

CONTENTS

| | |
|---|----------|
| ECONOMICS | 2 |
| Paper 0455/01 Paper 1 (Core) | 2 |
| Paper 0455/02 Paper 2 (Core) | 3 |
| Paper 0455/03 Paper 3 (Extended) | 5 |
| Paper 0455/04 Structured Questions | 6 |
| Paper 0455/06 Alternative to Coursework | 9 |

ECONOMICS

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| Paper 0455/01 Paper 1 (Core) |
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| <i>Question Number</i> | <i>Key</i> | <i>Question Number</i> | <i>Key</i> |
|------------------------|------------|------------------------|------------|
| 1 | C | 21 | C |
| 2 | C | 22 | B |
| 3 | B | 23 | C |
| 4 | C | 24 | B |
| 5 | D | 25 | A |
| 6 | A | 26 | B |
| 7 | D | 27 | A |
| 8 | A | 28 | C |
| 9 | C | 29 | C |
| 10 | B | 30 | A |
| 11 | C | 31 | C |
| 12 | D | 32 | B |
| 13 | C | 33 | B |
| 14 | C | 34 | C |
| 15 | C | 35 | C |
| 16 | D | 36 | B |
| 17 | C | 37 | C |
| 18 | B | 38 | D |
| 19 | C | 39 | A |
| 20 | D | 40 | C |

General comments

355 candidates took this Paper with a mean score of 22.1.

The easiest questions proved to be **3, 4, 5, 10, 19, 21, 32** and **34**, with at least 70% of the candidates choosing the correct answer.

The hardest questions, with fewer than 40% of the candidates choosing the correct key, were **6, 18, 22, 26, 27, 29, 30** and **38**.

Comments on specific questions

For **Question 6**, 39% of the candidates chose the correct answer **A**. 25% chose **B** and 21% chose **C**. It was not thought that these distractors would attract many candidates, as they both relate to large organisations and the stimulus states that the retailer is small.

For **Question 18**, the correct answer **B** was chosen by 31% of the candidates, but 33% chose **A**. It is not clear what reasoning the candidates may have applied to come to choose option **A**.

21% correctly chose **B** for **Question 22**, but 31% chose **C**. **C** is total variable cost, not average fixed cost.

For **Question 26**, 38% correctly chose **B**. 34% chose **C**. Unemployment is a disadvantage in many ways but it is unlikely to be caused by economic growth.

In **Question 27**, 26% of the candidates thought that fiscal policy related to money supply and chose **B**. **A** was correctly chosen by 39%. This appears to be a result of a confusion of the definitions of fiscal and monetary policy.

44% chose **B** in **Question 29**, confusing a proportional tax with a progressive tax. The correct answer was **C** which was selected by 26% of the candidates.

In **Question 30** the correct answer, **A**, was selected by 37% but 29% chose **B**, 17% **C** and 16% **D**. The question was an application of a definition of cyclical unemployment. Possibly the candidates who made the incorrect choice were uncertain of the term rather than choosing the incorrect application.

For **Question 38** almost as many candidates incorrectly chose **C** (31%) as correctly chose **D** (32%). The effect of an increase in price of a tariff was not appreciated.

Paper 0455/02

Paper 2 (Core)

General comments

The performance of candidates seemed to be broadly in line with that of previous years on this Paper. There were again some excellent answers to the Paper and those candidates are to be congratulated on their hard work. However, there are several points that might be helpful in enabling other candidates to achieve higher marks by using their knowledge and understanding in a more effective manner.

- Candidates should be given clear guidance that when a question asks for an explanation or a discussion, a simple list of items is insufficient. The points must be presented in the form of sentences and paragraphs, with at least a brief comment on each one. On the other hand, when the question asks for points to be listed or identified, then a brief set of points is required and not a lengthy description or explanation, which is a waste of the candidate's time.
- A number of candidates did not seem to pay very much attention to the mark allocation in brackets at the end of each sub-section of a question, writing no more for a section carrying 8 marks than for a section carrying 3 marks.
- It has been mentioned many times in these Reports that candidates should be encouraged to use diagrams where appropriate. When diagrams are used they should be presented clearly and accurately, with correct labels.
- In order to gain high marks in questions that use the words "discuss" or "evaluate", candidates need to present more than one side of an argument and then come to a conclusion. They should also be prepared to state their own point of view on the matter. Many answers present the case for or against, the advantages and disadvantages, but then finish the answer without a conclusion. This is a pity and prevents the candidate achieving the highest marks. Candidates should be encouraged to read the question carefully and to realise that their view of the matter is significant. When they have presented the evidence required by the question, they should not be afraid to indicate what weight should be given to that evidence. They should decide whether, for example, the advantages outweigh the disadvantages, or the case for a given change mentioned in the question is greater than the case against. They should then clearly state what they conclude.
- Candidates should check that the pages that they have written are in the correct order and that each question number and section letter is clearly shown in the margin.

Comments on specific questions

Question 1

- (a) Many candidates were able to explain several features of a market economy correctly. These might include no government interference, the private ownership of factors of production or role of the price mechanism. A number of candidates omitted to state that resources in a market economy are allocated by prices, which are determined by demand and supply. Some candidates confused a market economy with a mixed economy while others simply listed the main characteristics of a market economy with no explanation.

- (b) There were some very weak attempts at explaining complements and some candidates believed them to be some sort of government grant for housing. Substitutes were usually more easily explained though examples of both substitutes and complements were sometimes inappropriate or not taken from the text in the question.
- (c) Nearly all candidates were able to identify four things that might influence a worker's choice of occupation, such as wages, location, hours, conditions and qualifications. Some answers were far too long, as the question required candidates only to identify the points.
- (d) Candidates usually realised that a change in housing provision would increase geographical mobility, but few candidates realised that it might also lead to workers changing their occupations.
- (e) Some candidates did not attempt this part but the better answers showed a good awareness that many people would benefit, such as workers who were able to move to better housing, and firms producing furniture appliances and decorating materials. On the other hand those still living in poor housing conditions would not be likely to benefit. The best answers also considered the possible effects on the national income, the level of employment and the government's tax income.

Question 2

- (a) Most candidates were able to describe some of the factors that might determine demand, such as prices, incomes, tastes, advertising and the prices of substitutes and complements. Some candidates lost marks by merely listing the factors rather than giving a description of each factor.
- (b) There were some good discussions of the reasons why different income groups might have different patterns of expenditure. These considered the proportions of income spent on food, clothing, housing, leisure activities, travel and consumer durables. Some candidates also included a relevant analysis of savings in their discussions.

Question 3

- (a) Most candidates were able to obtain at least two marks by defining capital-intensive, mentioning that there would be greater amounts of capital used compared with the amounts of other factors used. Many candidates defined capital in terms of money rather than assets used in the production process.
- (b) This part of the question was answered quite well by most candidates who concentrated mainly on the need for capital to produce certain types of products, such as motor vehicles. They were less clear about the choice of capital-intensive or labour-intensive production based on the availability and cost of capital compared to labour and other factors of production.

Question 4

- (a) Most candidates were able to give a good explanation of the reasons why companies might spend money on training to increase the skills of their workforce. Typical answers included the need to increase productivity, to make workers more efficient, to make better use of resources and to reduce costs of production.
- (b) Candidates were expected to give a discussion of the role of the government in providing education and training, the possible area of market failure and the role of the government in providing general education rather than specific education relating to particular businesses.

The best answers recognised that education is a merit good and was best provided by the government, while a company should provide training when it mainly benefited that company. Too many answers simply thought that the government should provide both education and training, as they were important to the economy in some general sense.

Question 5

- (a) Most candidates correctly stated that minerals and precious stones were exports in the goods (visible) and services current account of the balance of payments.
- (b) There were some good answers to this part of the question, with many candidates giving a sound discussion of the relative merits of specialisation and diversification. For example, specialisation would give increased efficiency but also greater vulnerability and there would be no chance to protect industries or regions. There might also be a greater likelihood of sudden changes in international prices affecting large areas of the economy.

Better answers were also able to use the theory of comparative or absolute advantage to support their answers. Weaker answers were sometimes one-sided. Their answers often just considered the benefits without any mention of the risks.

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| Paper 0455/03 Paper 3 (Extended) |
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| <i>Question Number</i> | <i>Key</i> | <i>Question Number</i> | <i>Key</i> |
|------------------------|------------|------------------------|------------|
| 1 | C | 21 | A |
| 2 | C | 22 | A |
| 3 | B | 23 | B |
| 4 | C | 24 | D |
| 5 | D | 25 | C |
| 6 | A | 26 | B |
| 7 | D | 27 | B |
| 8 | A | 28 | C |
| 9 | C | 29 | C |
| 10 | B | 30 | A |
| 11 | C | 31 | C |
| 12 | B | 32 | D |
| 13 | C | 33 | C |
| 14 | A | 34 | C |
| 15 | C | 35 | C |
| 16 | D | 36 | C |
| 17 | C | 37 | B |
| 18 | B | 38 | D |
| 19 | C | 39 | B |
| 20 | D | 40 | B |

General comments

2207 candidates took this Paper this summer and achieved a mean score of 28.3.

The easiest questions were **1, 2, 3, 4, 5, 10, 17** and **19**. It is usually the case that the introductory questions on the Paper are designed to be easier than some of the later questions although candidates found all of the first five questions comparatively easy, which is unusual.

The most difficult questions for this Paper were **6, 14, 32** and **34**. All the other questions were answered correctly by at least 54% of the candidates.

Comments on specific questions

For **Question 6**, 53% of the candidates chose the correct answer **A**. 20% chose **B**, and 20% chose **C**. It was not thought that these distractors would attract many candidates, as they both relate to large organisations, whereas the stimulus states that the retailer is small.

Question 14 proved the most difficult on the Paper, with only 15% choosing the correct key of **A**. 61% chose **B**. This must be because candidates did not realise that even with an inelastic demand there will be a change in the quantity bought as the price alters. Only with an absolutely inelastic demand, and not any inelastic demand as stated in the stimulus, is it true that a price rise will have no effect on the demand.

43% answered **Question 32** correctly by choosing **D**, but other candidates either did not recognise that the Jamaican dollar was strengthening or could not decide what might cause this.

For **Question 34**, 56% of the candidates chose option **A**. It is a common mistake to think that when the rate of inflation falls prices also fall. The rate of inflation can fall but prices will still rise; they will not rise as fast, but they will still rise. The correct answer was **C**, chosen by 28% of the candidates.

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| Paper 0455/04 |
| Structured Questions |

General comments

The performance of candidates seemed to be broadly in line with that of previous years on this Paper. There were again some excellent answers to the Paper and those candidates are to be congratulated on their hard work. However, there are several points that might be helpful in enabling other candidates to achieve higher marks by using their knowledge and understanding in a more effective manner.

- Candidates should be given clear guidance that when a question asks for an explanation or a discussion, a simple list of items is insufficient. The points must be presented in the form of sentences and paragraphs with at least a brief comment on each one. On the other hand, when the question asks for points to be listed or identified, then a brief set of points is required and not a lengthy description or explanation, which is a waste of the candidate's time.
- A number of candidates did not seem to pay very much attention to the mark allocation in brackets at the end of each sub-section of a question, writing no more for a section carrying 8 marks than for a section carrying 3 marks.
- It has been mentioned many times in these Reports that candidates should be encouraged to use diagrams where appropriate. When diagrams are used they should be presented clearly and accurately with correct labels.
- In order to gain high marks in questions that use the words "discuss" or "evaluate", candidates need to present more than one side of an argument and then come to a conclusion. They should also be prepared to state their own point of view on the matter. Many answers present the case for or against, the advantages and disadvantages, but then finish the answer without a conclusion. This is a pity and prevents the candidate achieving the highest marks. Candidates should be encouraged to read the question carefully and to realise that their view of the matter is significant. When they have presented the evidence required by the question, they should not be afraid to indicate what weight should be given to that evidence. They should decide whether, for example, the advantages outweigh the disadvantages, or the case for a given change mentioned in the question is greater than the case against. They should then clearly state what they conclude.
- Candidates should check that the pages that they have written are in the correct order and that each question number and section letter is clearly shown in the margin.
- While most candidates conformed to the instructions on the Question Paper, a few answered more than the required number of questions and some answered all of the questions on the Paper. Candidates should be encouraged to answer the number of questions required and no more.

Comments on specific questions**Section A****Question 1**

- (a) Many candidates were able to explain several features of a market economy correctly. These might include no government interference, the private ownership of factors of production or the role of the price mechanism. A number of candidates omitted to state that resources in a market economy are allocated by prices, which are determined by demand and supply. Some candidates confused a market economy with a mixed economy, while others simply listed the main characteristics of a market economy.
- (b) There were some very weak attempts at explaining complements, and some candidates believed them to be some sort of government grant for housing. Substitutes were usually more easily explained, though examples of both substitutes and complements were sometimes inappropriate or not taken from the text in the question.
- (c) Nearly all candidates were able to identify four things that might influence a worker's choice of occupation, such as wages, location, hours, conditions and qualifications. Some answers were far too long, as the question required candidates only to identify the points.
- (d) Candidates usually realised that a change in housing provision would increase geographical mobility, but few candidates realised that it might also lead to workers changing their occupations.
- (e) Some candidates did not attempt this section but the better answers showed a good awareness that many people would benefit, such as workers who were able to move to better housing, and firms producing furniture appliances and decorating materials. On the other hand, those still living in poor housing conditions would not be likely to benefit. The best answers also considered the possible effects on the national income, the level of employment and the government's tax income.

Question 2

- (a) Most candidates were able to describe some of the factors that might determine demand, such as prices, incomes, tastes, advertising and the prices of substitutes and complements. Some candidates lost marks by merely listing the factors rather than giving a description of each factor.
- (b) There were some good discussions of the reasons why different income groups might have different patterns of expenditure. These considered the proportions of income spent on food, clothing, housing, leisure activities, travel and consumer durables. Some candidates also included a relevant analysis of savings in their discussions.
- (c) The majority of candidates were able to state that price elasticity of demand was a means of measuring the responsiveness of the demand for a product when there was a change in its price. Most candidates gave the correct explanation of how price elasticity is calculated, and some gave a clear analysis of the possible range of values that price elasticity might have, supported by appropriate diagrams.
- (d) The answers to this part of the question were often less convincing, especially from those who tried to answer it with a poor understanding of the concept of price elasticity of demand. Some candidates were able to explain that clothing and footwear might be regarded as necessities with lower price elasticities. On the other hand perfumes, hairstyles, cell-phones and household appliances might be regarded as luxuries with higher price elasticities of demand. Few candidates were able to explain that all status symbols were likely to have high price elasticities, as they were likely to have designer labels that distinguished them from similar goods without the expensive labels.

Question 3

- (a) Most candidates were able to obtain at least two marks by defining capital-intensive, mentioning that there would be far greater amounts of capital used compared with the amounts of other factors used. Too many candidates defined capital in terms of money rather than assets used in the production process.

- (b) This part of the question was answered quite well by most candidates, who concentrated mainly on the need for capital to produce certain types of products, such as motor vehicles. They were less clear about the choice of capital-intensive or labour-intensive production based on the availability and cost of capital compared to labour and other factors of production.
- (c) Most candidates were able to identify three advantages of a car manufacturer establishing production in another country, such as cheap labour, land or materials, the avoidance of tariff barriers, a wider market and grants or other benefits from the local government.
- (d) In this section candidates were expected to give a discussion of the effect on a country's GNP of an increase in car production. This could mention such things as the effect on employment and hence spending and the effect on the growth of ancillary industries. Some credit was given a relevant explanation of GNP and candidates could have written about other countries than the one in which the factory was located.

Many candidates were able to discuss a few aspects of this question but very few gained the highest marks, as most answers lacked depth and a broad analysis of the situation.

Question 4

- (a) Most candidates were able to give a good explanation of the reasons why companies might spend money on training to increase the skills of their workforce. Typical answers included the need to increase productivity, to make workers more efficient, to make better use of resources and to reduce costs of production.
- (b) Candidates were expected to give a discussion of the role of the government in providing education and training, the possible area of market failure and the role of the government in providing general education rather than specific education relating to particular businesses.

The best answers recognised that education is a merit good and was best provided by the government, while a company should provide training when it mainly benefited that company. Too many answers simply thought that the government should provide both education and training, as they were important to the economy in some general sense.
- (c) This proved to be a more difficult question for many candidates who argued in generalities rather than being specific about the benefits of economies of scale or the meaning of efficiency.
- (d) A number of answers to this section did not bother to explain their interpretation of the word "better" in the question and too many candidates simply accepted that large organisations were better than smaller ones, without discussing the possible benefits of small organisations. Some of the answers to this section contained material that would have been more suitable for part (c).

Question 5

- (a) Most candidates correctly stated that minerals and precious stones were visible exports in the current account of the balance of payments.
- (b) There were some good answers to this part of the question, with many candidates giving a sound discussion of the relative merits of specialisation and diversification. For example, specialisation would give increased efficiency but also greater vulnerability; there would be no chance to protect industries or regions. There would be also a greater likelihood of sudden changes in international prices affecting large areas of the economy.

Better answers were also able to use the theory of comparative or absolute advantage to support their answers. Weaker answers were sometimes too one-sided. Their answers often just considered the benefits without any mention of the risks.
- (c) This section caused problems for some candidates who gave only vague explanations for their answers. However, the more able candidates understood that the value of exports depended on their quantity multiplied by their price. The best candidates supported their answers with clear and accurate diagrams showing a leftward shift in the supply curve, and were able to compare the total revenue before and after the supply and price change.

- (d) Most answers described some of the measures that a government might take to influence its country's balance of payments by limiting imports or boosting exports. Candidates wrote about means of limiting imports such as tariffs, quotas and exchange rate adjustments and about boosting exports through subsidies and tax benefits. Only the best answers were able to give a well-balanced discussion with a reasoned conclusion.

Question 6

- (a) Answers to this first part of the question were invariably very good. Most candidates were able to explain each type of expenditure with appropriate examples of each.
- (b) There were some rather confused answers to this part of the question, as candidates were unable to see the link between public expenditure and greater reliance on the market system.
- (c) A number of candidates were unsure of the various sources by which governments could finance their expenditure, such as direct and indirect taxes, rents on government properties and borrowing. Very few candidates realised that governments might also charge for services provided by government organisations. Many of the answers to this section were much too brief relative to the number of marks available for it.
- (d) There were some good answers to this last part of the question, usually from candidates who defined opportunity cost clearly and accurately. Some candidates gave only one example when the question had asked for examples rather than a single example. The examples given were invariably correct, such as hospitals and schools, though some were not very clearly explained.

Question 7

- (a) Most candidates had some idea of the differences in the standard of living between developed and developing countries, such as differences in health and education services. However, these differences were not always expressed clearly but in terms of absolute differences, such as GNP per head and agricultural or population structures rather than in differences in aspects of the standard of living.
- (b) The majority of candidates were able to demonstrate some general idea that a country with good natural resources was likely to have a higher standard of living. The best answers understood that there needed to be a number of other conditions present for the resources to be exploited beneficially and that some or much of the benefit might be lost due to exploitation by corrupt ruling groups in the country or by foreign multinational companies.
- (c) Some answers to this section were rather brief, despite the fact that 8 marks were allocated to it. Some candidates did try and explain what policies a government might use to improve the standard of living in its country but some answers were too broad and vague. Only the best answers were able to give a full discussion of the effects of government policy on the redistribution of wealth and income through taxation, regulation and monetary policies together with the provision of services and facilities at subsidised rates.

Paper 0455/06

Alternative to Coursework

General comments

The overall quality of the answers seemed to be generally consistent with previous years. There were no problems in relation to the rubric, with candidates answering both questions. Candidates seemed to have enough time to answer both questions.

Comments on specific questions**Question 1**

- (a)(i) Most candidates were able to identify two characteristics of a developing economy. These were usually in relation to employment, income per capita, population, infrastructure, health, education, housing or trade. Some candidates stated that all developing countries have a large population; some of them do but not all of them. Candidates need to distinguish carefully between the population of a country and the rate of growth of that population.
- (ii) Candidates could choose from a range of evidence in the article to show that Morocco had a large fishing sector, such as over 840 species of fish, nearly 400,000 workers, the export of nearly 250,000 tons of fish, the export earnings of \$633 million, the existence of a Ministry of Fisheries, the 600 European ships fishing there and the fishing-related sectors of ports, shipyards, ship maintenance and sea-food processing industries.
- (b)(i) Virtually every candidate understood that Morocco agreed in 1995 to a four-year agreement with the European Union that would give as many as 600 European ships, mostly Spanish and Portuguese, the right to fish in Moroccan waters in return for a payment to the Moroccan government.
- (ii) Most candidates recognised that when the Moroccan minister said 'there will be no suicide agreement with the EU', he meant that that the agreement would not be renewed because of the effect it had on the economy. Fishing was of vital importance to the Moroccan economy and the four-year agreement had seriously depleted the source of income for nearly 400,000 workers; if the agreement had been allowed to continue, their jobs would have been at risk and the economy generally would have suffered.
- (c)(i) The demand and supply diagram should have been clearly labelled and it should have shown a shift to the right of the supply curve. It should have also clearly shown the original and the new equilibrium positions. The explanation should have focused on the increase in supply and the way in which this lowered the equilibrium price in the market.
- (ii) This proved to be a more difficult question for many of the candidates. The question explicitly asked candidates to assess the extent to which the changes had benefited the local fishermen and so there needed to be a clear contrast between the situation while the agreement was in force and the new situation once the agreement had been ended. There were a number of useful answers and these tended to focus on changes in terms of prices, sales and revenue, profits and employment.
- (d) In this question, candidates needed to discuss whether there was any evidence in the article to justify Morocco's wish for compensation. On one side, it could be argued that Morocco had a good case because of the effect that the agreement had on fish stocks, employment and incomes. On the other side, it could be argued that Morocco had agreed to it and had been paid by the EU to accept the arrangement. There were no firm details of whether the fee was sufficient to compensate for the loss of the fish.

Question 2

- (a) Most candidates were able to define inflation in terms of a sustained increase in the general level of prices in an economy leading to a fall in the value of money.
- (b) This question also resulted in many sound answers. Most candidates were able to explain how the rate of inflation was calculated through the construction of a retail price index. There was clear discussion of the importance of a base year, the items to be included and the weights to be given to the various items.
- (c) There were some good answers to this last part of the question. Candidates generally considered that a rate of 10.6% would be a source of concern for the Namibian government and discussed the significance of particular figures, such as the 20% increase in the cost of medical care and health services and the 11.7% increase in the price of food.