ECONOMICS

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

General comments

11130 candidates took this paper in November 2007 and the mean score was 20.2, almost the same as in November 2006 when the mean was 20.6.

Over 82% chose the correct answer for one **Question**, **6**, which is a higher percentage than would be expected on an examination such as this. (This is fewer than last year when 3 questions were answered correctly by more than 85% of the candidates.) This question was based on knowledge rather than analysis.

If questions are found to be relatively easy the discrimination index is sometimes below the norm expected for questions of average difficulty. This did not occur with this question.

The questions which the lowest percentage of candidates chose the correct answer were **3**, **4**, **5**, **12**, **22**, **23** and **38**.

For **Question 3**, 40% chose option C while 32% chose the correct answer B. Option C does not make mention of those who cannot read or write but mentions education in general. Examiners do not know the total number of people in the relative countries and, therefore, cannot make any conclusion about the total amount of money that needs to be spent on education.

For **Question 4**, 36% chose the correct option C while 23% chose A and 23% chose B. It is uncertain why A was chosen. If cigarettes were used as money then they must be able to be used as a medium of exchange. Money itself has no more intrinsic value than cigarettes so it is uncertain why B was chosen. With similar percentages on A and B and 18% choosing D it is probably a question which prompted random guessing.

For **Question 5**, 37% chose the correct option D but 25% chose the incorrect option A, 20% B and 19% C. A, B and C cover the main standard questions asked about production. The instance of relatively similar percentages choosing these options could either be because the candidates read the question as 'what economic question is **most** likely to arise' or because the question prompted random guessing.

For **Question 12**, 33% chose option A, while 21% chose option C. It is probable that candidates who chose A may have confused the two goods and thought that the question was asking them to form a judgement about good Y. If that were the case they would have supposed that they were dealing with a good with high elasticity. Option A could be chosen in that case.

For **Question 22**, 25% chose the correct option C while 44% chose the incorrect option B. Those who chose B confused the overall level of profit with the level on an individual unit. Not all units earn the firm the same amount of profit. 12% chose A, and 19% chose D. The rate of growth of profit is not the same as the greatest overall total, and the level of total cost does not enable any conclusion to be drawn about profit levels.

For **Question 23**, 30% chose the correct option A while 28% chose the incorrect option B, and 26% chose the incorrect option D. There is no information about income and no information about the distribution of the taxation on different levels of income so it is uncertain why candidates chose options B and D.

Question 38 presented a novel situation regarding the use of resources. 34% chose the incorrect option B while 35% chose the correct option D. Labour was involved with the use of the roundabout, although it is not paid labour.

ECONOMICS

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, issues and principles. However, there were also a number of relatively weak answers where the candidates failed to demonstrate very much knowledge or understanding.

There were relatively few rubric errors although some candidates did manage to answer all seven questions on the examination paper.

Candidates do need to pay close attention to the precise instruction in the question. For example, if the question asks the candidate to distinguish between something, as in **Question 5 (c)**, then he or she needs to simply write a relatively brief answer. However, if the question requires the candidate to explain something, as in **Question 3 (c)** or **Question 7 (a)**, analyse something, as in **Question 2 (d)**, or discuss something, as in **Question 4 (d)** or **Question 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. For example, in **Question 6 (a)**, some candidates wrote more in this section than they did in the final part of the question, despite the fact that only four marks were available compared to eight marks in the last part.

Comments on specific questions

Question 1

(a)   Most candidates were able to explain what was meant by factors of production although some simply offered a list of the four without making any attempt to explain what was meant by them. In some cases, candidates thought there were only three factors of production, enterprise being the one that was omitted.

(b)   The majority of candidates recognised that the Royal Mail's use of these factors of production indicated a move away from labour-intensive towards capital-intensive methods.

(c)   The candidates needed to explain what was meant by fixed and variable costs in terms of fixed costs not changing with a change in output, and variable costs changing as output changed. They then needed to explain this distinction in relation to Royal Mail. Many of them recognised that fixed costs would be likely to increase, given the use of more equipment, and that variable costs would be likely to decrease, given that there would only be a single delivery. However, the better candidates pointed out that it was possible that variable costs might increase, depending on the wage increases given to the staff.

(d)   Many candidates pointed out that the increase in price of First Class post from £0.28 to £0.30 was likely to reduce demand for this service and increase demand for substitute methods of communication, such as telephone, email or fax. A number of candidates, however, were more circumspect, stating that the price increase was very small and might not have much of an effect at all, going on to link such a comment to the concept of price elasticity of demand.

(e) The majority of candidates believed that there was enough evidence in the article to support Royal Mail's statement that it is one of the best in Europe. The better candidates, however, pointed out that the information was rather limited and that more information would be needed to support such a statement. For example, the article only referred to four European countries (France, Germany, Italy and the UK), ignoring the fact that there were many other countries in Europe which candidates were given no information about.

Question 2

(a) Many candidates recognised that although a multi-national might employ people from different countries, this was not crucial to the definition. The key point to stress was that multi-nationals actually produce in different countries. It was also necessary to state that, in most cases, a multi-national would not be controlled by a government but would be privately owned. Some candidates, however, sensibly pointed out that a government might influence or regulate a multi-national in some countries, even if it did not actually control it.

(b) This part of the question was generally answered well by the majority of candidates. They had a good knowledge and understanding of what was meant by a trade union and were able to discuss its role in a variety of areas, such as wages and salaries, working conditions, health and safety, and a variety of different welfare issues. A few candidates, unfortunately, got completely confused and wrote about a trade body, such as the European Union, completely missing the point that a trade union was an association set up to protect the interests' of workers.

(c) The majority of candidates recognised that there were essentially two ways in which a company might become large. Firstly, this could be through internal growth, such as when an advertising campaign increased the level of demand and a company was able to gain a larger share of a market through increased sales. Secondly, this could be through external growth, such as when two firms decided to merge or as a result of a takeover. There was some good consideration of different forms of integration, distinguishing between horizontal and vertical integration.

(d) This part of the question was generally answered well by the majority of candidates. They recognised that economies of scale would lead to a reduction in the average costs of production in the long-run and gave various examples of such economies, including financial, technical, administration and risk-bearing economies. The question did explicitly refer to economies of scale in the context of car companies and yet many candidates made no attempt to relate the general points being made to this particular industry, denying themselves the opportunity to gain maximum marks.

Question 3

(a) The majority of candidates were able to correctly explain what was meant by the principle of opportunity cost in terms of the next best alternative that is foregone. They were then able to give an example of how the principle could be relevant when a person chooses a new job. For example, a new job might pay a higher wage or salary but it might take a longer time to get there; the opportunity cost would therefore be the leisure time given up in travelling to and from work.

(b) Answers to this part of the question varied enormously. Some candidates offered vague and general answers but the better candidates were able to refer to a range of possible factors, including skills, qualification, experience, training and the extent of trade union power. There were some very good answers which considered the question within a demand and supply context, including appropriate diagrams to good effect.

(c) Again, there were some very general answers to this part of the question, but the better candidates recognised the need to focus on the long-term motives for saving, such as to provide an income in retirement, to make an expensive purchase, such as a house, or to pay for the education of children.

(d) The majority of candidates recognised that a reduction in interest rates was likely to encourage borrowing and discourage saving. Credit card purchases are equivalent to borrowing and so there was likely to be an increase in spending through the use of credit cards. The better candidates pointed out, however, that it would have no effect on those people who always paid off their balance in full each month. They also stated that the reduction was only for four months which might limit the effect on spending.

Question 4

(a) Most candidates were able to explain three other differences, apart from the literacy rate, that you might find between the population of a developed country and a developing country, such as the birth rate, the death rate, the age distribution, the dependency ratio or the occupational distribution. Some candidates included the literacy rate as one of their three, despite the fact that the question did refer to three other differences.

(b) Answers to this part of the question were, in many cases, rather disappointing. Many candidates simply stated what was meant by Gross Domestic Product (GDP) despite the fact that the question required them to discuss its usefulness as a means of comparing the living standards between two countries. They needed to discuss the potential shortcomings of GDP in this respect, such as the existence of a hidden or informal economy and the need for any figures to take account of inflation.

(c) This part of the question was generally answered well in the majority of cases. Candidates focused on the fact that many people in a developing economy would be relatively poor and so would not be able to afford to pay for education if it was provided by the private sector. A second reason given by many candidates was that a good education was not only in the interest of the individuals concerned but would also benefit the economy, leading to the possibility of higher rates of productivity.

(d) There were some very good answers to this last part of the question with candidates recognising the positive effect that investment in the education system might have in a developing country. For example, it could lead to a higher level of skill in the workforce, enhancing the prospect of economic growth, and a higher level of knowledge and awareness of health matters, hopefully leading to an increase in life expectancy. A few candidates, however, approached the question from an entirely negative perspective, stressing the opportunity cost of this investment in terms of other sectors of the economy which would be ignored.

Question 5

(a) Answers to the first part of the question were generally of a reasonably good standard. Candidates were able to explain what was meant by specialisation in terms of concentration on a particular skill or product and many pointed out that it could operate at the level of the individual, the firm, the region or the country.

(b) The majority of candidates were able to discuss the various potential benefits from specialisation, especially in terms of enhanced efficiency and productivity, but, in many cases, they did not offer a contrast with diversification. The better candidates were able to discuss the possible disadvantages of specialisation and so make a case for diversification.

(c) The majority of candidates obtained maximum marks in this part of the question, distinguishing clearly between the primary, secondary and tertiary sectors of the economy and giving appropriate examples of each.

(d) This proved to be quite a difficult question for many candidates but some of them were able to offer a very useful discussion, pointing out the disadvantages of an over-reliance on the production and export of agricultural products, especially in terms of dependence on weather conditions and relatively low prices in world markets. If a country could rely more on exports from other sectors, especially in relation to the secondary and tertiary sectors, this would be likely to bring in more income and help to enhance the rate of economic growth.

Question 6

(a) There were some very good answers to this part of the question with candidates explaining clearly what was meant by a market system in terms of the allocation of resources through the price mechanism, the concept of consumer sovereignty and the lack of government intervention in such a system.

(b)   This part of the question was also answered well in the majority of cases. Candidates were able to discuss the potential advantages of the market system, such as offering a greater degree of choice, more competition and a greater degree of sovereignty for consumers. They then went on to discuss the potential disadvantages of such a system, such as the various problems of market failure and the difficulties of taking into account the effect of externalities.

(c)   Many candidates demonstrated a good level of knowledge and understanding of the arguments for and against trade protection. For example, protection would encourage the development of domestic industries and prevent the existence of dumping. On the other hand, it would go against the principle of comparative advantage and possibly lead to reduced levels of efficiency in the production process. Some candidates, unfortunately, gave a one-sided answer which only dealt with the arguments in favour of trade protection and this clearly reduced the mark they were able to obtain.

Question 7

(a)   The majority of candidates were able to correctly explain the meaning of the three government policy aims of the redistribution of income, economic growth and price stability.

(b)   There were some good answers to this part of the question in terms of the consideration of taxation, especially in relation to the use of progressive taxation as a means of redistributing income. Candidates, however, generally failed to point out that there were a range of possible benefits, subsidies, grants and transfer payments that governments could allocate to various people as an additional way of redistributing income.

(c)   The majority of candidates were able to consider how a government might affect economic growth in a country. They suggested a number of possible initiatives and policies and these included an increase in the level of government spending, especially in relation to re-training and getting people back to work, the encouragement of investment, improvements in the infrastructure, the encouragement of exports and discouragement of imports, and changes in tax rates, through fiscal policy, and interest rates, through monetary policy, to stimulate the level of demand in the economy.