Principal Examiner Feedback

Summer 2014

Pearson Edexcel International GCSE in Economics (4EC0) Paper 01R

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International GCSE In Economics (4EC0) Paper 01R

Introduction

Candidates and centres need to improve their performance by taking simple steps to

- ensure that candidates learn definitions e.g. opportunity cost, elasticity of supply, supply side policy, development aid,
- develop their responses in relation to the question set not the question they hoped had been set.

Teachers should read through this report and make a note of the common mistakes made by candidates. The good responses provided in this report should be used to show candidates the level they should aspire to in the examination.

Report on Individual Questions

Question 1

Q1(a) (i) - (a) (ii)

Candidates had to show a fall in the world demand of rubber on Figure 1a. A few candidates shifted both demand and supply curves and some shifted demand to the right, both of these responses scored zero. The correct diagram is shown below.

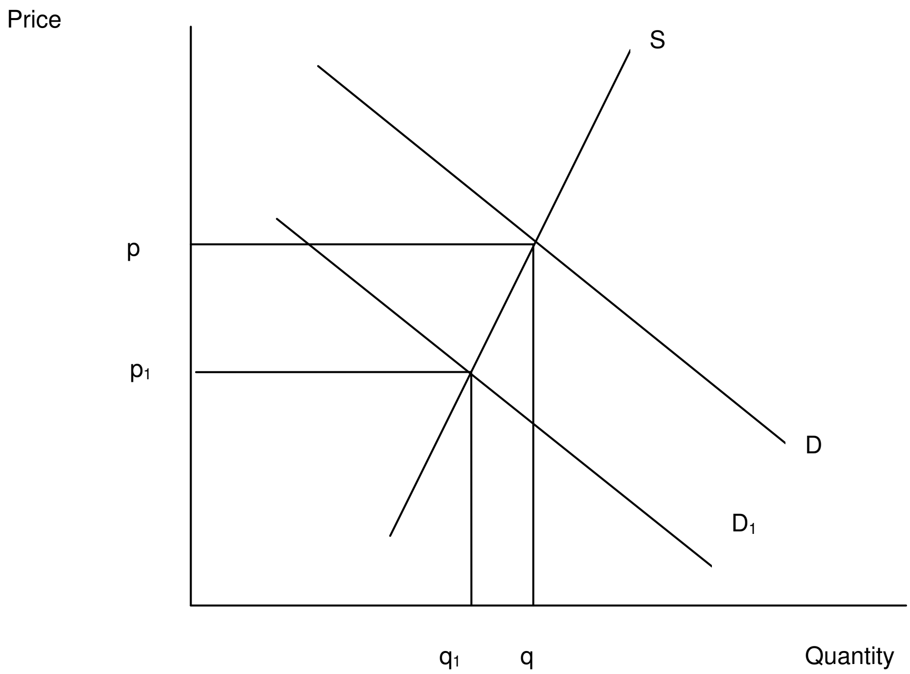

Figure 1a

Q1(a) (iii)
Candidates were required not only to identify relevant factors which shift the demand curve to the left but also had to explain them. Substitutes and complements were the factors which scored more highly than tastes/fashion, population and income, which were difficult to relate to the demand for rubber.

Q1 (a) (iv)
Candidates who learn definitions make the best use of their time in examinations. This definition as a sentence or as a formula achieved full marks. A few candidates incorrectly defined it as the responsiveness of price to a change in supply.

Q1 (a) (v)
The most common problem that candidates found with this question was distinguishing between factors which affect/determine elasticity of supply and factors which lead to a shift in supply.

A good response is given below.

"Rubber is an agricultural product. It takes seven years for a rubber tree to start producing rubber This means that if the price of rubber increases it will take at least seven years before supply can increase. Therefore in the short run the supply of rubber is very inelastic but in the long run, when more trees can be planted, supply can respond to changes in price so the supply is more elastic.

Sometimes the supply of rubber on the market can respond quickly to changes in price. If producers hold stocks of rubber then they can sell them to react to a change in demand and price. In the long run, if more land is available and it is suitable for rubber trees new producers can enter the market and the supply will become more elastic."

Q1 (b) (i)
It was obvious from the many poor responses to this question that many candidates had not been taught to look at division of labour from the point of view of small firms. The question required candidates to consider why small firms may <u>not</u> employ division of labour in spite of its advantages. Lack of finance and the inability of firms to break the production down into small tasks were the most popular correct responses.

Q1 (b) (ii)
Candidates were more comfortable and scored highly with this question which simply asked for the advantages of division of labour.

Q1 (b) (iii)
The effect of a subsidy is shown on Figure 1biii below.

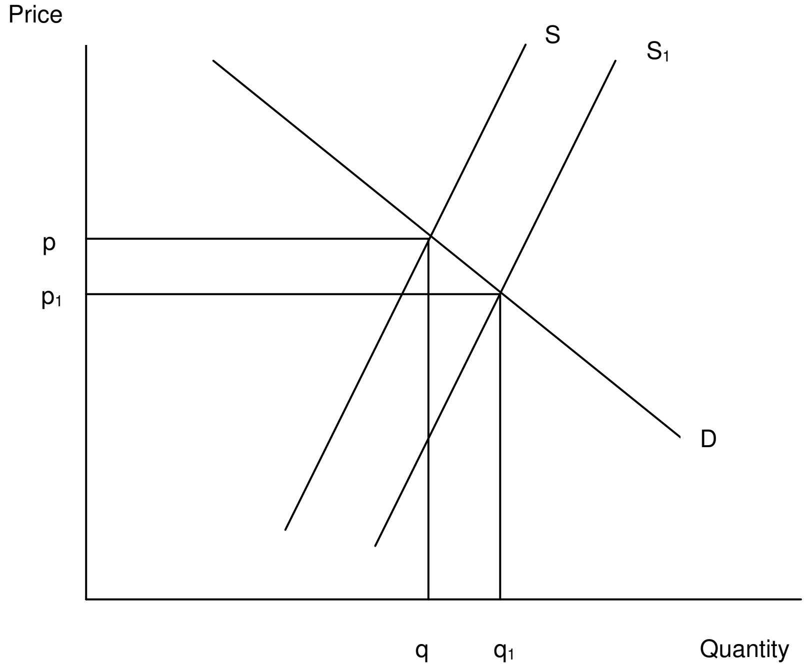

Figure 1biii

Q1 (b) (iv)
Opportunity cost is a basic economic term so candidates should be aware of the definition *"it is the value/cost of the opportunity foregone"*. The value/cost does NOT refer to a monetary value.

Q1 (b) (v)
The majority of candidates identified the opportunity cost as being a reason why the subsidy might be a misuse of government money but few could argue why it might be a good use of the money.

A good response is given below.

"The government subsidy for the production of natural rubber is a misuse of government money as although it helps to fund the costs of production rubber is an agricultural product which cannot be increased in the short run. The subsidy will help the poorer farmers to be able to continue farming and so employment is protected. The government should provide subsidies to factories which produce goods which can easily increase their output level in the short run. The money could also be used to improve health and education in the country as well as infrastructure. This expenditure would help more people and not just rubber farmers.

The amount of money spent on the subsidy is also important. If it is just a small fraction of the total expenditure then it might be worthwhile as rubber production might increase and increase the exports of the country."

Question 2

Q2 (ai)
The question asked candidates to calculate the combined market share of the four largest grocery firms, "*other firms*" is not one of the four!

Q2 (aii)
Candidates found it difficult to explain oligopoly in their own words which is why they should learn the definition "*oligopoly is where a few large firms dominate the market*". Problems arose and marks were lost when candidates tried to explain "*a few large firms*" and wrote of "*several*", " *more than 2*" (or 3 or 7!) Their own definitions lacked accuracy.

Q2 (aiii)
To achieve marks for this question candidates needed to be able to distinguish between price and non-price competition; *"Buy one get one free (BOGOF)"* is not non price competition, neither are *"discounts".*

Q2 (a) (iv)
Two curves were acceptable to illustrate economies of scale. A "U" shaped curve or just a downward sloping curve (as shown in Figure 2aiv below) showing falling average costs as output rises. Straight lines (unlike demand and supply this is a curve) or curves which reached the horizontal axis (showing output zero) were unacceptable.

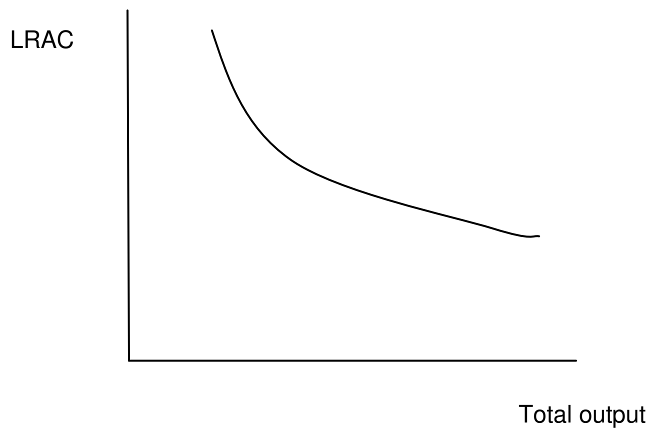

Figure 2aiv

Q2 (a) (v)
Probably the easiest economy of scale to identify and explain is marketing/purchasing economy. However too many candidates wrote "*it is when a firms buys its raw materials/goods cheaper*". All firms try to buy their resources/goods at the lowest possible price. Economies of scale occur when they purchase resources/goods in bulk and receive a discount.

A correct response:

"Marketing economy: a large firm can purchase its raw materials in bulk and negotiate a discount with the supplier."

Q2 (a) (vi)
A difficult question as candidates had to consider both diseconomies of scale and collusion.

Some candidates did produce excellent responses.

"I agree with this statement because firms in an oligopoly market may form a cartel and exploit consumers by agreeing to charge high prices. When firms experience diseconomies of scale their average costs of production will rise. They will increase their selling price in order to retain their profit margin. The consumers suffer from both collusion and diseconomies of scale.
However firms in an oligopoly market may compete, if not by price, then by product differentiation. This may give consumers better quality goods and more variety. Whilst some firms may suffer from diseconomies of scale others may not and may pass on their cost savings to consumers in the form of lower prices."

Q2 (b)(i)
Figure 2b showed the Royal Mail's total revenue "*falling*". The question did not request a figure but just a simple word.

Q2 (b) (ii)
Too many candidates assumed that if costs rose revenue would fall showing that they did not understand the difference between revenue and profits. The most popular responses were the increase in popularity of new technology e.g. e-mails which reduced the demand for Royal Mail services and the entrance into the market of competitors who could offer a better service and undercut Royal Mail's prices.

Q2 (b) (iii)
The majority correctly identified Royal Mail as a monopoly.

Q2 (b) (iv)
Once again a simple definition was all that was required *"privatisation occurs when a state owned enterprise is transferred to the private sector"*.

Q2 (b) (v)
It was insufficient to say prices might rise or prices might fall or wages may rise or wages may fall. The points and issues raised needed development for marks to be awarded.

"Privatisation might open up the market to competition so the consumers might benefit from lower prices and increased choice. However if the firm was a monopoly when owned by the government and remains a monopoly when it is privatised, the firm might increase prices to maximise profits as it now a profit seeking firm. Workers might face losing their jobs as the profit seeking firm strives for efficiency. It may even buy machinery replacing some of the workers. However it might be an advantage to the remaining workers as they will be trained and become more skilled at operating the new machinery and may even receive a pay rise."

Question 3

Q3 (a) (i)
Inaccurate definitions once again cost candidates marks.

Q3 (a) (ii)
The only year in which Spain's economic growth was positive was the year in which its economic growth was greatest: 2011.

Q3 (a) (iii)
Some candidates still confuse an improvement in the balance of payments on current account with government finances. They incorrectly stated that economic growth would increase exports so the government would earn more money! A correct response is given below.

"*Economic growth will lead to increased employment, increased incomes and increased expenditure. The government will gain more revenue from direct taxes (income tax) and indirect taxes (VAT). At the same time government expenditure will fall as less people require unemployment benefit*."

Q3 (a) (iv)
Too many candidates had a weak understanding of fiscal policy. Often they identified one side of expansionary fiscal policy rather than both - decreasing taxation and increasing government expenditure. Some even included monetary policy, especially the use of interest rates to explain why unemployment might fall.

"An expanding fiscal policy means the government increases its expenditure and reduces taxation. Increasing government expenditure on infrastructure like building roads may increase employment. This leads to increased expenditure by the workers which in turn may lead firms to take on more workers to satisfy the extra demand for goods and services in the economy. If the government reduces taxation like income tax, it will increase the difference in income between those receiving Job Seekers' Allowance (JSA) and people who have jobs. It will increase incentives for people to work so may reduce voluntary unemployment. However, if government and workers' expenditure is on imports, it will not reduce unemployment in the country because spending on imports means money leaving the country. If the government reduces VAT but not income tax, the incentive to work may not increase much, because people who don't have job may still get JSA and may not seek work. Therefore, the overall effectiveness of an expansionary fiscal policy depends on how the government spends their money and which type of tax they reduce."

Q3 (b) (i)
Table 3b showed the inflation rate in Spain between 2010 - 2012. The inflation rate changed from 1.8% in 2010 to 3.2% in 2011 to 2.4% in 2012. All the changes are positive so the country was still experiencing inflation. The question asked "What happened to the price level between 2011 and 2012?" The majority of the candidates answered the question (which did not exist) "what happened to the rate of inflation between 2011 and 2012?" Their response "*it decreased*" was incorrect. Inflation existed so the price level increased.

Q3 (b) (ii)
Oil prices rise so this leads to cost push inflation.

Q3 (b) (iii)
Candidates seemed obsessed that savings will increase during inflation. This will only happen if interest rates are higher than the rate of inflation or people are so worried about the future that they try to save more. Those candidates who stated that savings would increase because people can't afford to buy goods and services were not thinking logically.

A good response is given below.

"Rising inflation means the value of money is worth less so the value of savings will decrease unless the interest rate is higher than the rate of inflation. Workers on a fixed wage will find their wages are worth less as they can buy less. Workers on flexible wages will ask for higher wages to compensate for the fall in the real value of their wages."

Q3 (c) (i)
Candidates were very confused by Figure 3c which showed the balance of payments on current account for Spain 2010 to 2012. In each year the account was in deficit but from 2010 to 2012 the deficit was falling/the current account was improving. Vague, confused responses may be attributed to candidates not being familiar with data in this format or it may be that they don't understand changes in figures when they are negative.

A correct response is given below.

"The current account was in deficit but it improved from -47.4bn in 2010 to -14.9bn in 2012."

Q3 (c) (ii)
Candidates should have been able to distinguish between visible trade, trade in goods and invisible trade, trade in services. Invisible trade caused the most problems with some stating it is trade that can't be seen or that is illegal.

Q3 (c) (iii)
Supply side definitions were vague and some only gave examples of supply side policies.

"Supply side policy tries to increase aggregate supply by increasing the country's productive potential."

Q3 (c) (iv)
The question required the candidates to consider how supply side polices can be effective in improving economic growth. General comments which could apply to any policy i.e. fiscal or monetary, e.g. it increases employment, there is an opportunity cost, were too vague unless specific supply side measures were identified.

"Supply side policies improve a country's economic growth. One policy is that of privatisation which increases competition. The firm would strive to maximise profit and improve efficiency which would lead to an increase in GDP. The policies also provide training and education so as a result, workers would have a wider range of job opportunities and be more productive. This could also reduce unemployment. The reduction would mean an increase in the economic growth rate. Since people are employed, they would receive wages and as result have an increase in living standards. However, if a privatised firm becomes a monopoly, then it might exploit consumers with high prices. A monopoly might have no need to increase efficiency so economic growth would not improve.

Training and education can take years, so in the short run, there may be no improvement in economic growth. In conclusion, supply side policies may improve a country's economic growth. The advantages may outweigh the disadvantages depending on the time period and government regulation for monopolies."

Question 4

Q4 (a) (i)
Xstrata is a multinational company.

Q4 (a) (ii)
The data in Table 4a showed the revenue, taxes, profit, investment and number of employees of Xstrata.

"Xstrata pays 35.8 million to the government which is a lot of tax revenue. The government can use this tax to increase its expenditure. It can use higher expenditure to improve the standard of living by offering better health and education services. Xstrata also has $8165 million investment. Investment is a main component in GDP. Increasing investment can improve economic growth which can lead to an increase in people's living standards."

Q4 (a) (iii)
The most common correct responses included those connected with different types of pollution, exploitation of workers and reduction of non-renewable resources.

Q4 (a) (iv)
A number of correct responses to choose from e.g. takes advantage of economies of scale so average costs are low, low costs in developing countries, production of commodities which are limited in supply so price is high. Candidates had to explain only one.

Q4 (a) (v)
Repeating the phrase "development aid" with a few addition words is too vague. Candidates should have indicated who gives the aid, to whom, in what form and why.

"Development aid can be in the form of money, goods e.g. food, services e.g. teachers and doctors, and technology by governments and other agencies to support the economic, environmental, social, and political development of developing countries."

Q4 (a) (vi)
Candidates gave lists of ways in which money could be spent and also gave corruption as the major reason why living standards might not be increased.

A good response is given below.

"When developed countries or agencies give money to Zambia, the government may try to improve education by providing schools or it may train or retrain workers to improve labour productivity. So the economic growth is stimulated and this should lead to improved living standards. Aid in the form of food can be essential in times of drought to combat starvation but if this continues the country may become reliant on it and living standards may not improve.

Corruption or inefficient allocation of aid within the developing country can also prevent a rise in living standards.
If aid is allocated in the correct way to improve economic growth in the long run not just in the short run then living standards will improve and be maintained."

Q4 (b) (i)
Most candidates identified the correct month in which 1US Dollar could be exchanged for 84 Yen.

Q4 (b) (ii) - Q4 (b) (iii)
Candidates who correctly identified that the US dollar appreciated usually went on to correctly identify that Japanese import prices rose and export prices fell.

Q4 (b) (iv)
When a country reduces the value of its currency it makes exports cheaper and imports more expensive. Candidates who understood the relationship between exchange rates and import and export prices had few problems in answering this question

" When the value changes the EU and US would face the prospect of cheap imports from Japan entering their countries whilst at the same time demand for their imports into Japan would fall."

Q4 (b) (v)
Candidates needed to identify that a trade bloc is made up of countries NOT firms who join together to benefit from free trade.

Q4 (b) (vi)
Most candidates could identify advantages and disadvantages of trade blocs for member countries. The more able candidates realised that it would also lead to a slowdown in globalisation along with trade diversion rather than trade creation as countries traded more with those within the group than those outside it.

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