

# ECONOMICS

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Paper 2281/01  
Multiple Choice

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

## General comments

3867 candidates took this paper this session, fewer than the 4239 from last year. The mean mark was 27.1, almost identical to the 27.5 from last year and higher than the mean mark of 26.5 in 2005 and 25.6 in 2004.

The easiest questions proved to be 5, 10, 11, 17, 18, 34 and 40 with over 85% of the candidates choosing the correct answer. These questions were on different sections of the syllabus and tested different skills. **Questions 5 and 10** tested knowledge, **Questions 11, 17 and 34** tested application and **Questions 18 and 40** tested analysis. There is no one skill or one section of the syllabus, therefore, that the candidates find easier than others.

None of the questions proved to be more difficult than the limits expected by the examination. The most difficult questions were 2, 14, 16, 36 and 39 but even these were well above the 'guessing rate' of 25%.

**Question 2** was answered correctly by 41% of the candidates who chose option D. Option B was chosen by 30% and option C by 23%. It is possible to see why candidates might think that protection encourages specialisation but in fact, of course, it does not encourage the best use of resources which is the essence of specialisation. It is unclear why candidates might think that barter is linked to specialisation.

**Question 14** was answered correctly by 46% of the candidates who chose option A. Option B was chosen by 16% of the candidates and option C by 22%. Those who chose option B forgot to take account of the change in demand caused by the report which was issued and those who chose option C did not realise that government schools are an alternative to independent schools.

**Question 16** was answered correctly by 41% of the candidates who chose option B. 39% chose option C and 17% option D, which demonstrated a confusion between income and wealth.

**Question 36** was answered correctly by 36% of the candidates who chose option D. 35% chose option A and 19% chose option B. Changes in quotas often confuse candidates. Quotas are quantities of goods and a reduction in the quota means a reduced amount which is allowed into the country.

**Question 39** was answered correctly by 46% of the candidates who chose option D while 38% chose option C and 13% chose option B. Those who chose option C forgot that the external benefit is credited to those other than the car drivers and those who chose option B or A confused the two terms private cost and external benefit.

All the other questions were answered correctly by at least 51% of the candidates and sometimes by as many as 94% of the candidates. Well done, to those candidates who scored high marks on this paper.

# ECONOMICS

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Paper 2281/02

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 explain and discuss, rather than just describe, key economic concepts and issues. There were also, unfortunately, a number of relatively weak answers where the candidates failed to demonstrate very much knowledge or understanding. There were relatively few rubric errors although a few candidates did manage to answer all seven questions on the paper.

Candidates do need to pay close 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 needs to simply write a brief answer. However, if the question requires the candidate to explain something, as in **Question 3(a)** or **7(c)**, or to discuss something, as in **Question 2(d)** or **5(b)**, 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. For example, in **Question 2(c)**, some candidates wrote more in this section than they did in the final part of the question, despite the fact that only two marks were available compared to eight marks in the last part.

A number of candidates fail to put the answers in the correct order, often mixing up answers to different questions. Candidates should allow sufficient 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 calculate the estimated average yearly loss between 2001 and 2005. The answer was \$8.4 billion and this was calculated by adding together \$36 billion and \$6 billion to get \$42 billion and then dividing this figure by 5. An answer of \$10.5 billion was also acceptable as this was arrived at by dividing \$42 billion by 4, as it was thought that some candidates might think that a period of four, rather than five, years was involved. Candidates who at least got the \$42 billion correct were awarded one mark.
- (b) The majority of candidates were able to correctly identify four causes of the airline industry's losses in North America and these included the higher fuel prices, high labour costs, high airport taxes, high taxes on ticket sales and competition from smaller low-cost airlines charging cheap fares.
- (c) Most candidates were able to show a knowledge and understanding of the distinction between fixed and variable costs in their discussion, pointing out that while fuel would be a variable cost, labour could be either a fixed or a variable cost and that the airline industry was likely to include examples of both types of cost.

- (d) Candidates needed to identify the four factors of production and then consider how the replacement of paper tickets might affect the demand for each of them. Capital would probably increase because of the equipment required to produce the tickets and labour would probably decrease as less workers would be required as a result of the move towards electronic tickets, although candidates were rewarded for saying that it could increase the demand for more highly skilled workers. Entrepreneurial skills would probably not change but there might be a change in relation to land and many candidates pointed out the effect on resources of producing more paper.
- (e) Many candidates produced some good answers to this final part of the question. There were two approaches which needed to be considered. Firstly, the need to reduce the costs of production and there were a number of suggestions made in this respect, such as reducing the labour employed, putting them on productivity deals and possibly switching to more cost effective methods, such as becoming more capital intensive. Secondly, the need to increase revenue and there were also some useful suggestions in this respect, such as more effective promotion and a reduction in prices, especially if the price elasticity of demand for the company's goods and/or services were elastic.

## Question 2

- (a) There was quite a lot of confusion in the answers to the first part of the question, especially in relation to public companies. In terms of partnerships, it was not correct to say that partnerships could be owned by only two people. The second part of the statement was also incorrect because public companies were part of the private sector and were owned by shareholders, not the government. A number of candidates still seem to be confused by the fact that public companies operate in the private sector.
- (b) This part of the question was answered much better and many candidates were able to explain why some firms remain small in size, due to the fact that they often provide personal services or produce specialist products. It could also be the case that the market is relatively small and that the funds for expansion are not available.
- (c) Most candidates were able to explain two types of integration available to a firm. These were, in most cases, horizontal and vertical (either backward or forward) but some of them referred to lateral and conglomerate integration.
- (d) This was a broad question and gave the candidates a lot of scope to write on a range of possible types of intervention by a government in the private sector. Examples included taxation, subsidies, various rules and regulations, such as on land use, legislation, such as anti-monopoly laws, financial support, such as through some form of regional policy, training schemes and different forms of protectionism, such as import quotas.

## Question 3

- (a) Most candidates were able to explain what was meant by specialisation and the division of labour, pointing out how workers could concentrate on particular parts or operations of the production process. A number of them gave examples of the production process being broken up into a sequence of different tasks. Some candidates went further to give examples of regional and national specialisation.
- (b) There were a number of good answers to this part of the question and many candidates were able to discuss why some people would be prepared to work in low-paid occupations. Reasons included a lack of skill or qualification, a supplementary income if people were 'hard up', a temporary situation until a better job came along, convenience, especially where mobility was limited, perhaps for family reasons, and a compensation through various non-wage benefits.
- (c) This part was also answered reasonably well by many candidates. In terms of spending, they pointed out that the poorer person would spend a high proportion on basic necessities compared to the spending pattern of a richer person who would be likely to spend a greater proportion on luxuries. In terms of saving, it was pointed out that, on average, richer people were likely to save a higher proportion of their income than poorer people.

- (d) Whereas **Question 2(d)** focused on the 'how' of government intervention, this question focused on the 'why'. Candidates were able to suggest a number of possible reasons why a government might wish to influence people's spending, such as to control inflation, limit the demand for imports to reduce a balance of payments deficit, encourage a higher rate of employment and economic growth or to try and reduce the extent of negative externalities in the economy.

#### Question 4

- (a) The majority of candidates were able to suggest a number of differences in the factors affecting population growth in developed and developing countries. For example, a developed country would be more likely to have both a lower birth rate and a lower death rate and therefore a lower natural rate of population growth. Migration would also be a significant factor and it was likely that this would be higher from developing to developed countries. There were also some useful comments on the provision of health care and education in different types of countries.
- (b) Some candidates seemed confused by the term 'occupational distribution of the population' and mixed it up with geographical distribution. The majority, however, clearly understood what was involved when a country became more developed and wrote fully about the change in structure away from the primary sector to the secondary and tertiary sectors, giving a range of examples to support their answers.
- (c) Most candidates showed that they understood what was meant by a country's economic output, explaining that it was the value or amount of production in a country in one year, usually measured through Gross Domestic Product.
- (d) There were some very good answers to this final part of the question with many candidates recognising that there could be both advantages and disadvantages of an increase in population. In terms of advantages, an increase in population could mean an increase in the supply of labour and therefore the possibility of increased output; it could also mean an increase in the demand for goods and services and this could stimulate economic growth. On the other hand, there was no guarantee that the extra jobs would be available and so it could lead to an increase in unemployment; this could have an impact on a government's fiscal policy if more money had to be spent on unemployment benefits. The better candidates, having looked at both points of view, then came to a reasoned conclusion.

#### Question 5

- (a) Most candidates were able to explain the meaning of the two terms. Investment was explained in terms of expenditure on capital equipment and labour-intensive in terms of a high proportion of labour involved in the production of goods in comparison to other factors, such as capital.
- (b) Most candidates understood the difference between free trade and a trade agreement and were able to offer a useful discussion. Free trade involved no limitations on trade between countries whereas a trade agreement would involve either a restriction of trade with some countries or preferential treatment, as in this case where Namibia entered into a preferential trade agreement with France, Italy and Austria.
- (c) The majority of candidates recognised what was meant by the idea of the conservation of resources in terms of keeping some resources back so that they would be available for future use. There were some interesting comments on the contrast between immediate consumption today and reduced consumption in the present to allow for the greater availability of scarce resources in the future.
- (d) Many candidates were able to discuss what benefits the trade agreements might bring to Namibia and these included a greater amount of capital and technology which would be likely to increase productivity and output in manufacturing industry, leading to a greater degree of economic growth and development and an improvement in the standards of living and quality of life. There was also likely to be a positive effect on the country's balance of payments.

### Question 6

- (a) Most candidates were able to demonstrate a good knowledge and understanding of the main differences between a planned and a market economy, pointing out that in a planned economy, the allocation of resources would be determined by the government whereas in a market economy, this allocation would be determined in the private sector through the interaction of the forces of demand and supply without the need for government intervention.
- (b) This proved to be quite a difficult question for some candidates but many of them, however, recognised that there was likely to be a conflict between the different aims of a government. This was particularly the case between the aims of increasing employment and reducing inflation. There could also be a conflict between the aim of sustained economic growth and the need to try and avoid persistent deficits in the balance of payments.
- (c) There were some good answers to this part of the question. Most candidates were able to discuss why most countries have decided to have a mixed economy by pointing out the disadvantages of the planned economy, such as too much reliance on bureaucrats, and the advantages of the market economy, such as the importance of price signals in a free market. They also argued that government intervention was useful in certain circumstances, such as the discouragement of demerit goods and the provision of merit goods, and that the market economy had its disadvantages, such as allowing for huge disparities of income and wealth. They then came to the conclusion that a mixed economy was able to benefit from the 'best of both worlds'.

### Question 7

- (a) The first part of the question proved to be quite difficult for some candidates who thought that if inflation was the lowest it had been for three years, then prices must have fallen during the past year. This, however, is not the case and many candidates recognised that even though the rate of inflation may have fallen, prices must still be increasing.
- (b) Most candidates were able to describe how an index of consumer prices or retail price index was calculated and they went through the various stages of the process of constructing the index through the selection of the basket of goods and services, the weighting of these, the collection of the prices, the selection of the base year and the final method of calculation.
- (c) This part of the question was answered reasonably well by the majority of candidates who were able to distinguish between the different types of unemployment and these included frictional, regional, structural, cyclical, technological, seasonal, voluntary and residual. They then went on to consider which of these might be the most serious and to give a reasoned support of why they came to that particular judgement.