrease in tax revenue. A number of candidates wrote only about either an increase in government spending or a decrease in taxation. For some reason, a number of candidates defined a policy approach which involved an increase in government spending and a cut in taxation as a deflationary or contractionary fiscal policy.
- (c) This question tended not to be well answered. Some candidates were confused about the nature of supply-side policy measures and monetary policy measures. It was surprising that a number of candidates thought that supply-side policy measures included increases in interest rates and measures that would reduce aggregate supply. Many of the answers described how a number of policy measures might influence economic growth but not many assessed the effectiveness of these policy measures. Those who did compare the effectiveness of the two types of policies, made some good comments about how quickly the policies might work, the relative costs of the policies and the possible side effects they may have.

Question 6

- (a) Of the relatively small number of candidates that answered the question, most recognised that a floating exchange rate is determined by the demand for and supply of the currency. Not many, however, went beyond this to examine what, in turn, influences the demand for and supply of the currency.
- (b) Most candidates mentioned buying and selling the currency and some described the role of reserves in the process. Fewer candidates referred to a government, through its central bank, changing the interest rate. A small number of candidates revealed some confusion by referring to the government enabling market forces to operate with fewer restrictions.
- (c) There was a variety of responses to this question. Some were very strong. These explored the impact on both the internal and external performance of the economy and were particularly good on the effect on the trade in goods and services balance. There was also some good explanation linked to the impact on output and employment. Other answers showed some confusion over the nature of a fall in the value of its currency with some candidates thinking it would lead to a rise in export prices and a fall in import prices. Some of the answers were sketchy, for example, just stating that a government might want the external value of its currency to fall to make exports cheaper without explaining how cheaper exports might benefit the economy.
- (d) This was generally not well answered. This was largely due to both a lack of depth and width. In many cases only a few factors were touched on somewhat superficially. The most common factors explored included a greater stability and a lack of speculation in the case of a fixed exchange rate. Candidates did seem to have a greater awareness of a fixed than a floating exchange rate. Some of the stronger answers did explore the automatic adjustment to a trade deficit that can occur in the case of floating exchange rate system and why reserves would not be needed. A few also recognised that it could free a government to pursue other objectives.

There were a number of very brief answers to this question, with some candidates appearing uncertain as to how to tackle the question. This was surprising in the case of a number of answers which had showed a reasonable understanding of the two types of exchange rate systems in their answers to the earlier question parts.

Question 7

- (a) Answers were quite good on absolute poverty with most candidates recognising that it relates to a lack of basic necessities and mentioning a number of these basic necessities. Greater uncertainty was shown about the nature of relative poverty with only a small proportion of candidates providing a coherent description.
- (b) A relatively high proportion of candidates who answered this question showed a lack of awareness of the nature of the Human Development Index (HDI). A wide range of measures that are not included in the HDI were mentioned. These included sanitation, birth rate and distribution of income. Some candidates sought to answer a rather different question. They described why the HDI is measured or described why living standards differ across the world.
- (c) This question elicited a range of responses. There were some strong answers which analysed and evaluated a number of policies, most commonly government spending on education, government spending on health care, progressive taxation and an increase in benefits to redistribute income and government subsidies to both increase output and employment and to reduce the price of basic necessities. These answers provided supported comments on the relative advantages and disadvantages of the policy measures. As with **Question 5**, a relatively high proportion of candidates analysed policy measures and then did not go on to evaluate which policies would be most likely to succeed. Some answers, whilst describing policy measures did not relate them specifically to reducing poverty. There were also a number of answers which were vague and did not specifically relate the points raised to particular policies. For instance, some answers mentioned that a reduction in unemployment and a more even distribution of income would reduce poverty without explaining what policies might achieve such outcomes.