

# ECONOMICS

**Paper 0455/11**  
**Multiple Choice**

| <i>Question Number</i> | <i>Key</i> | <i>Question Number</i> | <i>Key</i> |
|------------------------|------------|------------------------|------------|
| 1                      | <b>C</b>   | 16                     | <b>D</b>   |
| 2                      | <b>A</b>   | 17                     | <b>A</b>   |
| 3                      | <b>D</b>   | 18                     | <b>A</b>   |
| 4                      | <b>C</b>   | 19                     | <b>D</b>   |
| 5                      | <b>B</b>   | 20                     | <b>D</b>   |
| 6                      | <b>A</b>   | 21                     | <b>C</b>   |
| 7                      | <b>B</b>   | 22                     | <b>D</b>   |
| 8                      | <b>C</b>   | 23                     | <b>B</b>   |
| 9                      | <b>A</b>   | 24                     | <b>B</b>   |
| 10                     | <b>C</b>   | 25                     | <b>B</b>   |
| 11                     | <b>D</b>   | 26                     | <b>A</b>   |
| 12                     | <b>B</b>   | 27                     | <b>C</b>   |
| 13                     | <b>D</b>   | 28                     | <b>D</b>   |
| 14                     | <b>D</b>   | 29                     | <b>D</b>   |
| 15                     | <b>D</b>   | 30                     | <b>B</b>   |

The mean mark was 18.3 which is almost the same as the mean for the paper last year.

The questions for which most candidates selected the correct answer were 1, 13, 20, 21 and 26. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 8, 12, 16 and 18. These questions were answered correctly by 40% or fewer candidates.

**Question 8** asked candidates to select an example of a market failure. The correct answer was option C. Option B was a popular choice for some candidates, but the existence of scarcity does not indicate that the market has not worked. Price, demand and output produced can be determined by a market even though a particular good is scarce. The general existence of scarcity is part of the basic economic problem and is not an indication of a market failure.

**Question 12** asked candidates about banks. The correct answer was option B. Commercial banks do not hold the financial accounts of the government, central banks do not determine government spending policies nor do they supply foreign currency directly to members of the public. Option C was a popular choice for some candidates, but those who chose this option probably confused the determination of the rate of interest with decisions about the level of spending.

For **Question 16**, the correct answer was option D. Average revenue is the same thing as the price. It rose from \$10 to \$15. Total revenue is the average revenue multiplied by the number of units sold. This also increased from \$2000 to \$2250.

The correct answer for **Question 18** was option A. Total fixed costs are constant in the short run. Average fixed cost is obtained by dividing the figure for total fixed cost by the output produced. Candidates are told that the firm increases its output. As the output figure increases, the average fixed cost must, therefore, decrease.

# ECONOMICS

Paper 0455/12  
Multiple Choice

| <i>Question Number</i> | <i>Key</i> | <i>Question Number</i> | <i>Key</i> |
|------------------------|------------|------------------------|------------|
| 1                      | A          | 16                     | A          |
| 2                      | D          | 17                     | A          |
| 3                      | C          | 18                     | D          |
| 4                      | C          | 19                     | D          |
| 5                      | A          | 20                     | C          |
| 6                      | B          | 21                     | D          |
| 7                      | C          | 22                     | B          |
| 8                      | A          | 23                     | D          |
| 9                      | B          | 24                     | B          |
| 10                     | D          | 25                     | B          |
| 11                     | B          | 26                     | C          |
| 12                     | D          | 27                     | D          |
| 13                     | D          | 28                     | A          |
| 14                     | C          | 29                     | B          |
| 15                     | D          | 30                     | D          |

The mean mark was 20.2 which is almost the same as the mean for the paper last year.

The questions for which most candidates selected the correct answer were 3, 4, 12, 20, 23, 26, 27 and 28. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 7, 11 and 17. These questions were answered correctly by 40% or fewer candidates.

**Question 7** asked candidates to select an example of a market failure. The correct answer was option C. Option B was a popular choice for some candidates, but the existence of scarcity does not indicate that the market has not worked. Price, demand and output produced can be determined by a market even though a particular good is scarce. The general existence of scarcity is part of the basic economic problem and is not an indication of a market failure.

**Question 11** asked candidates about banks. The correct answer was option B. Commercial banks do not hold the financial accounts of the government, central banks do not determine government spending policies nor do they supply foreign currency directly to members of the public. Option C was a popular choice for some candidates, but those who chose this option probably confused the determination of the rate of interest with decisions about the level of spending.

The correct answer for **Question 17** was option A. Total fixed costs are constant in the short run. Average fixed cost is obtained by dividing the figure for total fixed cost by the output produced. Candidates are told that the firm increases its output. As the output figure increases, the average fixed cost must, therefore, decrease.

# ECONOMICS

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**Paper 0455/13**  
**Multiple Choice**

| <i>Question Number</i> | <i>Key</i> | <i>Question Number</i> | <i>Key</i> |
|------------------------|------------|------------------------|------------|
| 1                      | <b>A</b>   | 16                     | <b>A</b>   |
| 2                      | <b>D</b>   | 17                     | <b>A</b>   |
| 3                      | <b>C</b>   | 18                     | <b>D</b>   |
| 4                      | <b>C</b>   | 19                     | <b>D</b>   |
| 5                      | <b>A</b>   | 20                     | <b>C</b>   |
| 6                      | <b>B</b>   | 21                     | <b>D</b>   |
| 7                      | <b>C</b>   | 22                     | <b>B</b>   |
| 8                      | <b>A</b>   | 23                     | <b>D</b>   |
| 9                      | <b>B</b>   | 24                     | <b>B</b>   |
| 10                     | <b>D</b>   | 25                     | <b>B</b>   |
| 11                     | <b>B</b>   | 26                     | <b>C</b>   |
| 12                     | <b>D</b>   | 27                     | <b>D</b>   |
| 13                     | <b>D</b>   | 28                     | <b>A</b>   |
| 14                     | <b>C</b>   | 29                     | <b>B</b>   |
| 15                     | <b>D</b>   | 30                     | <b>D</b>   |

There were too few candidates on whom to comment. However, for general guidance, teachers may find it helpful to refer to the Principal Examiner Report for Paper 0455/12.

# ECONOMICS

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Paper 0455/21  
Structured Questions

## Key messages

For **Question 1** in **Section A**, which is the compulsory question, it is very important that candidates read all the data provided before they start writing and use it where appropriate in their answers. Such an approach was essential in order to gain full marks in **Questions 1(b)** and **1(d)**.

For **Section B**, candidates should read through all questions on the paper before deciding which three questions they may be best at answering. In particular, candidates should look at each last sub-question since this carries the most marks. Some candidates were able to give good answers to parts **(a)** and **(b)** and then did less well with parts **(c)** and **(d)**.

Candidates should also take account of the number of marks (shown in brackets after the question) in determining the length of their answers. For example, on **Question 3** some candidates wrote longer answers on part **(a)**, which carried 4 marks, than on part **(d)**, which carried 8 marks.

Where possible, candidates should avoid listing or excessive use of bullet points since this prevents a full explanation or discussion being given. Very short comments mean that the development of the explanation or discussion is missing, which may significantly reduce the marks that can be awarded on questions that ask for a discussion.

Reference to local examples to illustrate answers is welcomed as it shows a candidate's ability to apply economic concepts to their local environment.

## General comments

It was encouraging to see that there were very few rubric errors and that most candidates were able to complete four questions.

A number of economic terms and concepts were well understood by most candidates. This included, for example, opportunity cost (**Question 1**), monopoly (**Question 4**), inflation and unemployment (**Question 5**) and exchange rates (**Question 7**). However, the concepts of market failure (**Question 2**), perfect competition (**Question 4**) and the current account (**Question 7**) were often not well understood.

As reported in previous years, candidates need to look very carefully at the command words at the beginning of questions in order to determine the level of response that is required. For example, 'identify' means that a simple answer is required without explanation as it only requires a candidate to show their knowledge or select from data provided, whereas 'explain' requires a candidate to show their understanding of a term or topic and perhaps include an example from their own experience. Where a question requires a discussion, candidates need to ensure that there is a balanced discussion with a conclusion at the end. This is difficult to achieve if answers are in the form of a list of bullet points that are not connected.

Finally, there is no need for candidates to copy out the questions before answering them, although it is important to record the part of the question being answered in the margin. Writing out the question uses up time that candidates could usefully spend in preparing and writing an answer, thereby potentially achieving better marks.

### Comments on specific questions

#### Question 1

- (a) Most candidates correctly identified taxation – both direct and indirect. Aid was also a common choice but a few candidates did not identify a second source or gave incorrect answers, such as revenue from exports or nationalised industries (rather than profits).
- (b) Candidates gained full marks for giving a clear definition of opportunity cost and identifying that in spending money on preparing the city for the Olympic Games, an opportunity had been foregone to address the slum areas, reducing the high crime rate or addressing poverty. Most candidates gave the correct examples, although a few referred to education and housing which were not in the data provided but were relevant for Rio de Janeiro. Most candidates also gave a clear definition of opportunity cost. Those who did not usually had some understanding of the alternative use of the funding.
- (c) This question required an explanation backed up by a diagram. Many candidates drew a diagram first and then commented upon the diagram, which often meant that a full explanation was not given so they did not get full marks. The diagram, which many candidates drew and labelled correctly, was one which showed a shift in the demand curve to the right, with a new equilibrium showing a higher wage and higher number of employed workers. However, often the diagrams were labelled incorrectly with output rather than workers or included a shift in the supply curve to the right and a new equilibrium which may have had a higher or lower wage. Most candidates described the shift in demand curve and the new equilibrium point and correctly identified that increased demand led to higher wages; however, they then needed to state that it also led to increased employment in order to gain all 6 marks.
- (d) The data in the stem provided a significant amount of information for candidates and it was good to see that the majority of candidates used it well to answer this part of the question. Very good answers came to an overall conclusion on whether or not Rio de Janeiro would benefit. Nearly all candidates were able to identify correctly what were the advantages and what were the disadvantages and give a balanced argument. However, some candidates needed to distinguish between the impact on the City and the impact for Brazil as a whole, for example by referring to the impact on inflation in the country or the balance of payments. The strongest answers came from candidates who were able to select relevant information, rather than simply lifting information from the stem without providing sufficient discussion, explain why they were advantages or disadvantages and come to a conclusion. One-sided answers without a conclusion gained fewer marks.

#### Question 2

- (a) Candidates were required to write about the advantages of a market system. Good answers referred to how the price mechanism worked, the benefits for consumers, how profit acted as an incentive for producers and how competition ensured efficiency and low prices. Answers which addressed only some of these points gained fewer marks.
- (b) Good answers referred to the existence of monopolies and the over-consumption and under-consumption of particular goods and services. Many answers referred to merit, demerit and public goods, although these terms are not in the syllabus so it was not necessary to use them in order to gain full marks, and there were some excellent answers explaining why market failure resulted in external costs. Some candidates related market failure to individual businesses making a loss, which is incorrect.
- (c) Good answers made reference to controlling monopolies, provision of subsidies, higher taxation on goods such as alcohol and tobacco as well as the provision of certain goods by the government, for example education and health. Some candidates who were unclear about the causes of market failure in part (b) were still able to provide reasonable answers on why the government might intervene in a market.

### Question 3

- (a) This part of the question offered an opportunity for candidates to explain the role of commercial banks and was a test of knowledge and understanding. Good answers related to commercial banks accepting deposits, offering loans, enabling customers to receive and make payments, and offering sound financial advice. Some candidates confused commercial banks with central banks and others did not provide an explanation, either listing activities carried out by commercial banks or giving a very brief description in a few sentences.
- (b) This was also a straightforward test of knowledge and understanding of the four main functions of money. The majority of candidates did well and were able to describe at least three of the functions. This was an improvement upon recent exams. Some candidates need to understand that describe means more than just listing a function. They also need to be clear about the difference in meaning between functions and characteristics of money as a minority wrote about the latter, such as portability and durability, which could not be rewarded.
- (c) Good answers explained that earnings were low when an individual starts their first job and then rose through experience, age and promotion, before falling on retirement. A few candidates also commented that the highest earnings tended to be just before retirement. However, answers which referred to factors affecting earnings for a particular job or events such as recession, unemployment, changes in demand for the job and inflation gained very few marks.
- (d) Good answers were those that gave a balanced discussion on the relative importance of wages and other factors in determining the choice of occupation. The best answers were those which explained why wages were also important and gave a conclusion. Many candidates only made a brief reference to wages and most of their answer related to other factors, such as working conditions, location and fringe benefits. These answers were not balanced and therefore could not achieve high marks.

### Question 4

- (a) Most candidates had a good understanding of the key features of a sole proprietor, although not all of them fully understood what unlimited liability meant.
- (b) Many candidates were clear about the advantages of turning a sole proprietor into a partnership. Comments on sharing responsibility for the business and financing, and on the number of partners that could be in a partnership were very common. However, fewer candidates were able to explain why a lawyer would want to do so, although some made correct reference to specialism in certain aspects of the law.
- (c) This should have been a relatively straightforward description. Where candidates clearly understood the characteristics of perfect competition, full marks were obtained. Candidates who were unaware of the theoretical model wrote instead about competitive markets and often described the characteristics of oligopoly with a few firms competing through non-price competition for market share.
- (d) Candidates who were unclear about perfect competition were at a disadvantage in making a comparison with a monopoly. Nonetheless, most candidates showed a reasonable understanding of monopoly and therefore were able to gain a few marks, though this often meant that these answers were one-sided. It is also important to note the key words of 'always' and 'preferred' in the question, which sought a discussion of the advantages of these two economic models and a judgement at the end of the discussion. Some candidates misinterpreted the question and included discussion of the disadvantages as well, which was not required.

### Question 5

- (a) Most answers gave a very clear definition of inflation and gained full marks. Those who defined it in terms of a fall in the value of money could not gain full credit.
- (b) It was good to see that most candidates were clear about demand-pull and cost-push inflation and quite a few also made a correct reference to imported inflation. This was generally well done.
- (c) Most candidates were able to identify and explain two types of unemployment and gain full marks. Those who did not often confused structural with technological unemployment.
- (d) This part of the question was challenging for most candidates in that the answer required an explanation of why both inflation and unemployment were problems followed by a conclusion as to which was the greater problem. Many candidates made a good attempt and identified several issues for each. A few gave a one-sided answer. There was no right answer as to which was the greater problem and marks were awarded on the basis of the discussion which led to a conclusion. Some candidates stated that they were both major problems. Others thought that unemployment was the bigger problem since it affected some people significantly and took longer to resolve. Some candidates decided that inflation was the bigger problem since it affected everybody. Overall, the responses were most encouraging to see.

### Question 6

- (a) Few candidates scored well on this part of the question because their answers lacked sufficient depth. The age section was generally answered more satisfactorily than the other two, chiefly because of the focus on birth and death rates. Occupational structure was only understood by a few, although most candidates would have known that as countries develop they develop secondary and then tertiary sectors. Equally, many candidates seemed to be unfamiliar with the term geographical structure. Answers needed to relate to the drift in population away from rural areas to more urban areas where the secondary and tertiary jobs are to be found.
- (b) Answers to this part of the question needed to be focused on a region and to provide reasons why there were differences in living standards between regions within a country, as stated in the syllabus. References were often made to higher income and wealth in some areas without explaining why this would be (for example, natural resources, local infrastructure farming versus services sectors). Overall too many answers lacked specific details.
- (c) Good answers to this part of the question would have addressed the regional differences in living standards identified in part (b). If the response to part (b) did not do this, answers were likely to be limited to national rather than regional policies such as, subsidising industry, addressing poverty, and improving education and training, rather than those that would have a regional effect such as, improving local infrastructure and attracting new investment into the area. Only a few candidates were able to state which were the most effective policies and so obtain full marks.

### Question 7

- (a) Most candidates were able to identify demand and supply for a currency as being the two most likely causes of a change in a country's exchange rate.
- (b) The majority of answers identified that a fall in a country's exchange rate would make exports cheaper and imports more expensive. However, not many went on to explain that this would have a positive effect on production in the country through greater exports and import substitution. Relatively few made reference to the fact that the overall impact depended on the price elasticity of demand or that if imports were used in making the products to be exported this would increase costs and negatively affect exports.



- (c) This should have been a relatively easy 4 marks for most candidates since it only required knowledge and understanding of the current account. Many candidates gained all 4 marks by referring to trade in goods and services, although full marks could also have been obtained by reference to income and transfers. It was clear from other answers that candidates needed to develop their understanding of the current account, with several confusing it with a current account at a bank.
- (d) This was generally not answered well and some responses seemed incomplete, which might partly have been due to its being the last question part the candidates answered. Some candidates were able to explain that if the improvement came from an increase in exports it would lead to additional production and therefore an increase in employment. They then needed to relate it to an improvement in services such as tourism, for example, which would also have impacted favourably on employment. Very good answers would have included reference to circumstances where an improvement would have no impact upon employment, such as investment income and wages earned by residents working abroad.

# ECONOMICS

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Paper 0455/22  
Structured Questions

## Key messages

Candidates need to focus on the command or directive word that is being used in each question. For example, some questions required candidates to identify (as in **Question 1(c)** and **Question 2(c)**) whereas other questions required candidates to discuss (as in **Question 3(c)** and **Question 4(d)**). These words give an indication of what candidates are required to do and this is reflected in the number of marks allocated to these questions.

Candidates must read the rubric carefully. On this paper they are required to answer **Question 1** in **Section A** and then three questions from **Section B**. A few candidates answered all seven questions, which clearly reduced the time that they could allocate to each question.

## General comments

It was pleasing to see many very good answers from a number of candidates who successfully demonstrated a sound knowledge and understanding of economics and a mature ability to describe, explain and discuss a number of key economic concepts and issues.

Where candidates are required to use a demand and supply diagram (as in **Question 2 (b)**), they should ensure that these are drawn as neatly and as carefully as possible and that all parts of the diagram are labelled correctly.

## Comments on specific questions

### Question 1

- (a) Many candidates were able to explain correctly that an entrepreneur is somebody who takes decisions and who takes a risk in organising the factors of production being employed.
- (b) There were some good answers to this part of the question, with candidates demonstrating an understanding of what a stock exchange was and the role it could play in a country's economy, such as providing a facility for firms to raise capital in order to expand and increase production.
- (c) The majority of candidates were able to identify correctly two possible reasons why the supply of mobile (cell) phones might increase. These included a decrease in the costs of production, improvements in technology, the provision of a financial incentive by a government or in response to an increase in the demand for them.
- (d) In this part of the question, candidates were required to explain two financial incentives, other than subsidies, which a government could offer multi-national companies to locate in its country. Good examples included a tax holiday, a lower rate of corporation tax on profits or the provision of infrastructure. Candidates must ensure that they read the questions carefully, as those who explained non-financial incentives or considered subsidies could not gain credit.
- (e) There were many extremely good responses to this final part of the question, with candidates discussing both the potential advantages of a multi-national company locating in a country, such as in relation to the creation of employment opportunities, and the possible disadvantages, such as the repatriation of some of the profits back to the home country.

## Question 2

- (a) The majority of candidates demonstrated a sound knowledge and understanding of what was meant by a subsidy, stressing that it was a form of payment to a producer, such as by a government, to help reduce the cost of production.
- (b) Most candidates recognised that a subsidy would cause a shift of the supply curve to the right, leading to a fall in equilibrium price and a rise in equilibrium quantity. Candidates needed to ensure that the demand and supply diagram was correctly drawn and clearly labelled, especially in relation to the change in the equilibrium positions.
- (c) The vast majority of candidates answered this question very well, correctly identifying the three questions faced by every type of economic system.
- (d) In this final part of the question, candidates were required to discuss why virtually every country today had a mixed economy. Candidates demonstrated a good understanding of some of the weaknesses of a market economy, such as the under-consumption of some goods and the over-consumption of others, giving rise to the need for different forms of government intervention.

## Question 3

- (a) There were some very good answers to this question, with candidates describing a variety of different factors that could affect the demand for a product, such as the price of the product, the prices of substitutes and/or complements, changes in income and the impact of an advertising campaign.
- (b) Many candidates were able to explain that price elasticity of demand is the percentage change in the quantity demanded of a product divided by the percentage change in the price of the product. They then went on to develop the explanation through a consideration of the various situations from perfectly inelastic to perfectly elastic. A number of candidates made good use of appropriate diagrams of demand curves to support their explanation.
- (c) Candidates generally recognised the link between price elasticity of demand and revenue. To gain full credit, candidates needed to focus on magazines and on how the knowledge of price elasticity of demand could be used specifically by a firm producing and selling magazines.

## Question 4

- (a) This part of the question was answered very well by many candidates, who were able to describe the factors, other than possible membership of a trade union, which could affect an individual's choice of occupation. Candidates described factors such as remuneration, location, working conditions, fringe benefits and promotion prospects. Candidates who wrote about possible membership of a trade union could not gain credit for this, as the question instructed them to consider factors other than this.
- (b) The majority of candidates recognised that it could be true that some individuals might be paid more as they got older, recognising their greater experience, but that it would not necessarily always be true.
- (c) There were some good answers to this part of the question, with candidates offering a useful explanation of the possible benefits that an individual might receive from being a member of a trade union. These included the process of collective bargaining to increase the pay of union members.
- (d) Many candidates offered a balanced discussion of whether trade unions always had a harmful effect on the wider economy. They were able to contrast the potential benefits of trade unions, such as giving workers a stronger voice in disputes with employers, with the potential disadvantages, such as the problems that firms could face if there was industrial action by trade unions.

## Question 5

- (a) In this first part of the question, candidates were required to describe the disadvantages of a sole proprietor business. These included the problems of unlimited liability and the difficulties that could

arise in trying to raise funds to finance the expansion of the business. Candidates who offered a list-like answer, which did not really develop the description of the disadvantages, could gain no more than two marks.

- (b) Many candidates demonstrated a sound understanding of the differences between a private limited company and a public limited company, especially in terms of issuing shares. Most candidates recognised that a key reason for a private limited company wishing to become a public limited company was to be able to raise more finance by quoting their shares on a country's stock exchange.
- (c) There were some good answers to this part of the question, with candidates explaining how firms could grow in size through both internal growth, such as by gaining an increased share of a market, and external growth, such as through a merger or takeover. Many candidates demonstrated a very thorough understanding of the different forms of integration that can exist in an economy.
- (d) In this part of the question, candidates were required to discuss whether some firms might benefit from reducing their size. Many of the answers were extremely well balanced. Candidates considered the possible advantages of this, especially if a firm was experiencing diseconomies of scale, and the possible disadvantages, in that if firms became smaller they would be less able to benefit from economies of scale and the consequent cost savings that would otherwise have been possible.

#### Question 6

- (a) The majority of candidates were able to explain successfully what was meant by inflation in terms of a persistent or sustained increase in the general level of prices in an economy over a given period of time.
- (b) Many candidates were able to offer a thorough description of how a retail or consumer price index was constructed, demonstrating a sound knowledge and understanding of the key features in terms of a basket of goods and services, the selection of a base year and the allocation of weights to the particular products in the basket to reflect their relative importance.
- (c) Most candidates were able to offer a clear explanation of demand-pull inflation in terms of a situation where the level of aggregate demand in an economy was in excess of aggregate supply. Many candidates used an appropriate diagram to good effect to support the explanation.
- (d) Most candidates were able to demonstrate an understanding of the possible disadvantages of a high rate of inflation, such as a fall in the real value or purchasing power of a nominal sum of money. To gain a mark of more than four, it was also necessary to indicate an understanding that inflation could be beneficial in certain respects, such as higher profits for firms (assuming that the increase in prices was greater than the increase in costs). It was pleasing to see some candidates discuss exactly what might be meant by a high rate of inflation.

#### Question 7

- (a) There were some good answers to the first part of the question where candidates were required to describe how living standards in a country could be measured. Many candidates answered in terms of changes in real GDP per capita, but it was pleasing to note the number of candidates who also referred to changes in the Human Development Index and to other possible criteria relating to the quality of life, such as the quality of water available in an economy.
- (b) In this part of the question, candidates were required to explain two reasons why the measurement of living standards in a country might not always be accurate. Reasons included the extent of the hidden or underground economy and the difficulties involved in obtaining accurate and up-to-date information in some countries.
- (c) There were some good answers to this final part of the question. Candidates were able to discuss a number of possible actions which a government might take to reduce poverty, such as the introduction of a minimum wage, the use of fiscal and/or monetary policy to expand demand and, therefore, reduce unemployment, encouragement of family planning and a move away from the primary to the secondary and tertiary sectors. Candidates needed to focus the discussion specifically on the reduction of poverty in order to gain a mark of more than five.

# ECONOMICS

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**Paper 0455/23**

**Structured Questions**

There were too few candidates on whom to comment. However, for general guidance, teachers may find it helpful to refer to the Principal Examiner Report for Paper 0455/22.

# ECONOMICS

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| <p><b>Paper 0455/31</b><br/><b>Analysis and Critical Evaluation</b></p> |
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## Key messages

This paper requires candidates to analyse information and to draw conclusions from that information. It is important that candidates read the extracts and the questions carefully. It is suggested that candidates should read the extracts first to gain an overview of the topics, then examine the questions before returning to the extracts in the light of the questions being asked.

It is advisable to answer the questions in the order they are set as they are asked in a logical order, so this approach should avoid overlap.

Candidates need to gain practice in interpreting economic data.

## General comments

There was a wide range of responses to this examination paper. There were some excellent answers which made good use of the extracts and which revealed strong understanding of economic theory and the ability to apply it to real world issues. These scripts provided perceptive answers to the lower mark questions and lucid, well-thought-out and well-constructed answers to the higher mark questions.

In this session most candidates had paid attention to the command words and the marks being awarded for each question. Very few candidates wrote at too great a length on the lower mark questions. Some candidates, however, did not always pick up on the instruction 'using the extract'. It is also important that on questions which require candidates to explain or discuss, they follow the instruction and do not just assert points.

Candidates need further practice in interpreting economic data. For example, candidates need to recognise the difference between a fall in economic growth and a fall in output, that there is a difference between a budget deficit and a current account deficit and that one country may have a lower unemployment rate than another country but may have more people unemployed due to having a larger labour force.

Most questions were attempted, although a few candidates did not offer responses to **Question 1(c)(ii)**. Some answers needed to include greater economic content, while a number of others needed to be focused more directly on the question.

## Comments on specific questions

### **Question 1**

- (a) Most candidates were able to explain what is meant by 'finite' but very few brought out the meaning of a 'resource' in their answers.
- (b) This was a challenging question and it was pleasing to see that quite a high number of candidates answered it well. Most candidates drew an accurate demand and supply diagram and although not all illustrated the price being below the equilibrium level, fewer candidates transposed the demand and supply curves than in previous sessions. There were some good written comments but some candidates were confused about the effects on demand and supply of the price being below equilibrium.

- (c) (i) There were some clear definitions provided, although some candidates wrote in rather general terms.
- (ii) A pleasing proportion of candidates accurately calculated the opportunity cost. A number miscalculated it at 15 kilograms of wheat and, as previously mentioned, some did not attempt the question.
- (d) To do well on this question, candidates needed to consider what the extract was suggesting and then to explain, in some cases, why the outcome might be different. The stronger answers provided some depth of explanation by, for example, considering why the world's population may not rise as much as forecasted and how a rise in vegetarianism would reduce meat consumption and so decrease the amount of water used in agriculture. A small number of candidates misinterpreted the question and wrote about why the world's demand for water may grow rapidly.
- (e) There were some excellent answers to this question which applied relevant economics in explaining arguments both for and against taxing household use of water. Candidates who provided a one-sided answer, who wrote in somewhat vague and general terms, or who focused exclusively on arguments for and against taxing industry rather than households could only gain limited credit.

## Question 2

- (a) Most candidates were able to provide a clear definition of the exchange rate with a number giving an example, often using the currency of the country. A few candidates incorrectly described the terms of trade.
- (b) (i) Candidates found this a relatively easy question although, for some reason, a number wrote that  $100\% - 38\% = 68\%$ .
- (ii) This was generally well answered, although those candidates who identified an industry that was not referred to in the extract could not receive credit.
- (c) There were some lucid answers to this question which picked up both on the internal provision of products and the relative unimportance of imports. Unfortunately, a number of candidates provided vague answers which could not gain credit.
- (d) This was generally well answered with candidates selecting relevant factors.
- (e) (i) This question revealed that a relatively high proportion of candidates were confused between a fall in the inflation rate and a fall in the price level. A number of candidates described what happened in each year rather than over the period.
- (ii) There was a wide range of responses to this answer. The strong answers identified a consequence from the extract and then explained why the consequence may arise from inflation and/or the effect the consequence may have on the economy. Some candidates just defined inflation and some sought to explain the consequence of a high exchange rate.
- (f) Candidates had to recognise that the Brazilian Government's approach to reducing poverty was based on increasing spending on education. A number of candidates did not recognise this and discussed a range of other influences on poverty. Those candidates who correctly focused on education produced a range of responses. The strongest explored the links between an increase in the provision of education, workers' skills, employment and income and then went on to consider why the policy might not be successful and/or the time and opportunity cost involved.



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## Key messages

Candidates should make an attempt to answer all parts of questions. It was noticeable that a few candidates made no attempt to answer some questions.

Candidates need to focus on the command or directive word that is being used in each question. For example, some questions required candidates to state (as in **Question 1(a)**) or identify (as in **Question 1(b)**), whereas other questions required candidates to do more than this, such as explain (as in **Question 1(c)(ii)**) or discuss (as in **Question 2(f)**). These words give an indication of what candidates are required to do and this is reflected in the number of marks allocated to these different questions.

Where candidates are required to use a demand and supply diagram (as in **Question 2(d)**), they should ensure that these are drawn as neatly and as carefully as possible and that all parts of the diagram are labelled correctly.

Candidates need to focus on precisely what the question requires them to do.

## General comments

It was pleasing to see many very good answers from a number of candidates who successfully demonstrated a sound knowledge and understanding of economics and a mature ability to explain and discuss a number of key economic concepts and issues.

Candidates need to read the questions very carefully, especially in relation to whether answers directly relate to material provided in the extract. For example, in **Question 1(c)(ii)**, candidates were explicitly required to explain one consequence of unemployment that was specifically referred to in the extract.

It would be helpful if candidates could indicate if they have continued their answer on an additional page.

## Comments on specific questions

### Question 1

- (a) The majority of candidates were able to state two possible influences on the demand for a country's exports, such as price, quality, incomes abroad, changes in the tastes and preferences of consumers and the effects of any changes in the exchange rate.
- (b) Many candidates were able to identify correctly two possible reasons why the savings ratio in China might fall in the future. These included an improvement in health and education provision by the state, a fall in interest rates paid to savers or a fall in unemployment, which makes people more confident about the future, especially in relation to enhanced job security.
- (c) (i) Many candidates clearly understood that cyclical unemployment is linked to changes in the total or aggregate demand in the economy, such as when there is a recession. Some candidates, unfortunately, confused cyclical unemployment with seasonal unemployment.
- (ii) Candidates were awarded a mark for identifying one consequence of unemployment referred to in the extract, such as a fall in potential output, a decrease in tax revenue, a rise in the level of savings or a change in the inflation rate. Two additional marks were available for the explanation. For example, in the case of a fall in potential output, this means that potential resources are not being used and so this potential output is lost for all time.



- (d)(i)** Most candidates correctly recognised that the relationship between unemployment and inflation shown in Table 1 was an inverse one. In other words, as the rate of unemployment went down, the rate of inflation went up.
- (ii)** Many candidates recognised the link between the changes in unemployment and changes in inflation. For example, if the rate of unemployment fell, this was likely to increase the level of income in an economy and so spending could be expected to rise, bringing about a situation of demand-pull inflation.
- (e)** In this part of the question, candidates were required to discuss what factors were likely to influence whether unemployment would rise in the future. There were up to four marks available for the identification of relevant factors, such as the level of aggregate demand, the degree of consumer confidence, possible changes in government policy in relation to demand and/or supply, the relative costs of different factors and the skills of the workers. There were three additional marks for a discussion of these factors and candidates need to understand that if the command word in a question is discuss, they will need to go beyond simply identifying relevant factors if full marks are to be obtained.

## Question 2

- (a)** Many candidates correctly calculated the estimated percentage fall in the Japanese population from 2008 to 2050. The correct answer was 25%.
- (b)(i)** A large number of candidates correctly identified one cause of a decline in population size not mentioned in the extract, such as an increase in net emigration or a rise in the death rate, for example because of an earthquake.
- (ii)** Many candidates correctly identified two possible causes of the change in Japan's death rate, such as an improvement in health care facilities, a better diet, greater exercise, better housing, less pollution, improved pension schemes, improved working conditions or advances in medical knowledge.
- (c)** A number of candidates gained one mark in this part of the question by explaining that the labour force referred to all those who were working, but to gain the second mark, candidates needed to explain that the term also included those who were actively seeking work. In other words, the labour force includes both the employed and the unemployed.
- (d)** There were some very good answers to this part of the question, with candidates recognising that the likely effect of an ageing population was to shift the demand curve for residential care to the right, leading to a rise in both the equilibrium price and the equilibrium quantity.
- (e)** In this part of the question, candidates were required to explain why raising the retirement age would be expected to raise tax revenue. Many candidates recognised that if there was an increase in the number of people working, this would lead to more money being obtained through income tax. A number of candidates went further and pointed out that if there was an increase in output and expenditure, an increase in another direct tax, corporation tax, would be likely. Additionally, these people would be likely to spend more and so there would be an increase in tax revenue from indirect taxes on spending, such as VAT or GST.
- (f)** Candidates were required to discuss the information that would be needed in order to assess whether a rise in a country's birth rate would benefit its economy. This information could include factors such as the size of the population, especially in relation to available resources, the current birth and death rates, the average age of the population, the net migration figure and the dependency ratio. There were up to three marks available for the identification of relevant factors and a further three marks for a discussion of such information. It was necessary, therefore, to go beyond simply the identification of the relevant factors in order to gain a mark of more than three.

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There were too few candidates on whom to comment. However, for general guidance, teachers may find it helpful to refer to the Principal Examiner Report for Paper 0455/32.