

ECONOMICS

Paper 0455/01

Paper 1 (Core)

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

489 candidates took this paper in November 2008. The mean for the paper was 20.5. In 2007 it was 18.9, and in 2006 and 2005 it was 20.7. The candidates should be congratulated for such a result.

The questions which most candidates answered correctly were **2, 6, 10, 13, 28, 32, 35** and **36** with over 70% of the entry choosing the correct option. These questions cover different topics and also both knowledge and analysis.

The questions with the lowest percentage of candidates choosing the correct answer were **3, 7, 24** and **34**.

For **Question 3**, the correct answer was C. The extra machinery would increase the firm's cost but the reduction in the workforce would lower the cost. As we are not told the relative amounts of each change the outcome of the cost change is uncertain. Productivity would rise as production increases with fewer workers. 20% of candidates chose C, 34% chose A, 32% chose B and 12% chose D. It seems likely that candidates were guessing the answer for this question.

The correct answer to **Question 7** was A. 28% of candidates chose A, 20% chose B, 29% chose C and 22% chose D. Candidates were asked to choose the option which showed a situation where the trade union was least likely to be effective. Options B, C and D would make the union more likely to be effective. Maybe

candidates did not notice that the question required them to choose a situation where the union was not likely to be effective as the percentages choosing each option were relatively close.

The correct answer to **Question 24** was C and this was chosen by 19% of candidates. However, 63% chose option D. Option D was the total cost of 100 units comprising the total fixed cost of \$20 000 and the total variable cost (the section above the horizontal line on the diagram) of \$40 000. Candidates must have misunderstood the significance of the horizontal line on the diagram which indicates the level of fixed cost, or, alternatively, did not notice that the question related only to total variable cost.

Question 34 was the most difficult on the paper with only 18% of candidates giving the correct answer, C. 32% chose A, 21% chose B and 27% chose D. The relatively close distribution of percentages might indicate that candidates were guessing.

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Paper 0455/02 Paper 2 (Core)

Question 1

- (a) Candidates made an attempt to state what was shown in a population pyramid. They should have mentioned that it is a diagram which shows the number of males and females within different age groups in the population at a given time. Most mentioned one or two of these points. Not many mentioned all three.
- (b) The prediction suggests that the number in the lower age range will decline, those in the middle age ranges will increase but those in the higher age ranges will increase slightly for males but not for females – except at the very top. There is a possibility that the overall population will fall. Candidates made a good attempt to provide some comment on the diagram.
- (c) (i) Candidates were expected to draw a pyramid diagram with a more even shape which was clearly labelled. They should have recognised that there will be more people at the older age ranges and that there will probably be proportionately fewer people in the lower age ranges.
- (ii) The difference reflects the changes in the birth and death rates. The birth rate will be lower than an undeveloped country, the death rate will be lower and more people will live until an older age. This may be due to differences in health care, education, employment structures and social conditions. There may also be differences in migration. Candidates were able to mention most of these points in their answers.
- (d) There was some interesting discussion to this question. Education will affect people's knowledge of health matters – this is especially important when countries such as Botswana are considered, where AIDS is very common. There may be improved education for women which will affect their attitudes to child bearing and which will also give them employment opportunities. The outcome of an improvement in education for women will also depend on whether there are sufficient resources and developed infrastructure for the girls to go to school. In some countries girls spend hours each day walking to fetch water and do not have the time to then walk to school. Education should provide more skilled workers and this may involve geographical mobility or migration which will change cultural practices.

Question 2

- (a) Candidates were able to explain the reasons for saving and spending. They commented on the balance of necessities and luxuries in a person's budget depending on income. Some also commented on the likelihood of using credit.
- (b) There was often a good discussion of the factors influencing government spending which included the need to promote economic growth, control inflation, correct adverse changes in the balance of payments, alter the distribution of income or prevent excess inflation. Better candidates briefly debated which of the aims might be more significant.

Question 3

- (a) Candidates were able to realise that an increase in supply without any change in demand would cause prices to fall. To compensate for this there would need to be an increase (shift) in demand if the price is to remain the same. This would be especially important if there was a need to try to recover the huge expenditure on the port extension.

- (b) Candidates were required to give a definition which referred to changes in output. Many simply said that fixed costs do not change and made no reference to the fact that they do not change as output changes. The huge investment in fixed equipment makes it likely that fixed costs will be a higher proportion. Sadly, many candidates, because of the inaccuracy in their definitions, concluded that the variable costs would be more significant.

Question 4

- (a) This question caused some confusion as candidates appeared to misunderstand the term business organisation. What was expected was that the first organisation was likely to be multi-national and the second a sole trader or partnership. Some candidates, however, gave answers which stated that the occupations were in the medical profession or in service industries. Some credit was given for this.
- (b) Some good answers were given to this question which explained wage and non-wage factors such as travelling, timing, career prospects, location and working environment.

Question 5

- (a) Candidates did not always concentrate on investment but rather explained the difference between the private and the public sector without giving the type of investment which might be found in each. Some credit was given for this.
- (b) There were some good answers which explained the link between investment and employment growth, an increase in the standard of living and an increase in competitiveness internationally.

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Paper 0455/03
Paper 3 (Extended)

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

3247 candidates took this paper in November 2008 and the mean score was 24.2. Last winter the mean was 24.0; two years ago it was 22.1.

Over 80% of candidates chose the correct answer for **Questions 2, 6, 10, 13, 15 and 36** which is a higher percentage than would be expected on an examination such as this. These questions cover different topics and also both knowledge and analysis.

Some of the questions with the lowest percentage of candidates choosing the correct answer were **3, 4, 27 and 34**.

For **Question 3**, the correct answer was C. The extra machinery would increase the firm's cost but the reduction in the workforce would lower the cost. As we are not told the relative amounts of each change the outcome of the cost change is uncertain. Productivity would rise as production increases with fewer workers. 25% of candidates chose C, 26% chose A, 29% chose B and 20% chose D. It seems likely that these relatively close percentage figures indicate that candidates were guessing.

For **Question 4**, the correct answer chosen by 39% of candidates was C. 27% chose A, 14% chose B and 19% chose D. The most popular answer after the correct key was A. This would indicate that candidates were confused about the movement of a demand curve which represents an increase. There are always questions on shifts in the supply and/or demand curves and it would be good practice for candidates to be sure which movement of each curve represented an increase and which movement represented a decrease.

The correct answer to **Question 27** was D. Rose, with \$12 000 income, pays a larger proportion of her income in tax than Johann. Johann pays a smaller proportion in tax but has a higher income than Rose. This is an example of regressive taxation. 38% of candidates gave the correct answer, but 47% chose B confusing progressive and regressive taxation.

Question 34 was the most difficult on the paper with only 23% of candidates giving the correct answer, C. 33% chose A, 21% chose B and 22% chose D. As with **Question 3**, the relatively close distribution of percentages might indicate that candidates were guessing.

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Paper 0455/04
Paper 4 (Extended)

General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates who demonstrated a sound knowledge and understanding of economics and a sensible and mature ability to discuss, analyse and evaluate a number of key economic concepts and issues. There were also, however, some rather weak answers where the candidates failed to demonstrate very much knowledge or understanding.

There were relatively few rubric errors, although some candidates did answer all seven questions on the examination paper when the requirement was to answer **Question 1** in **Section A** and three other questions from **Section B**. This meant that a great deal of valuable time in the examination was wasted.

Candidates need to pay close attention to the precise wording of the question, especially in terms of the particular command or directive word being used. For example, if the question asks the candidate to describe something, as in **Question 4(c)** where candidates were required to describe how a person's income is likely to change during their life, or to outline something, as in **Question 2(c)** where candidates were required to outline the functions of a central bank, then he or she simply needs to write a relatively brief answer. However, if the question requires the candidate to analyse something, as in **Question 2(d)** where candidates were required to analyse how a central bank might influence consumer saving, or to discuss something, as in **Question 4(d)** where candidates were required to discuss what might determine why one job is paid more than another, he or she needs to go into much more detail, often giving two sides of an argument and then coming to a logical and reasoned conclusion.

Candidates also need to look very closely at the number of marks given to each part of a question as this gives a clear indication of how much detail is required and how much time should be taken to answer it. For example, **Question 1(a)** was given just three marks whereas **Question 6(b)** was allocated seven marks.

Comments on specific questions

Question 1

- (a) Most candidates were able to state what is shown in a population pyramid - the age of people, the gender of people and the particular time period of the information provided.
- (b) The majority of candidates were able to describe what the prediction suggested would happen in Botswana by 2050. It was likely that the number in the lower age range would decline, those in the middle age range would increase and that those in the higher age range would increase slightly for males but not for females (except for those aged 80 or above). There was also a possibility that there would be a decline in the overall population.
- (c) (i) Most candidates were able to draw an outline shape of a population pyramid for a typical developed country to show how it might differ from those given for Botswana. The key differences were likely to be a greater proportion of people in the older age ranges and a smaller proportion of people in the younger age ranges. Some of the diagrams were well drawn and fully labelled, but some of them were either very badly drawn or very poorly labelled (or, in some cases, both).

- (ii) There were some good explanations of what might cause the difference in the shape of the population pyramid of a developed and a developing country. The difference will essentially reflect the various birth and death rates which are likely to be lower in a developed than a developing country, and candidates offered some good explanations of the reasons for these different rates, such as in terms of health care and social conditions. There were also some interesting explanations in terms of differences in migration.
- (d) In this part of the question, candidates were required to discuss how an improvement in education in a developing country such as Botswana might have an effect on its population. Candidates discussed how this could lead to an improvement in knowledge of health matters and of family planning. A number of candidates went further and discussed macro factors, such as how this could give rise to greater employment opportunities, leading to an increase in GDP per capita and general living standards.

Question 2

- (a) The majority of candidates were able to explain why different income groups might have a different pattern of spending and saving. They pointed out that the higher income groups would be likely to spend a higher proportion on luxuries and to save quite a lot of their income whereas the lower income groups would be likely to spend a higher proportion on basic necessities and to save very little, if any, of their income. One weakness in some of the answers, however, was a failure to offer any explanation of saving, focusing exclusively on spending. A few candidates completely misunderstood what was required and wrote about why different people received different incomes, saying nothing about spending or saving.
- (b) Most candidates were able to discuss a number of factors that might influence government spending, such as the amount of revenue raised from taxation to finance the spending, the need to encourage economic growth, the aim of reducing unemployment, the desire to control the rate of inflation and the objective of trying to achieve an equilibrium in the balance of payments.
- (c) There were some good answers to this question with candidates outlining a number of functions of a central bank, such as the issuing of notes and coins, the control of the money supply, the setting of interest rates and the role of lender of last resort. Some candidates, however, completely failed to appreciate that the question concerned the functions of central banks and wrote instead about the functions of commercial banks.
- (d) Many candidates were able to offer a good analysis of how a central bank might influence consumer saving, especially in relation to changes in interest rates. Some, however, made the same error as in the previous part of the question and wrote entirely about commercial banks.

Question 3

- (a) There were some good explanations of why Kuwait might want to seek new markets when it increased its oil production. Candidates generally understood that there would be an increase in supply, causing prices to fall. There would, therefore, be a need to try and increase demand to bring the price back to its original level. It would also be necessary to increase revenue to recover the expenditure on the new port extension. The question did not explicitly ask for a demand and supply diagram to be included, but many candidates did include one, helping to substantiate the explanation offered.
- (b) Most candidates were able to clearly distinguish between fixed and variable costs and were able to provide appropriate examples of each. Many correctly argued that fixed costs were likely to have the highest proportion in the production and distribution of oil, although some candidates offered a very sophisticated argument that fixed costs would have the highest proportion in the production of oil, but that variable costs might have the highest proportion in its distribution.
- (c) The majority of candidates were able to explain what was meant by a substitute good and a complimentary good and although most gave examples of each connected with oil, a few offered examples which had nothing at all to do with oil.

- (d) Most candidates were able to explain what was meant by price elasticity of demand, although some got confused as to what was causing what. In other words, a few candidates wrote about a change in price in response to a change in demand. There were some good answers in terms of using the concept to discuss what might happen in the market for oil if the price of oil was raised, stressing that demand was likely to be price inelastic. The question did not explicitly require a diagram to be drawn, but many candidates did include one and used it to good effect in assisting the explanation.

Question 4

- (a) The majority of candidates were able to explain in what type of business organisation the two occupations might be found, arguing that a laboratory technician would be likely to work for a multi-national public limited company and a secretary/receptionist would be likely to work for a sole trader or partnership. A few candidates were confused by the term 'business organisation' and wrote about the sector that the different occupations would be working in.
- (b) This part of the question was answered reasonably well by the majority of candidates who were able to explain a number of factors that might affect an individual's choice of occupation, such as wages, promotion and career prospects, pension provision, working conditions and proximity to home.
- (c) Many candidates were able to describe how a person's income would be likely to change during their life, starting on a fairly low income, then increasing as a result of promotion, experience and perhaps additional qualifications, and then finally falling back again in retirement.
- (d) The majority of candidates were able to discuss a number of factors which might determine why one job is paid more than another, such as in relation to skills, qualifications, training, experience, public or private sector and occupational sector. However, the better answers went beyond this descriptive approach to bring in a consideration of demand and supply factors.

Question 5

- (a) Most candidates were able to distinguish between private sector and public sector investment spending, giving appropriate examples of each. For example, private sector investment spending might involve tools, equipment, machinery and factories, whereas public sector investment spending might include schools, hospitals and road construction.
- (b) The majority of candidates were able to explain why investment spending would be important for an economy, focusing on its contribution to the increase in income, employment, economic growth, standard of living and quality of life.
- (c) This was answered well by the majority of candidates who stressed that a market economy involved producers and consumers without any government interference, with the allocation of resources determined by the price mechanism, whereas a mixed economy brought in the government in a variety of different ways, such as through the provision of public and merit goods.
- (d) This proved to be quite a difficult question for many candidates, although some of them were able to offer a clear explanation of how economic growth might change the relative importance of the primary, secondary and service sectors. In other words, the primary sector would continue to decline, the secondary sector would first grow and then begin to decline and the service sector would continue to grow.

Question 6

- (a) The majority of candidates were able to correctly define inflation as a persistent or sustained rise in the general level of prices in a country over a specific period of time.
- (b) There were some very good explanations of how inflation is measured, with candidates explaining the various elements of the process including the use of an index, a base year, a basket of goods and services and the need to weight the different items in terms of their relative importance. A few candidates misunderstood what was required and instead of writing about how inflation could be measured, wrote about the causes of inflation instead.

- (c) Most candidates were able to describe two reasons why there might be a change in the level of unemployment in a country, either in terms of an increase or decrease. The reasoning was related to various types of unemployment, including seasonal, structural, frictional, cyclical and technological.
- (d) There were some very good discussions of why governments might be concerned to keep the rate of unemployment low, such as to encourage economic growth, to keep down the expenditure on unemployment benefits (allowing money to be spent on other programmes; a good example of opportunity cost), to maintain the revenue received from taxation and to keep down the crime rate.

Question 7

- (a) There were some good explanations of why developing countries, such as Kenya and Tanzania, might need the intervention of foreign companies, such as to provide necessary capital, to improve the skills of the workers and to overcome corrupt practices.
- (b) It was pleasing to see a number of well balanced answers to this part of the question, with many candidates considering the potential advantages of multi-national companies, then discussing the possible disadvantages and finally offering a reasoned conclusion as to whether they were likely to be beneficial for a country or not.
- (c) Most candidates were able to explain two policies a country might use in international trade to protect its home industries, such as tariffs, quotas and subsidies.
- (d) It seemed to be the case that many of the answers to this part of the question on natural resources were better than in previous years. Candidates were generally able to offer a consideration of both points of view, contrasting the arguments in favour of the exploitation of natural resources with those in favour of their conservation, before coming to a reasoned and logical conclusion.

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Paper 0455/06
Alternative to Coursework

Question 1

- (a) Candidates needed to give a definition of a multi-national which mentions production in another country. The evidence appears to be that the company is small, there is no evidence of production in another country and therefore, no evidence of a multi-national company. Many candidates answered this question correctly but a significant number of candidates were imprecise about the nature of a multi-national company or answered the question with reference to the second extract not the information about 'Hotel Chocolat'.
- (b) Some candidates merely quoted extracts from the passage. The question really required a judgement on the passage. Whether farmers could earn more was not certain. The price of the product could fall with higher production. The change in the price depends on the demand. Candidates should have made some comment about revenue and also about costs.
- (c) (i) Many candidates were able to identify that the dyes for the colours for the boxes and the raw material for the chocolate came from same source.
- (ii) Most candidates were able to show a decrease in demand on the first diagram by indicating a shift in the demand curve. The second diagram was often incorrectly drawn showing also a shift in the demand curve. In fact, a decrease in demand on the first diagram would cause a contraction – or a decrease in the quantity – in supply. As the products are supplied jointly this would cause a decrease in supply represented on the second diagram by a shift of the supply curve. There were a number of candidates who switched the labels on the demand and supply curves or who did not label the diagrams at all well.
- (d) (i) Many candidates were able to comment on the nature of the co-operative in terms of ownership, management and the sharing of profits.
- (ii) Candidates were able to use the extracts to explain at least some of the factors mentioned that the co-operatives provided good quality coffee, had a personal interest in the production, maintained high standards, did not compromise the environment and paid good wages.
- (e) Candidates were able to suggest a range of issues that might be relevant. These included the need to know, for example, whether the co-operatives are cost efficient, whether they waste resources, what happens to the profits, what level of profits they make, whether the wage rates are reasonable, whether they are subject to exploitation by large dominant buyers of their products and whether they provide choice for the consumer.

Question 2

- (a) In answering this question candidates could have noticed that while it is true that China has the largest increase in GDP and the highest increase in industrial production this information was for one year only. However, Turkey had negative industrial production while its GDP rose 7%. The Czech Republic did have a 15.1% increase in industrial production but its increase in GDP was not as high as China. Also, Turkey and Singapore's GDP rose more than the GDP of the Czech Republic but their increase in industrial production was much lower – indeed Turkey had a negative figure for the change in industrial production. There was no evidence that high industrial production necessarily results in a high increase in GDP. It was essential to use the data to answer this question. Some candidates wrote general answers with no reference to the data.

- (b)** Candidates could have noticed that the crucial point was that prices have increased by 1.8% in Singapore but only 1% in Taiwan so real income in Singapore has increased less. The change in industrial production was not really relevant as **part (a)** indicated, neither necessarily is the trade balance but those who mentioned it with a supporting reason were credited for their response.
- (c)** There were some good answers to this question and candidates considered the general measurement of the standard of living based on GDP per capita and other indicators such as the Human Development Index and social factors.