

ECONOMICS

Paper 0455/12
Multiple Choice

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

General comments

1572 candidates took this 30 question multiple choice examination and the mean score was 21.4, almost identical to the mean score of 21.3 from the previous year.

The questions for which most candidates selected the correct answer were **8, 9, 11, 13, 14, 16, 17, 18, 20, 26, 28** and **29**. 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 that were answered correctly by fewer than 45% of the candidates were **Questions 5, 22** and **25**.

Comments on specific questions

Question 5 was answered correctly by 28% of the candidates who chose option **B**. 51% chose option **A**, 11% chose option **C** and 10% chose option **D**. Those who chose option **A**, the most popular choice, probably were thinking that supply had been reduced and that a movement down the supply curve represents a fall in supply. Such a movement, however, only results from a price change. No mention was made of price in the question. The closure would have caused a shift in the supply curve to the left to represent a decrease in supply. This would also be represented on a demand and supply diagram as a movement up the demand curve (option **B**).

Question 22 was answered correctly by 37% of the candidates who chose option **A**. 3% chose option **B**. 3% chose option **C** and 58% chose option **D**. Those who chose option **D** saw that the table showed the largest figure against year 5. The question that was asked, however, was between which years was the rate of inflation the greatest. Candidates had to consider the change in the inflation rate in one year compared to the previous year. Between year 4 and year 5 the CPI figure increased by 3. The year 4 figure was 107 so the rate of increase was 2.8%. Between year 1 and year 2 the rate of increase was 3%.

Question 25 was answered correctly by 30% of the candidates who chose option **A**. 30% chose option **B**, 30% chose option **C** and 10% chose option **D**. A distribution of choices such as this would indicate that the candidates were guessing the answer. The question stated that more people are living longer. It is unlikely, therefore, that options **B** or **C** would apply. For people to be living longer it is likely that the standard of living is rising. It is also likely, as people are living longer, that they will require more medical care in old age. The question stated that birth rates are low so it is unlikely that option **D** would apply. It might be likely that the number dependent on the working population would rise, but this would be due to people living longer rather than a high birth rate.

The rest of the questions showed results that were within the expected range of responses for a multiple choice examination at this level.

ECONOMICS

Paper 0455/22
Structured Questions

Key messages

Candidates should:

pay careful attention to all the information in the extract in **Section A** when answering **Question 1**
consider all four parts of the optional questions in **Section B** before selecting which ones to answer
think carefully about what appropriate economic concepts could be applied before answering a question
give careful consideration to the command word of each question and answer the specific question set
fully explain the points that they make

General comments

There was a wide spread of performance on the paper. There were some outstanding answers which showed an excellent understanding of the questions asked. These answers made good use of the information in the extract to answer **Question 1** and paid careful attention to the command words in every question.

The candidates producing the outstanding answers appeared to have selected the optional questions well in **Section B**. They were able to produce accurate definitions/answers to the **(a)** parts; full explanations of the relevant points in the **(b)** parts; strong analysis in the **(c)** parts; and in depth discussion of both sides in the **(d)** parts.

A number of candidates did not answer the questions directly. For example, in their answers to **Question 6(d)** these candidates concentrated on how a country could increase its exports, rather than on the effects of a decrease in imports.

Some candidates identified points in their answers to the **(b)** parts of the optional questions in **Section B** but did not explain them. Further, a relatively high number of candidates did not establish the points they made in their answers to the **(c)** and **(d)** parts of the optional questions. For instance, in their answers to **Question 7(d)** some candidates wrote that a cut in government spending could reduce unemployment. This could be a valid point if it continued to link to how cutting unemployment benefit might encourage the unemployed to search for work, but not all candidates explored how the measure might work.

There were very few rubric errors with the vast majority of candidates answering the required number of questions. Most handwriting was legible and most candidates allocated their time appropriately, although a number devoted too much time to writing long answers to the **(a)** part questions in **Section B**.

There were some unanswered question parts, most noticeably **Question 1(c)(ii)**, which might suggest the importance of Centres making it clear to candidates that they may use a calculator in this examination.

Comments on specific questions

Section A

Question 1

Overall the performance on this question was pleasing. A relatively high proportion of candidates made good use of the information in the extract and took notice of the command words.

- (a) (i)** Most candidates identified a relevant substitute.
- (ii)** A smaller proportion of candidates identified a relevant complement.
- (b)** There were some good answers explaining how a horizontal merger can result in lower average costs and greater market power. Other answers identified an advantage, but did not go on to explain it so could not be fully rewarded.
- (c) (i)** A pleasing proportion of candidates answered this question accurately.
- (ii)** A number of candidates did not attempt this question. Some of those who did showed the correct working, but made careless mistakes when it came to carrying out the calculation. In some cases, this may have been because the candidates did not have a calculator.
- (d)** Some candidates showed good analysis of why demand for a luxury holiday may be price-elastic. They clearly stated the key influences on the price elasticity of demand for a product and related them specifically to a luxury holiday. Other candidates did not recognise the significance of PED.
- (e)** There were some strong answers to this question which explored both sides in a clear and relevant manner.
- (f)** This was well answered. Most candidates were able to explain what happened to the market and there were some perceptive comments about the price elasticity of demand and price elasticity of supply for pilots. A few candidates reproduced the diagram which did not serve any purpose.
- (g)** Again, there were some strong answers to this question. Some candidates perceptively examined how a cut in taxation could affect both the demand side and the supply side of the economy. Some candidates were confused about how higher spending would affect the value of money; they wrote that it would increase the value of money and so cause inflation. This suggests that they confused an increase in the purchasing power arising from higher disposable income with an increase in the value of money.

Section B

Question 2

Most candidates who selected this question did very well on the first two question parts. The performance on part (c) was generally good. There was a wide spread of performance on part (d). It did appear that a small proportion of candidates had chosen **Question 2** on the basis that they could answer parts (a) – (c) without considering how well they could answer part (d).

- (a) This was a well answered question with the most common goals identified being profit maximisation and growth. A few candidates produced overly long answers. The command word 'Identify' and number of marks [2] indicates to candidates that they simply had to state two goals.
- (b) Again, this was well answered. Most candidates wrote about commercial banks lending to their customers and accepting deposits. A number of other candidates produced a good explanation of how commercial banks allow their customers to make and receive payments. A small number of candidates, however, wrote about the functions of central banks. In some cases, this seemed to be because they had misread the question. In other cases, it appeared to be because they were confused about the different functions of a central bank and a commercial bank.
- (c) It was pleasing to see how well this question was answered by many of those who selected it. There was some clear analysis of how changes in consumer choice are signalled to producers via the price mechanism. There was also some good analysis of how the role of the profit motive encourages producers to respond to changes in demand and price. Some confusion, however, was shown about the order of events which occur when market conditions change. For example, some candidates wrote that a rise in supply would cause an increase in price, rather than recognising that it is the higher price that will stimulate the rise in supply.
- (d) The key to success here was to identify the relevant economic concepts that could be applied. Some candidates wrote excellent answers, making particularly good use of the concepts of economies of scale, diseconomies of scale, and the relationship between changes in demand and supply. A number of candidates, however, wrote in very generalised terms. Some also revealed a confusion between the effects of an increase in output on total cost and average cost. They wrote that higher output would increase profits if total cost falls, whereas they should have recognised that while total cost will increase as output rises, average cost might fall.

Question 3

There was a mixed performance on this question with some excellent answers, but also some answers where the candidates did not seem to have thought out their answers before writing them.

- (a) Most candidates were able to define a clear difference between capital and land. A small proportion, however, showed confusion over the nature of capital and a number did not define a difference at all.
- (b) There were some good and perceptive answers which often focused on reasons relative to the nature of the products produced. A number of candidates identified two relevant reasons why a firm may decide to use more labour and less capital in producing its products, but did not go on to explain them. A few wrote that firms use labour because they are labour-intensive, but did not identify why this might be the case or explain it. There was some confusion shown about the cost of capital. Some candidates wrote that machines do not cost anything once purchased; ignoring costs of maintenance.
- (c) There were some clear diagrams drawn accompanied by relevant written analysis. Some candidates mislabelled the axis of the diagram and a number showed the production possibility curve shifting to the left rather than the production point moving inwards. A few did not draw the curve to meet the axis and a number drew a demand and supply diagram rather than a production possibility curve diagram.
- (d) There were some lucid answers which explored how total demand, total supply and different economic policy measures could influence unemployment and inflation. A number of candidates, however, found this a challenging question. Some were confused, writing that low unemployment would cause people to spend more which would lower inflation.

Question 4

The pattern of performance on this question was rather different in that there were more candidates who produced good answers to part (d) but did not do so well on part (a) and part (b).

- (a) Some candidates did identify two relevant wage factors. Others, however, identified non-wage factors. A number of these candidates wasted some time describing these factors in too much depth.
- (b) The two most popular indicators explained were GDP per head and the Human Development Index. Some candidates only identified GDP without providing an explanation, when it is actually possible for a country to have a high GDP but low living standards - if the population is very large in size.
- (c) The strongest answers explored how a government could create a more even distribution of income by operating a more progressive income tax system, reducing regressive taxes and using tax revenue to help the poor. Some candidates, however, were confused about the nature of fiscal policy and wrote about how changes in interest rates could affect the distribution of income.
- (d) This was a well answered question. There were some interesting and well thought out answers which made very good use of economic concepts. Many wrote about how a rise in the wages paid to low paid workers could increase the workers' motivation and productivity. There were also some perceptive comments about the effects on demand, employment, inflation, poverty and the current account of the balance of payments.

Question 5

There were some good answers to this question, but also some which would have benefited from more focus on the specific questions asked.

- (a) Not all candidates showed a strong awareness of the term 'balance of payments'. A number did not recognise its connection with international trade.
- (b) A number of candidates did not read the question carefully enough and so did not focus on *rapidly* developing countries, however, some candidates did produce strong and interesting answers.
- (c) There were some good links provided between an increase in tourism and a country's inflation rate. Some very strong answers produced links to both demand-pull and cost-push inflation. Other answers lost focus part way through the answer so did not go on to explore the impact of an increase in tourism on a country's inflation rate.
- (d) There were some strong comments linked to the influences of difference in income, confidence, and the rate of interest on the two groups. A number of candidates, however, wrote about general influences on the amount people save and did not relate these influences to the rich or poor specifically, or to whether the rich *always* save more.

Question 6

The performance on parts (a) and (b) tended to be stronger than on parts (c) and (d).

- (a) Most candidates were able to identify two relevant aims of a trade union.
- (b) The three most popular reasons identified were less efficient trade unions, greater reluctance to take industrial action, and less willingness to pay membership fees although not all candidates went on to explain the reasons they identified.
- (c) Many candidates were able to state some relevant reasons why someone may switch from working in the public sector to working in the private sector, however, a relatively high proportion of candidates did not go on to analyse these reasons. For instance, many wrote that someone may switch due to a higher wage being paid in the private sector but did not analyse why this may be an influencing factor.

- (d) Some candidates spent more time discussing the effects of an increase in exports rather than a decrease in imports. An even more common issue here was candidates not establishing the points they made. For instance, a number of candidates wrote that a decrease in imports would reduce unemployment without explaining why. There was also misunderstanding about the nature of multinational companies (MNCs). A number of candidates implied incorrectly that the output of MNCs count as imports by writing that a decrease in imports means that the MNCs are producing less. Of course, the output produced by an MNC in any given country is counted in the GDP of that country.

Question 7

There was a mixed performance on this question with some candidates doing well on all the question parts, while others struggled on two or more parts.

- (a) Candidates do not appear to understand how a government might use *regulation* in an economy.
- (b) Some candidates showed confusion between the efficient working of a market and market failure by writing that market failure occurs when price falls due to a decrease in demand and when firms that are making unpopular products go out of business. There were also some candidates who confused market failure and government failure. Some candidates produced strong answers which included relevant causes that are not actually on the syllabus, or in mark scheme. A broader level of relevant economic understanding and analysis such as this will be rewarded.
- (c) A strong awareness of the nature of opportunity cost was shown. What differentiated the answers to this question was the depth of analysis provided. For instance, some candidates simply wrote that a possible opportunity cost of an increase in government spending on higher education services is spending on healthcare which, while accurate, did not explain why this may be the case and the implications of such a choice.
- (d) The stronger answers here explored how a range of government policy measures could reduce unemployment and the reasons why these policy measures may not always work. Other candidates provided some good comments on how government policy measures might work, but then just provided reverse arguments rather than deeper analysis. For example, some analysed how a cut in income tax would reduce unemployment because it could increase total demand, but then simply reversed that and stated that an increase in income tax would not work as it would reduce total demand. They also explored how a lower interest rate could reduce unemployment and then wrote that a higher interest rate would increase unemployment. Making 'reverse' assertions such as these does not add sufficient depth to answers to gain a high reward.