

ECONOMICS

Paper 0455/01
Multiple Choice

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

387 candidates took this paper this session and the mean mark was 21.7. This is very slightly higher than the mean of 20.6 in 2005 and 20.1 in 2004. The most difficult questions were **8, 9, 10, 22, 25, 26** and **29**.

Questions 8, 9 and 10 relate to demand and supply and require an understanding of the market equilibrium demand and supply diagram.

In **Question 8**, 26% choose option **A**, 32% chose option **C**, while 31% choose the correct option **B**. This is evidence of a confusion about the relationship between the demand and supply of goods. It would be good for candidates to practice drawing the demand and supply diagrams for such relationships as there are always questions on this area on the paper.

For **Question 9**, 27% gave the correct answer **B** but 33% gave answer **C** which relates to a situation of price below equilibrium. Again, practice and familiarity with the demand and supply diagram should help resolve such confusion.

It was surprising that 43% of the candidates gave **D** as the answer to **Question 10** instead of **C**. This question related to the demand schedule, not its shift. All but the price of the good is held constant in calculating the schedule.

39% of the candidates correctly selected option **A** for **Question 22**. 29% chose **C** not realising that all the items mentioned are fixed costs. There are always questions on fixed and variable costs, either in the form of a calculation or as a definition. It would repay all candidates to be very familiar with this area of the syllabus.

Question 25 tested analysis. The correct answer was **D** chosen by 30%. 42%, however, chose **A**. An increase in interest rates might have a detrimental effect on investment and therefore on growth – the opposite of the situation required.

Question 26 required a knowledge of what is included in monetary policy. 27% chose the correct answer **B**, but 25% chose **A** and 38% **D** neither relating to monetary policy. It may be a difficult area of the syllabus for Core candidates but this question required only an understanding of the broadest notion of the difference between monetary and fiscal policy.

Question 29 was a question on the meaning and application of real income. 20% chose the correct answer **C**, but 68% chose **B**. There is always a confusion about the meaning of 'real' income – and nearly always a question on it either in the data response on Paper 2 or in the Paper 1. Here, the rate of inflation was higher than the increase in incomes so money incomes would buy fewer goods and services and, therefore, real incomes would have fallen.

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Paper 0455/02

Structured Questions (Core)

It is regrettable that there was a rubric error on this paper. Candidates' answers were considered very carefully during the co-ordination, marking and grading stages of the examination process in order to ensure that no individual candidate was disadvantaged by this error.

In spite of the rubric error, 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 still 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

In answering questions based on the data provided, candidates should not make additional assumptions unless they can be justified. For example, some candidates shifted the supply curve in addition to the demand curve. There was no evidence given to support this but it might be assumed that this could happen if the source of supply was becoming exhausted from certain sources. If that is the assumption, then it should be stated.

A surprising number of candidates suggested that India was entirely dependent on imported oil, even though the evidence given did not say this. Some, in explaining 'strong industrial growth' simply said that industry would grow strongly. This is insufficient as an answer. Candidates should, for example, explain whether growth is in terms of output, or revenue; they should try to describe what is meant by the use of the word 'strong' without simply repeating it.

Question 2

- (a) Many candidates simply listed the factors of production without explaining what each one was. A common error was to think of the factor capital as the money required to run the business. Some suggested that the factor land was simply the site of the factory.
- (b) There were some good answers to this question which revolved around a discussion of the reasons for small firms in terms of the size of the market, the availability of finance, the type of product or service provided or whether the firm was just recently established.

Question 3

- (a) A similar error was made with this question as with the question on the factors of production. Candidates simply stated that scarcity meant that something was scarce. There was no mention of resources or a choice between resources. In explaining opportunity cost it is still a common error to omit any reference to the 'next best' alternative. It is not simply the giving up of any alternative which is the opportunity cost. It is the 'next best' alternative. In questions on opportunity cost these words must be mentioned.
- (b) Candidates seemed to be able to identify the things that might affect a person's choice of occupation. These might include the location of the work, pay, working conditions, holidays, career prospects, size of company or type of work. Many candidates did not use these factors to explain the link to opportunity cost. This was a pity as this is what the question asked them to do.

Question 4

- (a)** Sadly many candidates failed to calculate the answer to this question correctly. It involved a calculation of the change in full-time jobs and part-time jobs.
- (b)** Candidates often failed in this section to consider the changes in patterns of employment, particularly the relative decline in primary and secondary industry and the growth of part-time employment.

Question 5

- (a)** Most candidates were able to distinguish correctly between the private and the public sector. Some, however, equated the private sector with the sole trader and the public sector with a public limited company. This was a confusion of terminology. They could have mentioned the difference between government control and ownership and private control and ownership. The public sector embraces goods/services and the provision of transfer payments, grants, subsidies. The two sectors have different aims and methods of working,
- (b)** This question required a discussion of allocation of resources, possible market failure, role of government. Candidates made good attempts at this question and their answers were often well-presented and reasoned.

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Paper 0455/03 Multiple Choice
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	D	21	D
2	C	22	A
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4	D	24	C
5	B	25	D
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7	B	27	D
8	A	28	B
9	B	29	C
10	C	30	D
11	B	31	A
12	C	32	C
13	D	33	C
14	B	34	A
15	C	35	A
16	B	36	C
17	B	37	A
18	C	38	A
19	C	39	D
20	B	40	B

2698 candidates took this paper this session and the mean mark was 28.3, virtually the same mean as last year.

The easiest questions proved to be **Questions 2, 6, 7, 15 and 28** with over 90% of the candidates choosing the correct answer. These questions were on different sections of the syllabus and tested different skills. **Questions 2, 6 and 7** tested knowledge, **15** tested application and **28** analysis. There is no one skill, therefore, that the candidates find easier than others.

Question 12 was the only question which proved to be more difficult than the limits expected by the examination. In this question candidates were required to realise that with unitary elasticity the total revenue from the sale of the good remains the same whatever the price change. The correct answer was **C**. 23% obtained the correct answer, 23% chose **A**, 21% chose **B** and 33% chose **D**.

Although within the limits expected, other difficult questions were **3, 8, 9, 10, 23 and 29**. All the other questions were answered correctly by at least 55% of the candidates and sometimes by as many as 93% of the candidates.

For **Question 3**, the correct answer was **D** but 32% chose **A**, forgetting that the factor land includes the sea. **Questions 8, 9 and 10** relate to demand and supply and require an understanding of the market equilibrium demand and supply diagram.

For **Question 8**, 45% chose the correct answer, **A**, but 25% chose **B** and **C**. This is evidence of a confusion about the relationship between the demand and supply of complementary goods. It would be good for candidates to practice drawing the demand and supply diagrams for such relationships as there are always questions on this area on the paper.

For **Question 9**, 36% gave the correct answer **B** but 38% gave answer **C** which relates to a situation of price below equilibrium. Again, practice and familiarity with the demand and supply diagram should help resolve such confusion.

It was surprising that 37% of the candidates gave **D** as the answer to **Question 10** instead of **C**. This question related to the demand schedule, not its shift. All but the price of the good is held constant in calculating the schedule.

44% of the candidates chose the correct answer **A** for **Question 23**. 29% chose **C** but this is likely to increase growth through increased investment. **Question 29** was a question on the meaning and application of real income. 43% chose the correct answer **C**, but 51% chose **B**. There is always a confusion about the meaning of 'real' income. Here, the rate of inflation was higher than the increase in incomes so money incomes would buy less goods and services and, therefore, real incomes would have fallen.

The remaining questions were within the tolerance allowed for the paper and for many a high proportion of candidates were able to choose the correct key. They are to be congratulated for so doing.

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Paper 0455/04

Structured Questions (Extended)

General comments

The quality of the answers was, in the majority of cases, of a good standard. 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 analyse and evaluate key economic concepts and issues. The quality of some answers, however, was much weaker with candidates failing to demonstrate very much knowledge or understanding. There were very few rubric errors and only a small number of candidates answered more than the required four questions.

Candidates need to pay attention to the precise instruction in the question. For example, if the question asks the candidate to identify something, as in **Question 2 (c)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to explain something, as in **Question 1 (a), (b) (ii) and (c) (i), Question 2 (a), Question 3 (a), Question 4 (b), Question 6 (a) and Question 7 (a) and (b)**, he or she needs to go into much more detail. If the question requires the candidate to discuss something, as in **Question 1 (c) (ii), Question 2 (b) and (d), Question 3 (d), Question 4 (d), Question 5 (b) and (d), Question 6 (c) and Question 7 (d)**, he or she needs to develop the answer much more fully, often giving two sides of an argument and then coming to a 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 should be allocated to that part of the question and how much detail is required.

One problem for the examiners is that a few candidates fail to put the answers in the correct order, often mixing up answers to different questions. This makes it very difficult for the examiners and candidates really need to allow time at the end of the examination to put their work in the correct order.

Comments on Specific Questions

Question 1

- (a)** Most candidates were able to draw a demand and supply diagram correctly to show the likely change in the market for oil in India in the next 15 years with the demand curve shifting to the right. The change in the equilibrium positions of price and quantity, unfortunately, were not always clearly shown. It is always disappointing to see that some candidates still get demand and supply the wrong way round. The explanations were generally clear in the majority of cases, pointing out that the equilibrium price and quantity would be likely to rise.
- (b)** In **(i)**, many candidates recognised that the purchase of foreign oil would be recorded in the current account of India's balance of payments as visible imports. Some candidates, however, incorrectly argued that they would appear in the capital account. In **(ii)**, most candidates were able to explain two possible disadvantages to the Indian economy of its dependence on imported oil, such as the likely worsening of the balance of payments account and the effect of the volatility in world oil prices.
- (c)** In **(i)**, most candidates were able to define strong industrial growth as a rapid expansion of output. In **(ii)**, there were some very good discussions of the possible effects of strong industrial growth. There were several possible advantages, such as the increase in employment and incomes, possible disadvantages included the environmental impact and the likely increase in inflation. The better answers offered a balanced discussion which paid attention to both the advantages and disadvantages.

Question 2

- (a) Most candidates were able to identify and explain the four factors of production: land, labour, capital and enterprise. Some, however, still explain the concept of capital in terms of money rather than in relation to capital equipment and some are convinced that there are only three factors of production, enterprise being the one usually omitted.
- (b) There were some very good answers to this part of the question. Most candidates recognised that, despite the potential advantages of large firms, many small firms continue to exist and they were able to include a number of reasons for this in their discussion, such as the difficulties of raising the necessary finance to expand, the limited size of the market and the need to give more personal attention.
- (c) Most candidates recognised that horizontal integration applied to the first situation and vertical integration to the second; some, however, failed to add that the second example involved vertical integration in a backwards direction, i.e. linking up with the suppliers of raw materials.
- (d) Many candidates offered a very good discussion in the last part of the question, pointing out that there were likely to be both advantages and disadvantages of integration. Advantages might include the benefits of economies of scale, reducing both costs of production and prices charged to the consumers; disadvantages might include the possibility of less competition and therefore a reduction in choice for the consumer. The better answers offered a good balance of both perspectives, arguing that in certain circumstances, integration might be beneficial but that in other situations, this might not be the case. It was therefore the case that integration was not always beneficial.

Question 3

- (a) There were some very good answers to this first part of the question. Candidates were able to explain the term 'scarcity' in terms of the contrast between unlimited wants and limited resources. Opportunity cost was also explained well in terms of the next best alternative foregone.
- (b) The first part of the question was answered well by the majority of candidates who were able to describe a range of factors that might affect an individual's choice of occupation, such as the remuneration, working conditions, location, prospects of promotion, holiday entitlement, pension provision and various other benefits. The second part of the question was answered less successfully; some candidates struggled to apply the concept of opportunity cost and did not seem to grasp that there was likely to be a trade-off between various jobs, i.e. the idea that choosing one particular occupation needed to be seen in the context of the next best alternative occupation foregone.
- (c) Answers to this part of the question varied a great deal. There were some very good answers where the candidates were able to analyse how a person's earnings would be likely to change during their working life as they progressed through a particular occupation, gaining more experience and possibly promotion, or as they changed occupations. Some candidates, however, failed to appreciate how and why earnings might change over a period of time.
- (d) Again, answers to this part of the question varied enormously. There were some very good discussions by many candidates on why different occupations have different rates of pay. They were able to place the discussion within the context of the theory of demand and supply, explaining that if demand was high and supply was low, rates of pay were likely to be higher. Some of the better candidates brought in the concept of the elasticity of supply of labour, pointing out that where supply was relatively inelastic, i.e. where the labour was highly skilled, rates of pay were likely to be higher. Some used diagrams to good effect to aid the discussion. The weaker candidates, however, offered purely descriptive answers and made no reference at all to demand or supply.

Question 4

- (a) This proved to be a difficult question for many candidates who did not understand what was required to get the correct answer. The answer was 41,100 and this was calculated by subtracting 1,500 from 42,600.

- (b) There were some good answers to this part of the question. Most candidates were able to explain why the pattern of employment might change, such as because of the greater number of part-time workers, job-sharing, flexitime and the impact of changes in technology on patterns of employment. Many candidates also brought in the movement away from the primary sector towards a greater proportion of employment in the secondary and tertiary sectors.
- (c) This also proved to be quite a difficult question for many candidates who did not seem to understand how the rate of unemployment might fall at the same time as a decrease in the number of people employed. The reason why both of these statements could be true at the same time was that the rate of unemployment was a relative figure, i.e. a proportion of the working population, whereas the number employed was an absolute figure.
- (d) This part of the question was answered reasonably well by the majority of candidates who were able to discuss the possible economic consequences of unemployment. These included the possible need to support more people in terms of welfare benefits and transfer payments, the waste of valuable resources and the possible impact on the rate of economic growth. Some candidates, however, spent far too much time discussing the various causes of unemployment rather than focusing on the consequences.

Question 5

- (a) Most candidates were able to offer a clear distinction between the private sector and the public sector of an economy, stressing that the former involved private control and ownership with the aim of making profits whereas the latter involved government or state control and ownership with the aim of providing particular services.
- (b) Again, there were some good answers to this part of the question with the majority of candidates able to discuss clearly the possible disadvantages of allocating resources through the public sector. These included the fact that crucial decisions would be taken by bureaucrats and/or politicians rather than business people, the lack of a profit incentive and the possible lack of efficiency and competition.
- (c) Most candidates understood that when airports were planned, there may often be people who actively campaign to stop them being built and they were able to consider a number of possible disadvantages that the building of an airport might have. These included the environmental costs such as congestion and noise and the possible destruction of property to create space for the airport. The possible reduction of property values in the area was also considered.
- (d) There were some good answers to this final part of the question where most candidates were able to offer a useful contrast between income tax and a specific (flat-rate) tax as a means of paying for the construction of an airport. There was some good discussion of the relative advantages and disadvantages of such direct and indirect taxes and candidates then opted for one or the other although a number argued that a combination of the two might be the most appropriate solution.

Question 6

- (a) The first part of the question was answered well by most candidates who were able to explain a number of indicators that might be used to determine whether a nation was poor. These included real GDP per head, life expectancy, literacy rate, number of doctors per thousand of population and access to clean water. Some candidates, unfortunately, only offered a list of possible indicators despite the fact that the question clearly required them to explain the indicators.
- (b) The majority of candidates did very well in this part, describing the various methods which might be used to protect industries from foreign competition in international trade. These included tariffs, quotas, subsidies, embargoes, exchange controls and various types of regulations and administrative controls.
- (c) The final part of the question required candidates to discuss whether it would be better for a country to engage in free trade or to use some form of protection from foreign competition. There were some very good answers with candidates demonstrating a sound knowledge and understanding of the advantages and disadvantages of both free trade and protectionism.

Question 7

- (a) The majority of candidates were able to explain why the rate of population growth in developed countries was often different from that in developing countries. They pointed out that developing countries had higher rates of natural increase in population with death rates having fallen faster than birth rates. Birth rates were usually significantly higher in developing countries and candidates offered a range of explanations for this, including the traditions of the country, the relative lack of contraception and information on family planning and the limited levels of education.
- (b) Most candidates were able to explain why a country might want to try to limit the growth in the population of its country, especially in terms of trying to limit the pressure on the available resources. A number of candidates made some useful comments on famine and the standards of living generally and on the problems of overcrowding.
- (c) The majority of candidates were able to describe the likely change in the relative importance of the different sectors of production as countries became more economically developed, explaining the gradual movement away from the primary sector towards the secondary and tertiary sectors.
- (d) Most candidates were able to discuss how governments might deal with a situation of a large increase in the proportion of older people in many developed countries during the next 10 to 15 years. They considered the possible raising of the retirement age, the need for retraining of the older workers and the need to maintain the level of the pension. This latter point brought in some very useful discussion in relation to how this might be financed and the effect of this on the taxes paid by the working population.

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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 of candidates who really struggled to get above 10 marks.

Question 1

- (a) The majority of candidates were able to arrive at the correct figure of £25 million, calculating that if £5 million was equal to 20% of its profits before tax, then the answer would be £5 million \times 5.
- (b) Candidates were able to consider a number of reasons for firms needing to make profits, such as to provide the necessary finance for future expansion and growth. Relatively few candidates, however, focused on the important point that it was a reward for taking a risk. Another common error resulted from the suggestion that a firm's costs were paid from profits. Candidates did not appreciate that profits are only calculated after costs have been paid.
- (c) Candidates were required to include a demand and supply diagram, showing a shift of the demand curve to the left. Some of these were done very well but some candidates are still not labelling their diagrams clearly and correctly. There were some factors which candidates could refer to from the data to explain why the shares had recently fallen, such as the fall in profits and the reduction in income from televising matches. Many scripts included a supply and demand diagram based on costs and revenues received by Manchester United and then assumed that this was the supply and demand diagram for shares. This was not so. The change in demand and supply would probably affect the value of the shares as they would be less attractive but no more than that.
- (d) The following information is given: reason for concern is that future profits are likely to be lower because of loss of TV income and there is no income from sale of players. Also, it is said that the club had a large expenditure commitment. Payments to shareholders decreased and the value of shares decreased. However, the club still made £27.5 m. Candidates needed to consider whether 2003 was an abnormal year (sale of Beckham might indicate this), and how profits in other years compared with the 2003-4 figure. They also needed to form an overall opinion.

The better candidates were able to offer a balanced view of the fall in profits, possibly stating that there would clearly be some concern, especially given that the company was planning to add another 7800 seats at a cost of £39 million. However, in the long term, this would bring in a lot more revenue from ticket sales. A number of candidates did suggest that the situation was not too bad because the company had still managed to make a profit of £25 million. Not many candidates formed an overall conclusion.

- (e) There were some very good answers to this part of the question. A number of candidates discussed ways to both reduce costs and increase revenue. There was some useful consideration of the possible effects of changing prices in terms of elasticity of demand from those candidates who took the extended syllabus. Many candidates also considered the importance of increasing demand through an effective advertising campaign and there was also some good discussion of different possibilities of diversification. The question was a broad one and so candidates did not have to confine their answers to Manchester United.

Question 2

- (a) A large number of candidates produced very good answers on the functions of a central bank, making reference to its role as both the government's bank and also its role in relation to the commercial banks as lender of last resort. There were some good discussions of monetary policy, especially in relation to changes in interest rates. A few candidates misunderstood what was required and, instead of writing about the functions of a central bank, wrote about the role of commercial banks.
- (b) Most candidates were able to consider what would be likely to happen if consumer spending decreased. Many produced sophisticated answers explaining the likely effect in the economy and linking the change to falls in income and eventually to increases in unemployment.
- (c) There were also some very good answers to this last part of the question on the connection between changes in interest rates and changes in house prices. Candidates recognised that an increase in the interest rate would make the cost of borrowing more expensive and that this would be likely to reduce the demand for houses. The sellers of the houses, therefore, would need to reduce the prices of the houses in order to try and make them more attractive to the potential buyers. The opposite effect would take place if the interest rates were to be decreased. Diagrams were not explicitly required but a number of candidates included them to good effect to aid their explanation.