Principal Examiner Feedback

January 2013

International GCSE Economics (4EC0)
Paper 01

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# International GCSE Economics (4EC0) January 2013

## General comments

Although candidates and teachers are becoming more familiar with the specification, each examination brings to light some areas which need some attention. This report tries to identify some of these topics. Perhaps the most surprising problem areas concerned 3av and 3bii in which too many candidates insisted that "consumers invest" rather than "firms invest" and in 4av where they could not identify "invisible exports" as the correct multiple choice response.

Examination technique could be improved by the following:

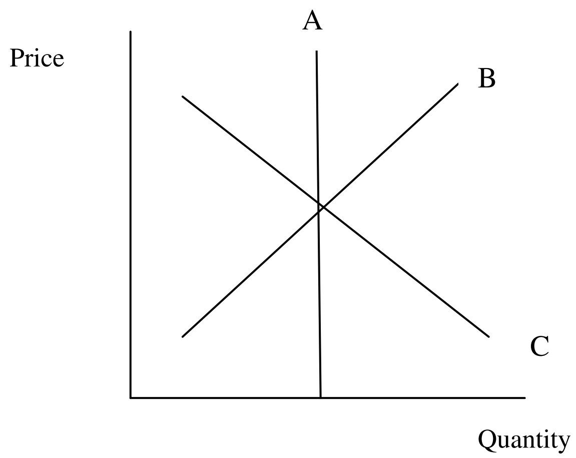
- all questions should be attempted
- instructions in the questions should be read and followed carefully eg "refer to the data, "show workings"
- explanations should be stated logically
- higher scoring questions require two sided arguments with points identified and development with some evaluation.

## Specific comments

### Question 1

1(a)(i) Figure 1a shows three "curves" and candidates had to choose the curve which represents a typical short run supply curve for onions. Two responses were correct:
Curve A (1 mark): as an agricultural product onions take time to grow (a season) so as price rises supply is not responsive to change (2 marks).
Curve B was only accepted if the explanation referred to the possibility of stocks of onions being available which would mean the supply could be increased in the short run as price rises.
Many candidates identified the correct curve but failed to give a relevant explanation, too many left the explanation blank.

Figure 1a

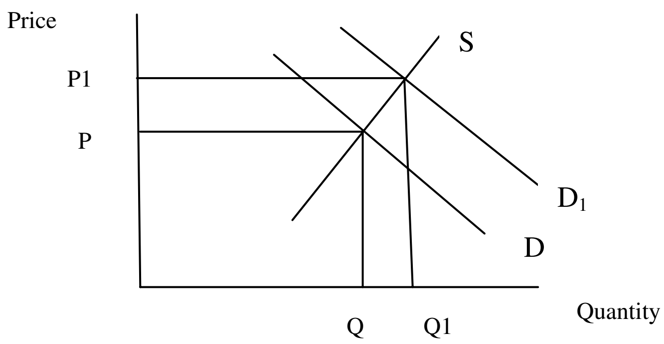


In (a)(ii) The majority of candidates understood that the fungus, which ruined the onion crop, would shift the supply curve to the left.
Elasticity still proves to be a difficult concept for candidates. Definitions (a)(iii) are sometimes too vague and refer the relationship between price and demand eg as price changes the quantity demand changes - not the responsiveness of quantity demanded to a change in price. Reasons for the price elasticity of the demand for onions being inelastic (a)(iv) were sometimes confused with factors affecting elasticity of supply. A good, succinct response was:

*"Onions are essential in Indian cookery so as price rises the amount demanded will only change by an insignificant amount."*

Pumpkins, as the stem of the question indicated, can be regarded as substitutes for onions (a)(v). The corresponding diagram, Figure 1b, should have shown a shift to the right of the demand curve, resulting in an increase in price for pumpkins.

Figure 1b




(b) This question required candidates not only to look at both the agricultural sector and tertiary sector in terms of supply determining wages but also consider other factors determining wages in the two sectors. A good response is given below.

*"Agricultural workers may earn lower wages than those in the tertiary sectors. Agricultural workers are not highly educated. Their jobs may not need any training to do the work on farms. Since they require no skills the supply of agricultural workers is greater than office workers. Those working in the tertiary sector may need high levels of education. Not everyone has the aptitude or intelligence to work in the tertiary sector, or in some countries, the money to be trained well enough, to work in tertiary sectors. Demand is also a factor. There is also high demand for workers in the tertiary sectors. In some countries agricultural workers may be replaced with machines, thus lowering the demand for them. The availability of foreign agricultural workers can also contribute to the lower wages in agriculture.*
*Overall I think supply is the most important factor with demand being less important. However, there are other factors. The government can increase the wages of the agricultural workers by setting a national minimum wage which would increase their wages and reduce the gap between agricultural sector and those in the tertiary sector."*

(c)(i) Most candidates could interpret the data shown in Figure 1c and identified that the death rate was greater in Bulgaria in 2010. Bolivia was the subject of (c)(ii) but some candidates misread the question and gave an explanation of the changes in the population of Bulgaria rather than Bolivia. The response should have included the effect of migration on the changes.

*"The population in Bolivia would have increased due to birth rate (25 per 1000) being greater than death rate (7 per 1000). The difference in the birth rate and death rate would not be outweighed by the negative migration rate which is very small (1 per 1000)."*

(c)(iii) Both countries would experience problems if the rates remained the same. Many responses were one sided as candidates only considered one country so could only score a maximum of three marks.

*"The population of Bulgaria will fall as death rate is greater than birth rate. This will lead to a fall in the workforce. Firms will face problems recruiting workers so wages will increase and production may fall. This could lead to lower economic growth in the country.*
*Bolivia, because of its high birth rate, will experience an increase in its population. Although the government will, initially, have to increase its expenditure on children, when the children grow up and enter the workforce they will pay taxes and government revenue will increase. The increase in the labour supply will lead to economic growth. If the population continues to grow at a high rate then the country could face the problem of overpopulation and find that it doesn't have enough resources for the growing population.*
*Because the problems are different in the two countries it is difficult to decide which one has the greater problems. However, the problems can be overcome if the government and firms work together to ensure that the best use is made of all the available resources."*

Question 2

(a)(i) The majority of candidates correctly identified the firm as part of the secondary sector.

(a)(ii)(iii) Fixed and variable costs should be easily recognised when costs are shown with corresponding levels of output as in table 2a. Fixed costs do not vary with output whereas variable costs do vary as output goes up and down.

(a)(iv) The correct formula for average cost is Total Cost/number of units produced. In this question it was 1500/2000 = 0.75BRL. The most common mistakes included:

- dividing the number of units by the total cost
- dividing fixed costs by variable costs
- dividing variable costs by fixed costs.

(a)(v) There are two correct formulae for profit:

1.(Unit price - Unit cost) x quantity. (1.5BRL - 1.0BRL) x 1000 = 500BRL
2.Total Revenue - Total Costs. 1500BRL - 1000BRL = 500BRL

The most common mistakes included
- calculating Total Revenue only
- subtracting average cost from Total Revenue.

(b)(i) Candidates had few problems defining a multinational.

(b)(ii) Many responses were surprisingly poor. Often candidates identified that economies of scale occurred when output increases but then failed to relate it to falling average costs.

(b)(iii) Most candidates are familiar with the advantages and disadvantages of economies of scale. However few could develop their responses.

*"Economies of scale can result in a large firm enjoying lower long run average costs which lead to higher profits. The economies include marketing economies where firms enjoy discounts from bulk purchases. They can benefit from management economies where they hire specialist workers and managers to work more efficiently and be more productive. However firms can face difficulties through an increase in their size. They may encounter management diseconomies of scale making the business hard to control, co-ordinate and make decisions. This leads to the firm becoming inefficient. It is particularly difficult to motivate workers as they feel alienated in a large firm. Average costs will rise and profits will fall. Firms experiencing diseconomies of scale must identify the problems and try to overcome them e.g. motivating the workers and improving the management structure so that the advantages of large scale production still exist but the disadvantages are eliminated."*

(c)(i) There are numerous characteristics to choose from when considering oligopoly so most candidates managed to score at least 1 mark.

(c)(ii) The benefits and disadvantages of oligopolies were usually identified but often not developed.

*"Consumers often benefit from an oligopoly. Prices in an oligopoly usually remain constant. There is choice and the products are usually of a good quality as the firms use non-price competition rather than price competition as they try to avoid price wars.*
*Due to fierce non-price competition a lot is spent on advertising which leads to increased costs for the firms so prices will rise to protect profit margins. Oligopolies may form cartels, they collude, which enables them to enjoy monopolistic benefits at the expense of the consumer, e.g. all firms may increase prices to the same higher price.*
*Overall oligopolies benefit consumers as long as they are carefully regulated by the government so that the disadvantages of cartels are avoided. In the UK cartels are illegal to protect the consumers."*

Question 3

(a)(i) Candidates should be able to interpret data. In this case Figure 3a shows changes in the European central Bank's interest rate over a number of months. A brief description of the figures should refer to the data and give the basic trend.

*"In November 2008 the interest rate was 3.2%. It began to fall until in May 2009 it was 1% and remained at this rate until March 2011."*

(a)(iii) Negative economic growth ( (ii) recession), had many problems. The two most popular identified by candidates were falling "*standard of living*" and "*rising unemployment*".

(a)(iv) Whereas most candidates knew that interest rates are part of monetary policy fewer candidates could in (a)(v) explain how reducing interest rates can increase consumer demand. Too many insisted that consumers would undertake investment if interest rates fell. Consumers save, firms invest. Candidates must make a clear distinction between the terms.

*"As interest rates fall consumers will be able to borrow money more cheaply. They can use the loans to buy goods and services. At the same time consumers will find that they earn lower rates on their savings so may decide to save less or even withdraw their savings and buy more goods and services."*

(b)(i) Once again, candidates needed to refer to the data and describe the trend in inflation. Too many, whilst making detailed reference to every change in inflation, forgot to say that inflation had risen from January 2010 to February 2011.

*"In January 2010 the inflation rate was 1%. The trend in inflation was upwards until eventually in February 2011 it had risen to 2.5%."*

(b)(ii) Whilst candidates understand the link between interest rates and economic growth it is the depth and breadth of their knowledge which determines how well they can respond to this question. Once again a common mistake was to refer to consumers investing instead of firms investing.

*"There are many advantages to reducing interest rates to stimulate economic growth i.e. loose monetary policy. Spending rather than saving is encouraged, so firms and individuals are likely to borrow more to fund spending. Firms will take out cheap loans to invest in production. This in turn may reduce unemployment and increase the standard of living of the previously unemployed workers. These workers will spend their wages and increase aggregate demand. The exchange rate will go down as hot money flows out of the economy and this will stimulate demand for exports. However all the extra demand in the economy might cause demand pull inflation. Price would rise, sometimes at a rapid rate. The extra income might be spent on imports, so the current account balance might worsen.*

*People who rely heavily on interest from savings e.g. the elderly, would face a decreased quality of life.*
*Therefore it would not always be beneficial, as the costs might outweigh the benefits for the elderly and inflation occurs. It is, however, an incredibly useful tool to get out of a recession, but not for long term use nor to be used alone but with other government policies."*

(c)(i) The negative effects on the environment caused by economic growth are many. The two most popular responses were

*"As firms produce more there will be more waste materials. These can pollute rivers and destroy the wildlife. As the standard of living rises more people can afford cars and this leads to congestion on the roads."*

(c)(ii) The phrase "government regulation" caused problems with some candidates. Too many made no mention of laws and related fines or pollution permits. Most understood that taxes could reduce environmental costs but did not explain it clearly, omitting the link between reduced demand and reduced production. A good response is shown below.

*"Imposing indirect taxes increases price and reduces demand. A fall in demand leads to a fall in production. As the firms produce less so they will produce fewer environmental costs like pollution. Economic growth can lead to more cars on the roads but if petrol were taxed more heavily the demand would fall and so would the related externalities of congestion and air pollution. On the other hand, if government regulates the level pollution a firm makes, firms will try to generate lower external costs because they may be penalised with fines and cancellation of licences if they break the laws.*
*It will also be difficult for the government to measure the external cost and set a monetary value as a fine. When using government regulation, it would be impossible or expensive to monitor all firms, but with taxes everyone will have to pay it if they buy the taxed product whereas a firm exceeding its output quota or pollution permit may be able evade the fines. So taxation would be more successful as everyone has to pay tax."*

Question 4

(a)(i)(ii) Candidates were, on the whole, well prepared for the topic of exchange rates and had few problems understanding the data in Figure 4a and responding with the correct answers.

(a)(iii) Unfortunately too many candidates gave the correct answers but omitted to show any workings, which were specifically asked for in this question.

(a)(iv) Few problems.

(a)(v) A surprisingly large number of candidates did not identify the information given in this question as specifying an *"invisible export".*

(a)(vi) Candidates need to give responses which explain their answers. The following is a brief explanation which clearly explains how an increase in interest rates affects the exchange rate for a country's currency.

*"An increase in the rate of interest will attract foreign savers to save in the country's banks. As a result they will increase the demand for the host country's currency and this will lead to an increase in the exchange rate of its currency."*

(b)(i) The balance of trade deficit should cause no problems but it did as too many candidates omitted reference to *"goods"* or *"visibles"* in their responses.

(b)(ii) The majority of candidates understood that an increase in the price of oil would worsen the balance of trade for non-oil producing countries but failed to develop their response.

*"Oil has an inelastic demand as it is a necessity in many production processes and also in transport. As a result, a non-oil producing country must import oil from a foreign country regardless of an increase in price; the demand for oil is therefore inelastic. An increase in the price of oil would lead to a greater outflow of money from the country. This will lead to a worsening of the balance of trade. At the same time, since the price elasticity of demand of oil is inelastic, this would increase the cost of production of the domestic producers leading to cost push inflation which would increase the prices of exports thus leading to a fall in demand for exports. This also leads to a worsening of the balance of trade. However, if a substitute for oil is found, then oil will have a more elastic demand. As a result, a rise in oil prices will not lead to a worsening of the balance of trade, and if new resources are discovered in the country which might act as a substitute for oil, then a rise in oil prices will not worsen the balance of trade."*

(c)(i)(ii)(iii) Candidates found identifying a financial incentive (i) easier than a non-financial incentive (ii). Most gave "reducing unemployment" as the reason why the Nigerian government gives incentives to foreign firms.

(c)(iv) Candidates are usually well prepared for questions on multinationals and this proved to be no exception. However too many simply listed the factors affecting location of industry without relating them to the question. A good response is shown below.

*"Firms like Nestle benefit from incentives from governments because they reduce production and set up costs for the firm. Governments could also reduce the red tape for the multinationals and this would result in setting up in a country seem much easier.*
*However multinationals like Nestle may be able to set up in a country even if they are not offered incentives because they are usually very large and profitable. They can fund the investment completely by themselves and not need any help from the government of the host nation. They may be attracted to the country due to its market, raw materials and labour supply.*

*I conclude that although government help would be beneficial for firms setting up in a country they might be able to overlook it in order to access a new market, sell their products, and increase their profits which is main aim of firms when deciding to set up in a country."*

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