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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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## GCE Ordinary Level

<p><b>Paper 2281/01</b> <b>Multiple Choice</b></p>
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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**

10 261 candidates took this paper in November 2005 and the mean score was 22.4. In November 2004, the mean was 21.6 which itself was the highest mean mark since 1999, so the average score and the preparation of the candidates for this examination compared well with last year. This is a commendable achievement by the candidates.

**Questions 6 and 29** were particularly easy for the candidates with over 80% choosing the correct answer. Apart from the early 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 level that might be expected for questions of average difficulty. This did not occur with the above questions. However, the discrimination index was also below that expected for **Questions 7 and 24**. When the discrimination index is low 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. Account was taken of this when the grade boundaries were determined for the paper. For **Question 24**, 51% chose the key **C**, but 31% chose **A**. It is usually thought that introducing a minimum wage would cause the wages of some people to rise – those on very low pay. This would result in employers not being so willing to employ as many people and, therefore, the numbers in employment would fall.

The most difficult questions were **9 and 36** with only 24% and 21% of the candidates answering correctly.

For **Question 9** only 24% chose the key **A** while 55% chose option **C**. It is uncertain why candidates chose this option and it is thought unlikely that specialist textbooks would be best promoted on national television rather than by direct mail to those who might be interested in, for example, schools and colleges.

For **Question 36** 70% chose option **A**, 5% **B** and 4% **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 2281/02**

**Structured Questions**

**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 of 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.