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## FOREWORD

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**



# ECONOMICS

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<b>Paper 0455/01</b>
<b>Multiple Choice (Core)</b>

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

**General comments**

1 265 candidates took this paper in November 2005 and the mean score was 20.4, similar to the mean of November 2004 which itself was the highest mean mark since 1998. This is a commendable achievement for the candidates.

The most difficult questions were **8, 28, 32, 36** and **39** with fewer than 25% of the candidates answering correctly. In **Question 8**, the correct key was **D**, chosen by only 20% of the candidates. The other options were chosen by 22%, 50% and 8% respectively. This type of result would indicate that candidates might either be guessing or, although they might have some knowledge of the reasons for shifts in demand and supply curves were unable to apply their knowledge in this particular question. None of the options **A, B, C** results in a movement along a curve, all shift the curve. It might be worthwhile asking future candidates to work through this question to establish links between shifts in demand and supply curves and resulting price changes. A similar result was found on a question which was used last year.

**Question 28** was answered correctly by 19% of the candidates, while 38% chose **C**. **C** would be included in public sector expenditure. Those who chose **A** confused a public company, which may be privately owned but which issues shares, with the public sector. This is an understandable confusion but the difference between these two institutions is one which candidates should know.

**Questions 32, 36** and **39** produced similar errors. The correct key for **Question 32** was **D** answered by 21%. 45% chose option **A**. For **Question 36**, 20% chose the key of **C** but 72% choose option **A**, 5% **B** and 4% **D**. For **Question 39** the correct key was **C** but 72% chose option **A**.

The candidates who chose the incorrect options for these questions made common errors which are found in these multiple-choice papers and which have been mentioned in these reports on many occasions. The information in the questions gave percentages: percentage changes in prices, percentages employed and percentage changes in export earnings. Two common errors occur. Firstly, candidates erroneously believe that when there is a decline in the percentage rise of the indicator being considered that there is an actual fall in the value. This is untrue. They should learn that there is still a rise – in whatever is being considered – but that the rise is at a slower rate. Secondly, candidates confuse absolute and percentage information. In **Question 36**, for example, it is not possible to determine solely from percentage figures the absolute number of people who were employed in each sector. It is not, therefore, possible to obtain the information to conclude that option **A** is correct. Similarly, in **Question 39** it is not possible to determine which commodities countries specialise in from figures about percentage export earnings. No information is given about production or about home consumption. Candidates should always be wary when they see only percentage figures in questions.

**Paper 0455/02**

**Structured Questions (Core)**

**Comments on specific questions****Question 1**

- (a) Most candidates were able to state one aspect of the role of the entrepreneur but they usually only mentioned either the co-ordination of other factors of production or the taking of risks. They did not often mention both aspects.
- (b) The primary sector project was the local chicken farm and the secondary sector the building of a private hospital. Most candidates answered this question correctly.
- (c) Many candidates simply repeated that industrial development was the development of industry. Not very many elaborated and explained this in terms of new businesses, new premises, capital goods or purchase of machines.
- (d) There were some interesting answers to this question which included the use of subsidies, grants, tax reductions, changes in planning controls and relaxation of regulations. A few mentioned that sometimes the encouragement of foreign investment is also useful in the development of private local businesses.
- (e) Candidates could have mentioned that job creation increases income, production and employment. This might also be of use to a government if it wished to achieve full employment, growth and a better balance of payments through increased exports. Only a few candidates on this paper were able to develop an answer to this section satisfactorily.

### Question 2

- (a) Nearly all candidates were able to make some attempt at this question although not all mentioned the crucial link to changes in output. The examples were sometimes difficult to understand. It is useful if candidates give an explanatory comment relating the example to output changes.
- (b) The availability of local markets, personal service, longer opening hours, less queues and community ties were all mentioned.

### Question 3

- (a) Some candidates answered this with a correct reference to whether the tax was on a person or business at the source of earning, or on a good or service on subsequent expenditure. Correct examples were then given. Other candidates reversed the definitions of the two terms or gave a correct definition but an incorrect example.
- (b) This was a question to which many candidates were not able to give a developed answer. Candidates could have discussed the use of direct and indirect taxes. They could have mentioned progressive and regressive taxes. They could have also mentioned the likely effect of imposing an indirect tax on different products depending on whether the product was likely to be bought by low or high income groups. In this examination price elasticity of demand is not expected but a general descriptive statement about the types of products that differing income groups might buy could have been given.

### Question 4

- (a) For three marks, candidates were expected to state that inflation was a general and persistent rise in prices of goods and services over a specific period, usually one year. Most candidates achieved one of the three points – general, persistent, time period – but few mentioned all three.
- (b) Candidates were expected to explain the basic idea that a base year was needed, as was a selection of goods purchased by an average representative household, the need to ‘weight’ these goods and a comparison from one period to another. If these points were then developed or explained further marks were given.

### Question 5

- (a) Candidates were expected to give a brief explanation of the benefits of specialisation in terms of efficient production, more economic use of resources and greater benefit for the country. They were not expected to mention comparative advantage. Some candidates achieved a general description of specialisation but, like **Question 3 (b)** this was a question which was not answered well.
- (b) Most candidates were able to give two types of protection. Usually they mentioned quotas and tariffs. However, a good proportion merely stated these two words. They did not describe these methods, which is what they were asked to do, and so they lost marks unnecessarily.

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

**General comments**

2 375 candidates took this paper in November 2005 and the mean score was 24.9. Last November the mean was also 24.9 which was the highest mean mark since 1999 so the average score and the preparation of the candidates for this examination compares well with last year.

**Questions 2, 3, 6, 14, 20, 29** and **30** were particularly easy for the candidates with over 80% choosing the correct answer (this again was very similar to last year). Apart from the first few questions, which are sometimes set as a relatively easy introduction, when these questions were included in the paper they were not thought to be simple.

If questions are found to be relatively easy the discrimination index is sometimes below the norm expected for questions of average difficulty. This occurred with **Questions 14, 15** and **29**. This combination of easy question and low discrimination index is not unusual. However, the discrimination index was also below that expected for **Questions 7** and **33**. When this happens it could mean that the question might have been answered correctly by candidates who scored less well on the test overall and incorrectly by candidates who scored well on the test overall. **Question 7** required a comparison of two statistical changes and this obviously was a little difficult for many candidates. **Question 33** contained one option which was an advantage and three which were disadvantages. While 61% chose the correct key, 29% chose option **B** which stated that the advantage was a greater demand on the UK's resources. Maybe candidates thought that the using of resources would create income. It was intended that the candidates would realise that the resources are scarce and their depletion would be a disadvantage.

The most difficult questions were 7, (see above), and 36, which were both answered correctly by 23% of the candidates. **Question 36** showed that 72% chose option **A**, 2% **B** and 2% **D**, (the correct answer was **C**). The candidates who chose **A** made a common error which is found in these multiple-choice papers and has been mentioned in these reports on many occasions. The information in **Question 36** gave percentages employed. It is not possible to determine solely from percentage figures the absolute number of people who were employed in each sector. It is not, therefore, possible to obtain the information to conclude that option **A** is correct. Candidates should always be wary when they see only percentage figures in questions.

**Paper 0455/04**  
**Structured Questions (Extended)**

### General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates who demonstrated a sound knowledge and understanding of economics and a mature ability to analyse and evaluate key economic concepts and issues but there were also some weak answers where the candidates failed to demonstrate very much knowledge or understanding. There were relatively few rubric errors, such as candidates answering 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 1 (b)**, 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 (c)** or **4 (b)**, or to discuss something, as in **Question 2 (d)** or **6 (c)**, he or she needs to go into much more detail. In the case of a discussion, the candidate will often be expected to give two sides of an argument and then come to a reasoned conclusion. Candidates also need to look very closely at the number of marks given to each part of a question as this gives a clear indication of how much time to allocate to each part and how much detail is required.

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

### Comments on specific questions

#### **Question 1**

- (a) Most candidates were able to correctly describe the main role of an entrepreneur in terms of the co-ordination of the other factors of production and the taking of risks in order to make profits.
- (b) The majority of candidates correctly identified local chicken farms as a project in the primary sector and the building of a private hospital as a project in the secondary sector. A few candidates referred to a hospital as an example of the secondary sector, but this was incorrect; it was the building of it that made it a secondary sector project (the provision of a hospital service would be an example of the tertiary sector).
- (c) Many candidates simply repeated that industrial development was the development of industry. Not very many elaborated and explained this in terms of new businesses, new premises, capital goods or purchase of machines.
- (d) This part of the question was answered well by a large number of candidates who understood the different policies available to a government to encourage private businesses, such as through the use of subsidies, tax reductions or tax holidays for a specific period of time, grants, changes in planning controls, relaxation of regulations, changes in wages policies and the encouragement of foreign investment.
- (e) Most candidates recognised that a government might wish to create jobs in order to bring down the rate of unemployment but the better candidates went further and considered the possible effects of this on economic growth, the increase in incomes and the consequent increase in revenue from taxation and the possible improvement in the balance of payments through increased exports.

**Question 2**

- (a) The majority of candidates were able to correctly define a fixed cost and a variable cost in relation to changes in output or production; a fixed cost remains constant whatever the level of output (even if the output is zero) whereas a variable cost will change with the change in output. Most candidates were able to identify one fixed cost that a supermarket might have, such as rent, and one variable cost, such as wages.
- (b) The availability of local markets, personal service, longer opening hours, less queues and community ties were all mentioned as reasons. Some candidates wrote about the advantages of small firms generally rather than small food shops and so were unable to obtain maximum marks.
- (c) Some candidates wrote about why, rather than how, firms become large. However, the majority of candidates were able to consider a number of possible factors, such as the possibility of mergers or takeovers, increased sales and market share through an increase in demand, expansion through diversification into other areas and products and the financing of growth through increased profits or the issuing of shares on the stock exchange.
- (d) Most candidates were able to explain the meaning of economies of scale in terms of the lowering of average costs and then went on to discuss how a supermarket might benefit from such economies as financial, managerial, transport/distribution and technical/production. As in part (b), some candidates wrote about economies of scale in general rather than in relation to supermarkets and so were unable to gain maximum marks.

**Question 3**

- (a) Most candidates answered this with a correct reference to whether the tax was on a person or business at the source of earning, or on a good or service on subsequent expenditure. Examples were correct in the majority of answers; an example of a direct tax would be income tax and an example of an indirect tax would be a sales tax such as Value Added Tax.
- (b) The majority of candidates answered this part of the question in terms of a discussion of the different types of direct tax, contrasting a progressive with a regressive or proportional system, explaining that a progressive system would be a useful way to affect the distribution of income by not only taking more tax from a higher income earner but a higher percentage of tax. The better answers went beyond direct taxes and considered how indirect taxes could be used to affect the distribution of income; for example, imposing indirect tax on different products might affect the income distribution depending on whether the product was likely to be bought by low or high income groups.
- (c) Most candidates were able to explain the concept of price elasticity of demand in terms of the relationship between a percentage change in quantity demanded and a percentage change in the price of a product. They then went on to choose two goods and were generally able to explain why they might have different price elasticities of demand. For example, bread would be regarded as a necessary item of food and so would be expected to have a relatively inelastic PED; a car, on the other hand, would be a very expensive luxury item and so would be expected to have a relatively elastic PED. A number of candidates used diagrams to good effect to assist their explanations.
- (d) This proved to be a rather difficult question for a number of candidates, many of whom made no reference to the concept of elasticity despite the reference to it in the question. Some candidates, however, did understand what was being asked of them and in the first part, explained that an indirect tax should be increased on a good with relatively inelastic demand in order to increase government revenue. In the second part, imports would be likely to decrease if a government placed the tax on a good with relatively elastic demand.

**Question 4**

- (a) Most candidates were able to state that inflation was a general and persistent rise in prices of goods and services over a specific period, usually one year.
- (b) Candidates were expected to explain the basic idea that a base year was needed, as was a selection of goods purchased by an average representative household, the need to 'weight' these goods and a comparison from one period to another. If these points were then developed or explained further marks were given.
- (c) The majority of candidates were able to explain two possible causes of inflation, usually focusing on demand-pull and cost-push inflation and distinguishing clearly between these two possible causes.
- (d) The majority of candidates recognised that there might be problems for an economy if the rate of inflation became too high and answers included such issues as the impact on consumer and investor confidence, the value of savings, the level of production and employment, economic growth and the distribution of income.

**Question 5**

- (a) The majority of candidates were able to explain why specialisation in international trade might benefit a country in terms of efficient production, more economic use of resources and greater benefit for the country.
- (b) This part of the question was answered well by the majority of candidates who were able to identify and describe two types of protection which a government could use in international trade, such as a tariff and a quota.
- (c) Most candidates had a good awareness of what was meant by a natural resource of a country in terms of something that was to be found in, on or under the land or sea, such as oil.
- (d) This part of the question focused on the distinction between exploitation and conservation of natural resources and most candidates gave a rather one-sided answer which stressed the advantages of exploiting these resources in providing employment and the effect of this on the level of incomes and standard of living in the country. The better answers, however, went further than this and pointed out that although there were clearly a number of advantages to be gained from the use of the resources, it needed to be recognised that these resources were finite and that it might be better to conserve them to ensure that they were still there in the future.

**Question 6**

- (a) Most candidates understood that the rate of growth of a population was determined by the birth rate and the death rate but not all made reference to the net migration as well. Some referred to immigration or emigration but failed to point out that what was important was the net effect of such movements of people on a population.
- (b) There were some very good answers which contrasted the birth and death rates in developing and developed countries and which then went on to examine the effect of this on the age structure, such as the relatively large number of young people in developing countries and the relatively large number of old people in developed countries. Many of these answers included diagrams contrasting the population pyramids in the two types of country. Other answers, however, were less successful. Some wrote about the birth rate and the death rate but did not link this to the age structure. Others ignored the reference to the age structure in the question and wrote about other types of structure, such as the occupational structure.
- (c) Many of the answers were of a good standard, recognising that this was an example of opportunity cost and that with limited resources and finance, if more was allocated to health, less would be available for other government policies. Candidates then considered what some of these policies might be, such as spending on education or on roads and other elements of a country's infrastructure. Some candidates failed to appreciate what the question was about and wrote simply about the problems of HIV/AIDS.



**Question 7**

- (a) The majority of candidates recognised that there were a number of other things, apart from wages, that might influence a person in their choice of occupation. These included working conditions, promotion prospects, status, length of hours, holiday provision, pension provision, fringe benefits and proximity to a person's home. A few candidates, surprisingly, included reference to wages, despite the fact that the question explicitly stated that candidates were required to explain three things other than wages.
- (b) Most candidates chose one of the factors or production that they thought might be the most significant in the operation of a luxury hotel but not all of them contrasted it with the other three in order to address the issue of which might be the *most* significant. Any one of the four factors of production could have been chosen as the most significant, provided a justification for the choice was then given.
- (c) There were three types of answer to this part of the question. Firstly, there were the relatively limited answers which explained why wages might be different with no reference to either hotels or the theory of supply and demand. Secondly, there were the descriptive answers with no reference to the theory but which did focus on why wages might be different within the context of hotels. Thirdly, there were the answers which placed the discussion within the context of hotels but which went further to include an analytical, rather than just a descriptive, approach; these brought in the theory of supply and demand and secured the highest marks.

<b>Paper 0455/06</b>
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<b>Alternative to Coursework</b>
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**Comments on specific questions****Question 1**

- (a) This was a straightforward question which could be answered by accurate reference to the text. Most candidates were able to make reference to the decline in advertising revenue.
- (b) Many candidates were able to differentiate between fixed and variable costs and gained a minimum of two marks. Some, however, simply said that fixed costs remain the same and made no mention of output. Differences arose regarding the provision of appropriate examples which were mentioned in the text. Good answers differentiated between salary and hourly paid staff to locate labour costs between fixed and variable and also recognised that merging departments might save fixed costs as there would be a saving in equipment costs. Many failed to recognise that TV programmes, as part of output, would represent variable costs. Some even classified advertising revenue as a cost.
- (c) It was surprising that very few candidates answered this correctly. The broadcaster lost 20% of its advertising revenue which itself was 90% of its total revenue. The correct answer was 18%. Many answered with 20%.
- (d) Better answers described the benefits in terms of both the producer and the consumer. The producer would gain from increased sales and possible increased profit if the resulting demand and revenue from advertising exceeded its cost. Consumer would gain from wider information. Good answers developed this by distinguishing between informative and persuasive advertising.
- (e) This question produced a range of answers. Weaker candidates hardly referred to the TV broadcasting company or simply described different suggested methods or researching the problem. Many referred to costs and revenue but only in a very superficial manner. Better answers recognised that a solution might involve increasing revenue, cutting costs, or both. Good answers examined alternative cost cutting exercises and discussed pricing recommendations. Lists of suggestions were also frequently provided but in this examination full marks are never awarded for a simple list. Candidates were asked to consider a specific situation. Very few candidates explained that it would be useful to know the extent of the stated reduction in advertising spending and the comparison of that reduction with the cost savings or increased revenue from any proposed policy measures. Without this there would be no information of whether the final outcome would compensate for the initial revenue change.

**Question 2**

- (a)** The majority of candidates gained at least two of the three marks for this question. Those who gained all three mentioned that there was a lack of investment because of strong protectionist policies by developed countries which caused competition from subsidised products. Local producers as a result had no incentive to produce because of the cheap imports.
- (b)** There were some excellent clear definitions to this question with explanatory development incorporating key elements of the term which also established the links between growth, employment and improvements in living standards.
- (c)** In answer to this question statements relating to removing government intervention and trade restriction were often made but not developed or discussed in the wider context of what constitutes a market based system of trade. The price mechanism was also referred to but rarely explained in relation to resource allocation. The outcome was surprising. It was anticipated that most candidates would be able to explain a market-based system quite clearly.
- (d)** There were many excellent responses to this question. It was clear that many candidates understood the concept of productivity and were able to apply their knowledge accurately to the agricultural industry. Many alternative methods were identified and accurately explained. These included capital expansion, training of the labour force, cultivation of extra land, more intensive farming, better irrigation and drainage. Quite a number suggested that subsidies should be increased. Subsidies are protective measures which do not necessarily increase efficiency and productivity. Rather they cover up any inefficiencies.