

# ECONOMICS

**Paper 2281/12**  
**Multiple Choice**

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

## General comments

2396 candidates took this 30 question multiple-choice examination and the mean score was 19.3 which is slightly lower than the mean score last year but almost identical to the mean score in 2014.

The questions for which most candidates selected the correct answer were 2, 5, 9, 11, 13 and 30. 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, 8, 12, and 14. These questions were answered correctly by 50% or fewer candidates. The rest of the questions gave results which were well within the levels expected.

**Comments on specific questions**

**Question 7** was answered correctly by 47% who chose option C. 23% chose option A, 8% chose option B and 22% chose option D. International trade, (option A), and foreign investment (option B) although external to the country, are not within the definition of an external cost. In option D, it is not possible to determine that an external cost exists by comparing private cost and social benefits.

**Question 8**, was answered correctly by 38% who chose option A. 32% chose option B, 4% chose option C and 26% chose option D. The question asked about a disadvantage to a trade union when arguing for an increase in wages. Option B mentioned the closure of a local training college resulting in fewer potential workers. This would decrease the supply of workers and would be an advantage to the union when seeking a wage increase.

**Question 12** was answered correctly by 45% of the candidates who chose option C. 43% chose option A, 7% chose option B and 6% chose option D. Making the most profit would not imply that the company was operating mainly in the interests of the customers (option A). The customers' preferences would not be as significant in decision making as the preference of the owners to make profits (option C).

**Question 14** was answered correctly by 44% of the candidates who chose option C. 8% chose option A, 14% chose option B and 34% chose option D. Those who chose option D probably confused average cost with total cost. The question asked about average cost.

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<p><b>Paper 2281/13</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>A</b>	16	<b>B</b>
2	<b>B</b>	17	<b>B</b>
3	<b>C</b>	18	<b>C</b>
4	<b>C</b>	19	<b>A</b>
5	<b>D</b>	20	<b>A</b>
6	<b>D</b>	21	<b>B</b>
7	<b>D</b>	22	<b>D</b>
8	<b>B</b>	23	<b>D</b>
9	<b>C</b>	24	<b>A</b>
10	<b>D</b>	25	<b>A</b>
11	<b>C</b>	26	<b>B</b>
12	<b>C</b>	27	<b>C</b>
13	<b>B</b>	28	<b>D</b>
14	<b>D</b>	29	<b>A</b>
15	<b>C</b>	30	<b>B</b>

## General comments

1478 candidates took this 30 question multiple-choice examination and the mean score was 19.8 which is slightly lower than the mean score last year of 20.7.

The questions for which most candidates selected the correct answer were 1, 2, 4, 8, 11, 21, 24, 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 only questions which were answered correctly by 40% or fewer candidates were questions 3, 14, 25 and 26.

### **Comments on specific questions**

**Question 3** was answered correctly by 30% of the candidates who chose option C. 10% chose option A, 40% chose option B and 20% chose option D. The gas supplies were known to exist so were within the production possibility boundary. Gas supplies would increase as more drilling took place. The only possible option was a movement within the boundary from S to T.

**Question 14** was answered correctly by 43% of the candidates who chose option D. 37% chose option A, 8% chose option B and 12% chose option C. Initially the firm produced 200 cars with 50 workers. This is equivalent to 4 cars each. The firm then produced 160 cars with 32 workers, equivalent to 5 cars each. Production per worker increased by 1 car each, a percentage increase of 25%. Those who chose option A were thinking of a production change, not a productivity change per worker.

**Question 25** was answered correctly by 44% of the candidates who chose option A. 18% chose option B, 8% chose option C and 29% chose option D. It is usual to assume that as a person gets older, they would be in receipt of a lower income than previously, especially if they have left work. Their savings would not increase and, thus, option D is incorrect. Retraining for those who have left work (option B) is not the most likely option of those given.

**Question 26** was answered correctly by 40% of the candidates who chose option B. 2% chose option A, 51% chose option C and 7% chose option D. It is not possible to decide about reduction in absolute amounts of carbon emissions (option C) as no absolute figures are given. The information is all in percentages.

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<p><b>Paper 2281/22</b> <b>Structured Questions</b></p>
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## Key messages

There were some excellent answers to this paper which applied relevant economics in a clear and logical way. A number of answers to the higher mark questions were, however, based on unsupported statements. For example, a number of answers to **Question 1(h)** stated that countries with high population growth have high unemployment without explaining why this might be the case. There seems to be a widespread assumption that there is a fixed number of jobs and a lack of awareness that high population growth influences not only the supply of labour but also the demand for labour. It is important that candidates explain the comments they make and provide analytical links. Some candidates in answering **Question 1(h)** did establish good links between for instance, a rise in the birth rate, a short-term increase in dependency, then an increase in the labour force and a potential rise in output.

A number of answers lacked focus. It is important that candidates answer the specific question set and concentrate on that question. Some candidates did not consider the words of **Question 5(b)** carefully enough and as a result answered a different question. In the case of **Question 7(d)** it was relevant to mention that increasing tax rates would enable a government to increase its spending. A small proportion of candidates, however, focused only on this aspect and, in effect, turned the question into asking whether the government should increase its spending.

Some candidates also answered some of the questions using just general knowledge. It is important that candidates appreciate that each question is designed to allow them to reveal their ability to apply their knowledge and understanding of economics.

In conclusion, the three key messages are that candidates should:

- use relevant economics in their answers
- concentrate on the specific question
- explain the points they make.

## General comments

Fewer candidates than in previous sessions made the mistake of answering all the optional questions. This was pleasing as it meant that most candidates were able to devote sufficient time to both the compulsory data response question and the three optional questions. There was generally good time management with candidates answering in sufficient depth, devoting more time to the higher mark questions.

Candidates revealed a greater understanding of certain areas of the syllabus than in previous sessions. This was particularly true of deflation; where most candidates in their answers to, for example, **Question 4(d)** showed an awareness of the nature, causes and consequences of deflation. As in previous sessions, however, confusion between productivity and production was widespread. A disappointing proportion of candidates wrote in their answers to **Question 1(h)** that an increase in the number of people working will increase productivity when they meant it would increase production. A relatively high proportion of candidates also defined production rather than productivity in **Question 3(b)**. Some candidates also showed some misunderstanding of the nature of production possibility curves in their answers to **Question 5(c)**.

There was a relatively even spread of the optional questions answered. **Question 7** was the most popular question followed by **Question 5**. **Question 6** was the least popular question followed by **Question 2**. There was some indication that a higher proportion of candidates than in some previous sessions, were taking into account their ability to answer all the question parts before starting their answers.

It was encouraging to see more candidates approaching the command word 'Discuss' appropriately, i.e. explaining and developing points from both sides of an argument or issue, rather than wasting their time writing summaries or conclusions for which marks are not awarded.

### Comments on specific questions

#### **Section A**

#### **Question 1**

Most candidates did answer this question first. The best answered question parts were **Question 1(c)** and **Question 1(g)**. A small number of candidates did not provide answers to **Question 1(d)** and **Question 1(e)**. In terms of the two 'discuss' questions, the performance was stronger on **Question 1(h)** than on **Question 1(f)**. In the case of both these questions, the vast majority of candidates provided a two-sided response.

- (a) Not all candidates followed the instruction to use information from the extract. Such candidates just gave a definition of the economic problem. Other candidates did identify the relevant information from the extract which illustrated the economic problem.
- (b) A few candidates did not attempt this question and some of those who did revealed a lack of understanding of the nature of the birth rate. A pleasing proportion of candidates did, however, calculate the figure accurately.
- (c) Most candidates were able to select two relevant reasons from the extract. Not all candidates went on to explain the reasons they identified. Some of those who did provided strong answers with clear links between, for instance, multinational companies setting up in the country, higher demand for labour and so higher wages. A number of candidates also mentioned that multinational companies may pay lower wages than those paid to workers in their country of origin but higher wages than in the countries they locate in.
- (d) This was a well answered question. The majority of candidates correctly interpreted the information in the extract. They provided relevant evidence to support the view that Mexico operates a mixed economic system. A small proportion of candidates confused a mixed economic system and a market economic system.
- (e) Some candidates found this a challenging question. The key to success was to recognise that as more rupiah had to be exchanged to gain a dollar, the value of the rupiah had fallen. Some of the candidates who did this, produced strong analysis of the effect on the price of imports, demand for imports and import expenditure. A number made good use of price elasticity of demand in examining the impact on import expenditure.
- (f) There was some confusion shown over the composition of the Human Development Index (HDI). The answers tended to be stronger on the shortcomings of the HDI with a relatively high proportion of candidates mentioning indicators of living standards that are omitted from the HDI.
- (g) This was a well-answered question with most candidates making good use of information from the extract. A small proportion of candidates revealed a confusion between a trade union and a trade bloc.
- (h) There was a full range of responses to this question. Some candidates made vague statements while others produced excellent answers which were based on sound economics. Some particularly good comments were made about how the impact of high population growth is influenced by the cause of the population growth and how the effect on the dependency ratio and production may differ in the short run and the long run.

## Section B

### Question 2

The strongest performance on this question was on **part (c)**. A number of candidates struggled to provide good answers to **Question 2(a)** and there was considerable variation on the performance on **Question 2(b)** and **Question 2(d)**.

- (a) Not all candidates answered the specific question set. These candidates defined price elasticity of demand but did not state what is meant by a price elasticity of demand of  $-2.5$ .
- (b) Candidates answers tended to be strongest on the importance of price elasticity of demand to a government as a producer. There was some good explanation of how price elasticity of demand may influence the effectiveness of a tax to reduce the consumption of products that generate external costs.
- (c) This was generally well-answered. Most candidates were able to provide accurate analysis in the form of a relevant, well-labelled diagram and recognition of the relationship between the two firms' jeans. Only a small proportion of candidates got the demand and supply curves round the wrong way. A rather higher proportion of candidates did not indicate the equilibrium points. It is well worth noting that one accurate and correctly labelled diagram replaces the need to write about the changing position of a curve (demand, supply or production possibility) however, a well-developed written analysis of why the change happened in that way is still required in order to achieve high marks.
- (d) The strongest answers explained all the points made, using relevant economics. Other answers were based on statements that were not explained. For example, a number of candidates stated that new firms would charge lower prices than long-established and well-known firms. They did not explain how this might be possible and made a number of vague statements.

### Question 3

The strongest performance on this question was on **Question 3(c)** and **Question 3(d)**. Greater precision was needed on **Question 3(a)** and on **Question 3(b)**.

- (a) Some candidates defined production rather than productivity. A number of those who did recognise the nature of productivity did not mention the time element.
- (b) Not all candidates took into account the word 'average' before 'fixed cost' and before 'variable cost'. As a result, they answered a different question i.e. explain the difference between total fixed cost and total variable cost. While total fixed cost remains unchanged as output increases, average fixed cost falls as output increases.
- (c) This was well-answered. Candidates showed a good awareness of the meaning and advantages of specialisation. Most candidates did bring out the relevant links between specialisation and the advantages identified. There was particularly good analysis of the impact of specialisation on international competitiveness.
- (d) There were some strong answers to the question which did focus on how protectionism may influence employment. There were, for instance, some interesting comments on the effect protectionism may have on jobs in countries which have trade restrictions imposed on them. A number of candidates, however, tried to answer a different question. They discussed how protectionism might affect consumers.

#### Question 4

The performance on the question parts was relatively consistent on this question. There were some strong overall performances.

- (a) This was well-answered with most candidates giving the appropriate macro definition.
- (b) There were some good answers to this question with a relatively high proportion of candidates recognising the difference between demand-pull inflation and cost-push inflation. There were some particularly good comments about how increases in costs of production could force up the price level if producers raise prices to maintain profit margins. Some candidates, however, revealed some confusion between the two. A number also wrote in micro terms in connection with demand-pull inflation; they referred to demand for a product rising which, of course, would not necessarily cause inflation.
- (c) There was a mixed performance on this question. Some candidates did provide relevant and clear analysis based on increasing the rate of interest, imposing direct controls on bank lending and/or reducing the money supply. A number of candidates, however, showed confusion about the role of the central bank by writing about fiscal policy. Some candidates lost focus on household borrowing and wrote just about the effect that a rise in the rate of interest would have on saving. A few candidates were confused about the relationship between changes in the rate of interest and spending and borrowing.
- (d) The strongest answers explored how an increase in saving might affect the country's macroeconomic performance and people's current and future living standards. There were some perceptive comments on how the outcome of an increase in saving will be influenced by the initial level of economic activity.

#### Question 5

Most candidates who selected this question did quite well on **parts (a) and (d)** but found **parts (b) and (c)** more challenging. In the case of **(b)** this was due to the need to focus on the specific question set. In the case of **(c)** it was due to a lack of understanding of production possibility curves. It is important that candidates gain experience in illustrating different situations on production possibility curves before the examination.

- (a) Some candidates described economic activity i.e. adults who are not part of the labour force. Other candidates did recognise that unemployment involves not only people without jobs but also seeking employment.
- (b) A number of candidates explained two benefits a firm could gain from exporting to another country, but the focus needed to be on producing in another country. Some of those candidates who recognised this gave some good answers where they did explain how, for instance, a firm could benefit from a ready supply of skilled labour in another country.
- (c) A disappointing proportion of candidates drew a demand and supply diagram rather than a production possibility curve (PPC). Some of those who did draw a PPC showed a shift in the PPC to the right rather than a movement of the production point towards the curve. A number of candidates did not provide appropriate labels to the axes. It is important that candidates appreciate that a PPC is concerned with the possible production of two types of products.
- (d) Candidates generally did well on this question although not all of the points made were established. Some candidates, for example, stated that wages would be higher in the public sector but did not explain why. A number also then went on to state that wages would be higher in the private sector. It is possible that wages could be high in both sectors, but candidates needed to explain the possible reasons why this might be the case.



### Question 6

Not all of those candidates who selected this question showed a strong understanding of costs of production, influences on demand for a factor of production and how firms behave in monopoly and perfect competition.

- (a) Some candidates got the ownership round the wrong way and a number gave answers that were too vague in the case of ownership of a public limited company.
- (b) The key to doing well on this question was to understand the nature of fixed costs and to identify and explain their significance in the aircraft making industry. Some candidates struggled to relate relevant examples of fixed costs to the aircraft industry.
- (c) Some of the answers to this question lacked width and depth. These answers concentrated on just one or two influences and did not provide analysis of the influences identified. The influence that was best analysed was the rate of interest.
- (d) A high proportion of candidates just focused on the level of competition in the two types of market structure. The stronger answers took a wider perspective and considered the influence of economies and diseconomies of scale and what a monopoly may do with any profits it may earn. There was some confusion shown about the nature of products produced in a perfectly competitive market. A relatively high proportion of candidates mistakenly stated that there is variation in the products produced in such markets. A number of answers wandered off the central point into discussing whether price will be higher or lower in a monopoly than in a perfectly competitive market.

### Question 7

This was a popular question. There were very few unanswered parts to the question and there were some good answers to **parts (b), (c) and (d)**

- (a) Not all candidates recognised that a progressive tax takes a higher proportion of the income of the rich. These candidates did not appreciate that the rich will pay more in absolute terms than in the case of proportional and regressive taxes. What is significant in determining whether a tax is progressive, proportional or regressive is the proportion of income paid in tax by different income groups.
- (b) Most candidates were able to distinguish between direct and indirect taxes, although a few confused the two. A pleasing feature of a number of answers to this question was that many candidates produced direct, focused answers.
- (c) There were some good links produced in answers to this question. A number of candidates analysed the impact on revenue from a range of taxes in a clear and logical way. They linked, for example, people gaining employment, higher income, higher spending and higher VAT revenue.
- (d) There was a range of answers to this question. Some were excellent, exploring how higher tax rates could influence economic performance and living standards. There were some particularly strong comments on the effect on inflation and possible disincentive effects. Other answers were, as previously mentioned, narrowly focused on just what the government could spend the increased tax revenue on.

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<p>Paper 2281/23 Structured Questions</p>
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## Key messages

Overall, candidates made good use of the extract material in providing answers to questions in **Section A**. Good answers were those that were able to select the right information from the extract and then use their understanding, analysis and evaluation skills to develop their answers.

Candidates do need to read questions carefully and ensure that their response matches the actual question set, rather than a more general response which may include general information which will not gain marks.

It was good to see that for most candidates the answers given to questions with the command word 'Discuss', particularly **part (d)** questions in **Section B**, showed a balanced discussion of both sides of the argument. The difference in marks here often reflected the depth in the development of points being made and candidates are encouraged to develop their argument rather than list a number of relevant factors. It is worth noting that candidates should develop points from both sides of an argument or issue in response to a 'Discuss' question, but not waste their time writing summaries or conclusions.

## General comments

Candidates should make sure that they understand what is being asked of them before they write their response. In some cases candidates are not fully focused on the specific question and give a generalised answer or provide far more information than is required.

For example, **Question 1(c)**, with the command word 'draw', only required a diagram to be drawn and no explanation to be given, yet most candidates spent time giving a written response. (*This is quite different to a similar question with the command word 'Analyse'. In that instance, one accurate and correctly labelled diagram replaces the need to describe a change in position (demand, supply or production possibility) however a well-developed written analysis of why the change happened in that way is then required in order to achieve high marks.*) **Question 1(g)** only required candidates to interpret the data on birth rates, death rates and net migration. However, quite a few candidates attempted to explain why it was that birth rates might be higher than death rates in Mauritania.

In **Question 2(c)** the question asked candidates to analyse how wage increases might cause unemployment, but some candidates widened the scope to discuss how wage increases could result in higher aggregate demand and reduce unemployment which gained no credit. Equally, with **Question 3(b)** candidates were asked to analyse ways that the government could discourage smoking other than imposing indirect taxes. However, many candidates did make reference to indirect taxes, especially the use of tariffs. It is important to note that questions with the command word 'Analyse', particularly **part (c)** questions in **section B**, do not require a two-sided argument and candidates should only analyse the relationship stated in the question.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) The majority of candidates were able to identify a best alternative foregone such as exporting other products or processing the fish first before exporting. The most common answer was that the fish were consumed by Mauritania rather than exported.

- (b) A significant number of candidates used incorrect data or used incorrect workings. The growth was from US\$8 billion to US\$8.5 billion, i.e. US\$ 0.5billion making a growth rate of 6.25%  $[0.5 / 8 \cdot 100]$ . Common errors on using correct data were 5.88% or failing to put percentage sign despite making the right calculation. Some candidates used the population data or attempted to calculate the growth per person by using both GDP and population data.
- (c) The question only required candidates to draw a demand and supply diagram. Most candidates also wrote an explanation, which even if correct, gained no marks. The demand and supply diagram should simply have shown a shift in the supply curve to the left as the extract stated that fish stocks would decline significantly in the future. Quite a few candidates showed a shift in the supply curve to the right or also showed a shift in demand curve although there was nothing in the extract to suggest that demand would change.
- (d) The extract referred to trade in goods balance and current transfers. Therefore, the two parts of the country's current account balance not identified were trade in services and the income balance. Overall, many candidates were unable to name either of these two and instead either put answers such as imports and exports or did not give an answer at all.
- (e) Most candidates were able to identify that average costs were lower for the EU fishing industry because they had more skilled workers that were more productive or more efficient. Fewer candidates identified that lower average costs also came from the fact that the EU fishing boats were larger and would gain from economies of scale. Quite a few answers made reference to EU boats catching highly valued squid; this increases revenue rather than reducing costs.
- (f) Factors affecting poverty were well understood by most candidates. Answers to why poverty would fall were generally accurate. A very common answer was that increased income from having a job enabled workers to buy more basic necessities. Many candidates also mentioned that extra tax revenue enable governments to provide additional funding for services such as education and health. The answers to why a decrease in unemployment might not reduce poverty were less well done. The most common correct response was that the income received might be too low to take the workers out of poverty. Some good answers explained that low income earners would still be in relative poverty even if no longer in absolute poverty.
- (g) Nearly all answers identified that the population had increased. The majority of candidates were able to explain that this was due to the birth rate being higher than the death rate, with some candidates correctly calculating that the difference was 23.48 per 1000. Most candidates incorrectly interpreted that a negative net migration rate meant that there was more people entering the country than leaving. This meant that few candidates stated that overall the population was growing by 22.63 per 1000 but calculated that it was 24.33 per 1000.
- (h) Overall, the answers to this question were limited in development and in many cases showed a lack of understanding of the word conserve. Good answers explained the benefits to Mauritania of exporting fish stocks and why this was not sustainable in the long run. This led to a discussion on why conservation was needed, e.g. a short-run v long-run scenario about growth. Many candidates were unable to explain what conservation meant and what the long-term benefits would be. In some cases, the argument for conservation was really the argument for continuing to export large quantities of fish. In quite a few cases candidates' interpreted conserve as meaning freezing fish that had already been caught and wrote about the dangers of keeping them frozen for too long.

## Question 2

- (a) Nearly all candidates understood that a trade union was an organisation that represented workers or protected workers' rights.
- (b) Some candidates gave very clear answers on what influenced the strength of a trade union. The common responses related to the size of the union in relation to the total workforce, whether members were skilled or unskilled, the state of the economy, the profitability of the firm and the support given by the government. Quite a few candidates misinterpreted the question and instead wrote about how unions in general could influence pay and conditions of their members, e.g. it was more about the functions of trade unions and therefore they did not answer the question.

- (c) Candidates generally were able to analyse at least one way that wage increases might lead to unemployment. The simplest answers stated that wage increases meant that firms could no longer afford to employ as many workers and therefore this led to reducing costs by making workers redundant. This was more likely to be the unskilled workers who added less value to output. Fuller answers gave more detail, e.g. that wage increases led to higher costs of production and firms might need to raise prices which could lead to lower demand and therefore the need to reduce the number of workers. A few answers stated that firms might replace workers with capital or relocate to areas where wages were lower to reduce their costs, both leading to higher unemployment.
- (d) The majority of answers showed an understanding that devaluation of a currency resulted in export prices falling and import prices rising. Common answers discussed how cheaper exports would result in an increase in exports leading to economic growth. Similarly, dearer imports would lead to lower imports and increased sales by home producers. Overall this meant an improvement in the balance of payments on current account. Good answers gave more depth to their analysis especially in respect as to why a country should not devalue their currency, e.g. potential retaliation by other countries and that if a country was dependent on imported raw materials this could lead to imported inflation which could make exports less competitive. A few also wrote about demand-pull inflation if exports rose too quickly.

### Question 3

- (a) This was generally well answered with most candidates identifying two external costs such as air pollution, litter and damage to the health of non-smokers. Damage to the health of smokers which some candidates put is a private cost.
- (b) There was generally a good understanding of both inelastic and perfectly inelastic demand. Examples given were not always accurate, especially with perfectly inelastic demand. Where diagrams were drawn these were usually accurate although in some cases the labelling was incomplete.
- (c) Some candidates did not understand that a tariff is an indirect tax and suggested this as a way of reducing smoking. This meant it was an incorrect answer. The majority of answers were well developed and analysed how governments could use information and health campaigns to raise awareness and also apply bans on smoking in public or apply age limits. In some cases, specific examples of action taken in the candidate's country were mentioned which showed good understanding of the issues. Some answers were unrealistic in suggesting that governments could completely ban the sale of cigarettes or apply a limit on the total number of cigarettes that could be smoked by an individual.
- (d) Answers showed a good overall understanding of what was a merger. Most candidates were able to discuss how a merger in the same industry could result in economies of scale and that if the merger produced too large a firm this could result in diseconomies of scale. Relevant examples were often given. Candidates were also able to explain how prices would be dependent on the level of competition remaining within the industry after the merger and that a monopoly might raise prices even if costs had not risen. Some very good answers also stated that firms might not put up prices because of fear of competition from overseas companies or the government intervening to prevent price rises. A few candidates applied the merger specifically to the cigarette industry linking to the inelastic nature of the product. There was no need to do so as the stimulus material for the question is only there to set the context for candidates.

### Question 4

- (a) A mixed economy was understood by nearly all candidates.
- (b) This was not well answered since few candidates linked profit maximisation to lowering costs through economies of scale as a firm grew in size or that increased revenue from growth would also be a factor. Candidates who had a good understanding were able to explain how over time, as firms got bigger, their customer base got larger which meant that prices were not being reduced to attract demand, enabling them to increase their profit margin.
- (c) The Stock Exchange is still not understood by many candidates. Most knew that it is a place where stocks and shares are sold but were unable to analyse how it could benefit an economy. Quite a few wrote about currency markets or assumed that stock meant the sale of goods. Where candidates

understood the role of the Stock Exchange, answers often made reference to the ability of firms to raise capital funding to grow in size, leading to economic growth and higher employment. A few mentioned that it was a means of investing and gaining income for individuals.

- (d) The advantages and disadvantages of firms were discussed well by many candidates. Answers were often very full and covered both aspects. Candidates understood that the main advantages related to being easy to set up, provide a specialised service and ability to respond quickly to market changes. Equally, candidates were able to discuss the disadvantages of raising finance, lacking economies of scale and offering a narrow range of goods or services when compared to larger firms which left them at risk.

#### Question 5

- (a) Most answers stated that people spent more on food as their income went up but quite a few did not state that the proportion of income was likely to fall. Weaker answers tended to make a general comment on changes in patterns of expenditure as income rose without mentioning food.
- (b) Most answers showed some understanding of the difference between saving and borrowing. Answers were often better in explaining what borrowing was, e.g. that it about spending more than income and paying back more in the future often with added interest. Saving was explained in terms of not spending all your income/putting money in the bank but without a development of why this was done, e.g. to have the funds for a big purchase or to earn interest.
- (c) The majority of candidates understood that the HDI of a country was based upon GDP per head, health and education. Often candidates did not provide sufficient detail. For example, they did not explain what would cause these indicators to rise. Those that did stated, for example, that increased spending on healthcare would lead to an increase in life expectancy which is one of the three ways in which HDI could increase.
- (d) The answers to this question showed a good understanding of the key issues. Candidates were able to discuss the advantages of earning higher income by working abroad, some of which would be sent home. This was particularly the case when their home country had high unemployment and gave such workers an opportunity to learn skills they might not get in their home country. Many candidates pointed out that this saved the government having to train workers or pay unemployment benefits. Answers on why a government might not encourage working abroad included that this might lead to a shortage of skilled workers and a falling working population if people did not return. Weaker answers tended to only raise one or two features rather than making incorrect points.

#### Question 6

- (a) There were a range of responses from simply stating that it was the cost of borrowing or the reward for saving to much longer answers about why interest was paid or charged. A few confused it with inflation.
- (b) The fact that banks would have concerns about the ability of poor people to repay loans was a very common response. Other common responses included that poor people might not have bank accounts and have no savings or collateral to offer as security for the loan. Some candidates also made the point that loans to poor people were likely to be small and even with high interest rates were not profitable for commercial banks.
- (c) This was not done well by the majority of candidates. A common answer was based upon families increasing their spending on education, e.g. paying fees for their children to attend school rather than the government spending more on free education. The argument was that this meant a greater demand for teachers and resources and therefore led to demand-pull inflation. In the long-term demand would fall as children completed their education. Thus the approach taken was mainly a micro-economic one rather than a macro-economic one which made it difficult to differentiate between the short run and long run. Those that did take a macro approach were able to explain that increased spending would lead to higher aggregate demand which could lead to demand-pull inflation. In the long run higher spending on education would lead to an increase in skilled workers which would raise productivity and would reduce cost-push inflation.

- (d) Candidates did much better on this question with most being able to discuss how increased consumer expenditure could lead to higher output, greater employment and economic growth which benefited an economy. A few also mentioned that the government would earn higher tax revenues from indirect taxes and would be able to spend this on education, health or infrastructure for the benefit of the population. Most candidates were able to discuss how increased consumer expenditure could lead to demand-pull inflation and higher imports.

#### Question 7

- (a) Most answers correctly defined depreciation as a fall in value of a currency but not all put it in the context of a floating exchange rate or compared with another currency.
- (b) Most candidates were able to explain two causes of a high economic growth rate. Demand side causes such as expansionary fiscal and monetary policies, e.g. reduction in taxes and interest rates were popular. On the supply side, an increase in the quantity or quality of resources was commonly explained.
- (c) This was not well done by many candidates. The syllabus refers to both the level and pattern of employment and many candidates wrote about how the level of employment or unemployment changed as a country developed. This was not the question asked and candidates should have analysed how the number or proportion of workers engaged in primary, secondary and tertiary sectors changes as a country becomes more developed.
- (d) A significant proportion of the answers showed that candidates had a good understanding of how tariffs affected the demand for imports. Most were also able to discuss how a drop in imports would lead to higher demand for home produced goods and services and lead to higher employment/less unemployment. Equally, candidates were generally able to discuss that higher import prices could lead to import inflation if domestic firms relied upon imported raw materials and that it might also lead to less variety for consumers. A few candidates placed too much emphasis on an increase in tariffs resulting in higher tax revenue for the government and in explaining how that might be spent to the benefit of the country. Some very good answers also discussed the possibility of retaliation by other countries having an impact on exports of the home country.