Examiners' Report/
Principal Examiner Feedback

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Pearson Edexcel
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(4EC0) Paper 01

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General comments

This qualification consists of one examination here the maximum mark on the paper is 120.

Some candidates made careless mistakes which cost them some marks. In general these mistakes involved responses where candidates misinterpreted data or misread the question.

Question 1

(a)(i)(ii) This question required simple data skills.

(a)(iii)(iv) Diagrams don't usually pose many problems yet these diagrams saw too many candidates shifting the wrong curves, shifting both curves or shifting the correct curve the wrong way. More time needs to be spent constructing demand and supply diagrams and presenting the students with different scenarios which cause the curves to shift.

(a)(v) The first of several definitions. A common mistake occurred when candidates gave the basic relationship between price and supply. i.e. price increases/decreases supply increases/decreases, NOT the relationship between the change in price and the responsiveness of supply.

(a)(vi) In both Figure 1b and 1c the supply curve is vertical so there should have been no doubt that it is inelastic.

(a)(vii) Most candidates grasped that cocoa beans are agricultural and chocolate if manufactures in factories.

An example of a good response is typed out below:

"It could be argued that this statement is correct. This is because chocolate is not an agricultural good like cocoa beans are, therefore production speed can be increased with shorter notice as it does not take time to grow chocolate. As well as this chocolate is not as perishable as cocoa beans, therefore it can be stored and this extra stock can be used to increase supply when needed, making the supply of chocolate more price elastic.

On the other hand, chocolate is made of cocoa beans so if there is a limited supply of cocoa beans, the supply of chocolate is also impacted. As well as this, the supply of chocolate cannot be increased any easier than the supply of cocoa beans if the capacity of the factory producing chocolate is at full capacity unless a new factory is built which would take time.

Overall, it is easier to increase the supply of chocolate as often it does not take as much time provided that the supply of other ingredients is there. However with time, both the supply of chocolate and cocoa beans can be increased."

(b)(i) Another definition. A common mistake was usually in the form of stating *price* rather than *income* in the equation or definition.

(b)(ii)(iii) The data showed that average incomes fell by 3% yet demand for chocolate increased by +9%. No reference to the data cost candidates up to two marks.

(c)(i)(ii) The definition "breaking down a job into simple tasks each undertaken by a separate worker" was awarded marks in (i) so there was no need for candidates to repeat it in (ii).

Division of labour may benefit firms, as labour becomes more expert due to repetition leading to fewer mistakes so less waste. Moreover labour which is specialised in certain task will use tools and machines more efficiently. However, division of labour may harm firms, because each stage in production depends on the previous stages so, if one stage stopped, the whole process will be affected will stop. On the other hand workers will be more skillful due to repetition. As workers become more skillful, they can find jobs easily and get high wages. However due to repetition workers become bored and hence de-motivated. However firms can avoid boredom of workers by giving them financial incentives like piece work or non-financial incentives like job rotation. Firms may benefit from division of labour, as their profits increase because they become more efficient, while workers may be immobile if over specialisation takes place.

Question 2

(a)(i) Most candidates identified Xiaon Clothing as being owned by shareholders.

(a)(ii)(iii) Though candidates were able to work through the simple mathematical operations, many did not use the correct formula.
Total costs is calculated by average cost x output and profit by selling price x output.

(b)(i) The definition required for (i) needed to include "reference to Table 2a" e.g.
Economies of scale are the benefits brought to a firm because of increased production and expansion of a firm. Xiaon Clothing enjoys economies of scale because as it increases output from 10000 in 2011 to 20000 in 2012, the average cost per shirt per week decreases from $50 to $40.

(b)(ii) Most candidates identified two economies of scale but explanation/development was often lacking.

(b)(iii) The most popular reasons identified were lack of finance, demand and ambition of the entrepreneur.

(b)(iv) The most common mistake occurred when candidates did not answer the question. Instead they identified methods a government can use to encourage small firms in an economy.

A correct response is:
"Governments can encourage new small firms in the economy by giving them subsidies such as financial incentives, tax breaks and grants. This will increase the competition in the market and hence the economy will benefit. As competition will force firms to produce more efficiently with high quality products with low prices. Moreover, new firms will create job opportunities and hence decrease unemployment. Furthermore, increasing the local production may increase exports and decrease imports and hence improve the current account.
However, spending on new small firms may have an opportunity cost to the government as spending on education and/or health care may fall. In addition, promoting competition may lead to fast economic growth that may lead to environmental damage and inflation in the future.
Although, encouraging new small firms may lead to problems in the future, the benefits outweigh the problems. In addition, the government may solve problems by imposing environmental taxes to prevent environmental damage."

(c)(i)(ii)(iii) When candidates cannot define externalities then it follows that they will have difficulty answering a question about the benefits of tourism and the negative externalities associated with it and give a method the government can use to reduce negative externalities.
Tourism creates jobs in the Seychelles. When tourists arrive they need a tourist guide. Local businesses e.g. hotels, restaurants , shops will employ more staff.. This reduces unemployment in Seychelles.
More tourists mean more demand for air travel and cars. This contributes to the amount of greenhouse gases into the atmosphere. This causes global warming and adds noise pollution.
However, the benefits of tourism can outweigh its negative externalities with the aid of government regulation to protect the environment like fines being imposed on vehicles that emit excess carbon dioxide into the atmosphere.

Question 3

(a)(i)(ii)(iii) The tax which raised the most revenue for the Canadian Government was easily identifiable from the pie chart. However if candidates don't know the difference between a direct tax and an indirect tax then it proved impossible for them to gain marks in (ii) and (iii). the most common mistake in (iii) came when they thought corporation tax was an indirect tax.

(b)(i)(ii) Most candidates correctly identified the definition for "budget deficit" and avoided the usual mistake of "Exports are greater than imports". In (ii) the majority identified that the data showed an improvement even though it was still in deficit.

(b)(iii)(iv) No problems identifying 2009 as the year of recession with negative economic growth. However, candidates do not realise that it is negative economic growth which indicates a fall in GDP and will bring about unemployment not falling economic growth where economic growth is still positive.

Economic growth is a catalyst for changes in employment. In 2008 economic growth was positive (0.2%) and unemployment 6%. In 2009 growth was negative at -2.5% while unemployment rose to 8.2%. As economic growth becomes negative unemployment increases.

(b)(v) Good understanding of process: decreasing direct taxation →more disposable income→ increased spending → increased production → increased employment. On the other hand few gave the other side of the argument: decreasing direct taxation →more disposable income→ increased spending on imports or more saving →no increase in employment.

The most common mistake occurred when candidates reasoned incorrectly that the costs of the firms would fall so they would produce more and increase employment. Costs will only fall if indirect taxes fall. If direct taxes fall then less tax will be taken from profits so firms may decide to invest more and this might increase employment.

Direct taxation is imposed directly on the profits and income earned. If direct tax is reduced, this means there is more left as a reward; increased disposable income. People may spend more on goods and services. This will increase demand for goods and therefore the demand for labour will rise. This will increase employment in an economy and will help a nation recover from recession. However if demand for imports is increased, this will not lower the level of unemployment. Also, if people start to save rather than spend, this too will not benefit the economy whilst in recession, as demand for goods and services will not increase. Direct taxation may reduce unemployment but it also has many drawbacks. Indirect taxation will be more successful in reducing unemployment. This is because prices will be cut. So these discounts appear as a great deal, therefore demand will increase.

(c)(i)(ii) The specification states in Part C/Section 1/Unemployment: Types - cyclical, structural, frictional, seasonal and voluntary. The attempts at the definition showed that candidates did not seem to understand structural unemployment but were not very confident on other types either.
Structural unemployment occurs due the fall in demand in an industry which leads to closure of firms. e.g. the jute industry in Bangladesh fell into decline as people demanded substitute products.

(c)(ii) Due to the problems of defining structural unemployment candidates had to rely on the correct identification of a supply side policy which would reduce it. The most successful supply side policy is education and training which many identified.
One supply side policy is improving labour flexibility. If workers are more flexible, due to increased education and training, they are likely to be able to move more easily from one job to another. This means that if a whole industry has declined, they may find it easier to acquire jobs in another industry which is booming. Therefore structural unemployment would be reduced.
However, if a region has declined or workers have been replaced by machines and demand for their skills they have acquired through this training and education are not needed, workers will find it difficult to find jobs. Also in a recession for example, demand may not be there so although workers may have the right skills unemployment may not be reduced.
Overall, structural unemployment can be reduced by increasing labour flexibility as they are more employable, however this method cannot be used alone if there is a lack of demand in the economy. Therefore it depends on the state of the economy.

Question 4

(a)(i)(ii) Candidates needed to read the information carefully and make notes.
March 2012 = ban = ZERO imports of beef
After March 2012 = quota = 48200 tonnes of beef imported
Therefore imports of beef increased.

(a)(iii) A tariff = tax so it is supply not demand which shifts. Supply shift to the left and price rises and quantity falls.

(a)(iv) Quota = limited supply so supply becomes inelastic and shifts to the left. price rises.

(a)(v) Tariffs are a tax so the response "tax the imports" is not acceptable. The most popular correct responses were ban/embargo, red tape/bureaucracy, subsidies to domestic producers.

(a)(vi) Advantages and disadvantages of protection are well taught but centres must remind candidates to read the question and answer the question set. In this case the question referred to farming so some reference to farming was required in the answer if higher levels were to be achieved.

Protection could lead to being self-sufficient in the production of food which means global food price shocks don't affect your own consumers. Safety standards can be checked thoroughly ensuring hygiene. However this could promote inefficiency if domestic farmers no longer feel the need to invest in better production methods, increasing costs for consumers. Consumers also face less choice and a lower standard of living if domestic farmers are inefficient.

Protection should reduce unemployment among domestic farmers as they are the only ones allowed to sell in the domestic market. One country's farmers may not be able to produce all the desired goods so shortages may arise.

Much of the competition on food prices is from developing countries so stopping them from selling their goods abroad deprives them from much needed income.

If the government protects by subsidies to domestic farmers there is opportunity cost as the money could have been spent on better things such as education.

Overall I think it's a bad idea because it promotes inefficiency, causes higher prices and less choice while also pushing poor people in developing economies into more poverty which might necessitate an increase in the aid budget. Also farming is not an infant industry and should not need help. Other countries could retaliate and ban the imports of goods from the original country, costing people jobs.

(b)(i)(ii)(iii) Many candidates did not distinguish or did not know the difference between, financial and non-financial incentives.

1. Government can give grants to foreign car manufacturers to encourage them to set up in the country. A grant will help the manufacturers and reduce costs of setting up in the country as it doesn't have to be paid back.

2. Government can give the foreign car manufacturers non-financial incentives to attract them to set up in the economy. The government can make deregulate by reducing red tape and any unnecessary paper work needed for setting up a business to make it easy for the manufacturers to enter the market.

The multiple choice question posed few problems. Many candidates misread part (iii) and gave good responses on the advantages and disadvantages of multinationals. The question was referring to the end of incentives.

The end of incentives to foreign car manufacturers would lead to a decrease in government expenditure . This money could be spent elsewhere in the economy on education, health care or even improving the country's own car industry. Foreign car manufacturers who were thinking of moving to the country may now consider alternatives but those already in the country might stay as labour may be cheaper and the infrastructure in place. However, some car manufacturers might decide to move out of the country if incentives elsewhere make it worthwhile. This would lead to unemployment and a reduction of GDP.

If the car manufactures have invested large sums of money and the business is successful then an end to the incentives will probably make no difference to the firms. Their profits may fall slightly as costs increase but whilst incentives might have led them to set up in the country other factors may make them stay.

Conclusion

There are some areas within the specification which candidates seemed to struggle on working through question paper.

- diagrams which involve shifting demand/supply curves
- costs, revenue and profit,
- externalities,
- the difference between direct and indirect taxation,
- structural unemployment,
- supply side policies.

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