Examiners' Report/
Principal Examiner Feedback

Summer 2015

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

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General comments

This paper proved to be accessible for the vast majority of students and produced a wide range of responses. The standard was generally higher than it was in June 2014, with a notable improvement in the structure of answers to the six mark questions. There were some excellent scripts which were a credit to both the students themselves and their teachers. Comments have been given for each question and for many there are examples of good responses which teachers and students should find useful.

Comments on individual questions

Question 1

1ai-1aiv - These questions allowed students of all abilities to show their understanding of demand and supply.

1av - Students need to learn accurate definitions and read the question carefully. The most common mistake was to define the wrong elasticity.

1vi, 1vii - Over 80% of students achieved full marks for these multiple choice questions.

1aviii - Most students managed to give factors which cause a *shift* in demand as required. Very few students gave an example of a substitute for chocolate. Many students failed to achieve marks for evaluation.

Good example:
On the one hand, a change in the price of substitute goods is the main factor affecting demand for chocolate. Chocolate is a normal good. It is a luxury meaning that it isn't a necessity. Therefore if an alternative like candy became cheaper, people would switching from chocolate to candy and therefore demand less chocolate (it is an elastic good). This means the whole demand curve for chocolate would shift inwards.

However, on the other hand there are lots of other factors that may affect the demand for chocolate such as a change in taste, natural/seasonal factors (you may buy more around Christmas for example) or even research into health may have an effect. A study may convince people to buy less chocolate to improve their health.

In conclusion, despite there being valid reasons for both sides of the argument, the price of substitute goods is arguably not the main factor as lots of other factors exist. Chocolate may even be seen as not having any substitutes as people can become addicted to it. In such a case the price of substitutes will have no effect on its demand.

1bi - Almost half of the students found this question challenging. A good response is given below:

The supply curve for labour is upward sloping. This means that as the wage rate increases more people would be willing to work, thus there is an extension in supply. This is because there is more incentive to work.

1bii-1biii - Students must be able to draw and explain the minimum wage diagram. On Figure 1c students should have drawn and explained that a new Minimum Wage Rate lies *above* the existing one and results in the demand for labour falling from Q1 to Q3 and supply rising from Q2 to Q4 as shown in the following diagram.

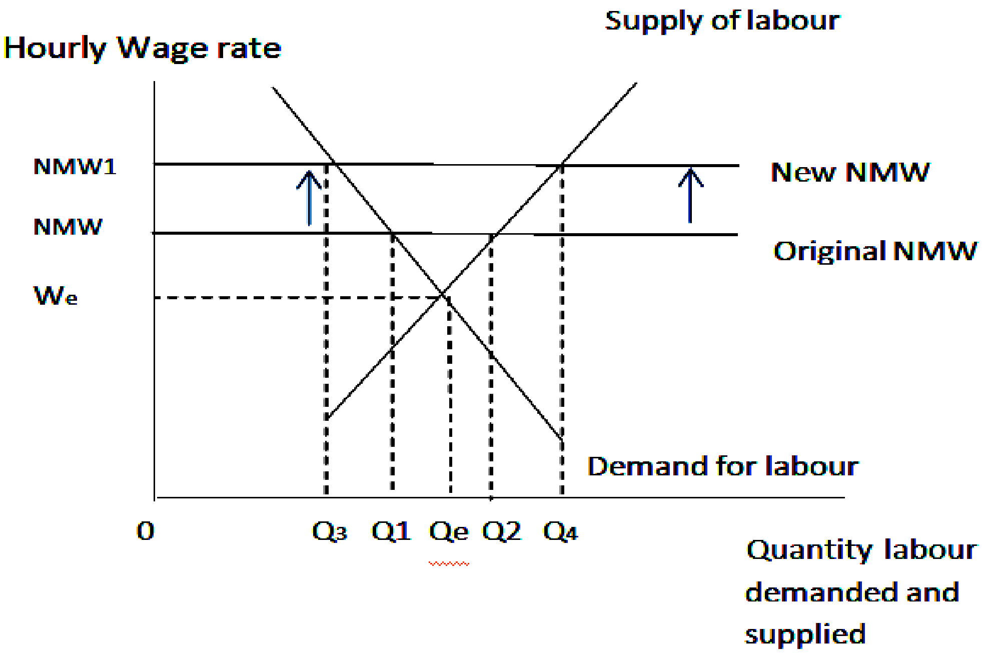

Figure 1c

1biv - Students have many factors to choose from. The most popular were usually based on population changes, retirement age changes and benefit and income tax changes.

1bv - Almost half of students managed to discuss the improvement in the standard of living and the possible increase in unemployment. The more able students added further discussion of other factors in their conclusion.

Good example:
The minimum wage is imposed by the government on firms and is the minimum amount a person can earn every hour. There are advantages and disadvantages.

Firstly the minimum wage benefits disadvantaged workers like women and reduces poverty. Additionally it means that more people in the economy work as it is an incentive to work and come off benefits. The extra wages mean that there is more purchasing power, thus there is higher demand for goods and services, ultimately leading to more employment. This leads to more income tax for the government which might lead to more government expenditure on things like education and health services which would mean an even higher standard of living for the poor.

However the minimum wage means higher costs for firms which could mean unemployment and reduce the standard of living, because some workers would no longer have a job so would be poor. Finally, an increase in the minimum wage could increase the growth of the hidden economy where labour is employed illegally and firms spend minimal money and workers are forced into poor working conditions and exploited.

Question 2

2ai, 2aii, 2aiii - Almost all students appear to understand simple costs, revenue and profit calculations.

2aiv-2av - Despite students identifying the correct examples from the list there was limited reference to "change in output" in definitions of variable and fixed cost.

2avi - Most students were able to discuss why businesses remain small but few wrote of how/why they might grow.

Good example:
Bakeries remain as small businesses since it is hard to expand in a small market. If a bakery already provides enough bread to a village, an increase in the size of a bakery would lead to a waste in products since the demand for bread is already satisfied in that market, so they stay as a small business.

However, the owners of bakeries can use profits to open new stores in other locations to expand the business. This would allow them to increase the size of their business since they would reach a new market. Bakeries can only expand if there are places without sufficient supply of bakeries, so it typically remains a small business since they transport bread to different regions as it will go stale. Improvements in technology to transport bread and ingredients to stop bread going stale might encourage more bakeries to expand in the future.

2bi-2biv - Few problems encountered.

2bv - Cutting staff was a popular method identified as a way in which the combined airline could reduce costs. Bulk buying was the next most popular method but the example usually given was “bulk buying airplanes" rather than the more realistic “bulk buying aviation fuel”.

Good example:
When firms merge they can reduce the levels of employment to cut costs of production. There may be jobs that are duplicated (eg operators booking flights, or marketing department jobs) and workers can be made redundant to cut costs from these departments eg a firm does not need two sets of marketing managers. Labour is a major cost of production as the workers need to be paid wages, cutting down on staff can certainly allow them to reduce costs.

2bvi - The majority of students (over 85%) correctly identified an external cost eg noise pollution, but some students confused “external cost” with “extra costs” associated with flying eg passengers paying for extra baggage.

2bvii - Too many missed the phrase "per passenger" so did not associate it with an increase in the price per ticket and a subsequent reduction in the number of passengers. Most of those who did identify this went on to consider the effect of elasticity of demand on for tickets.

Good example:
Taxation on international flights would increase the price to fly which could lower the demand for flying. Fewer passengers might lead to less flights and therefore less external costs from air pollution. The tax revenue could also then be spent on healthcare or better flight technology which would reduce the external costs produced by air travel.

However, demand for air travel might be price inelastic since many multinational firms require some employees to fly to different countries to manage chain stores. This would mean that the quantity of demand would not fall by a significant amount. There may also be no alternative mode of transport available. Taxation, however, could raise revenue and this could be invested in research and development for newer plane engines which give off fewer harmful gases. In addition, demand for flights might not fall a lot because the cost of $34.40 per passenger is a small amount of the overall cost of an international flight.

Question 3

3ai - Students need to improve their ability to read numbers from a graph and be more precise with their estimates.

3aii - 3aiii - Some confusion as cyclical unemployment proved a popular incorrect response.

3aiv - Students need to improve their ability to read numbers from a graph and be more precise with their estimates.

3av - Arguments about inflation tended to focus on "prices go up so demand falls and unemployment results." Students did not relate to the causes of inflation eg demand pull inflation or cost push inflation but just stated "this is what happens when we have inflation". Good responses tried to give some evaluation eg "In the short run unemployment only affects those who are made unemployed whereas inflation affects everyone. In the long run unemployment can lead to a fall in demand and recession whereas inflation can lead to balance of payments problems and unemployment and low economic growth". A typical answer is given below:

When there is an increase in inflation, the price of goods and services are high. People will demand less and they will enjoy fewer goods and services. Their living standard will decrease. When there is unemployment, people will receive no income and they will spend less on goods and services. Their living standard will also decrease.

However if the wage rate increases faster than the inflation rate, then people will not suffer during inflation. During the period of unemployment, people don't receive any income. Some people can't even pay for their basic needs. An increase in inflation may not be worse than unemployment, it depends on the policy of the government towards those who are unemployed.

3avi, 3avii - Few problems encountered.

3bi - Accurate definitions of key concepts should be learnt. Very few students defined GDP as *the total value of all goods and services produced in an economy over a period of time.*

3bii - Students should try to relate their responses to the question set.

Good example:
Governments are able to put taxes on firms which produce oil and gas. As these products are price inelastic demand it means the firms pass on the increase to consumers who don't have many alternatives so must continue to buy them even though the price goes up.

3biii - Over 80% of students achieved maximum marks.

3biv - Debt and interest payments should have been the most common responses but many students gave a variety of incorrect guesses.

Good example:
To avoid having debts which governments have to repay. This has an opportunity cost as the government could have spent the money on education and healthcare.

3bv - Too many misread the question or rather answered the question which they would have preferred to have been set. Instead of writing about the effects of reducing government expenditure they discussed how the government could spend the increased revenue from taxes.

Good example:
Cutting government expenditure to reduce a budget deficit would mean that less money is available to spend on the public sector services (eg education and health) or improving infrastructure (eg roads). This could lead to a decrease in standard of living for the population especially the poorest section.

On the other hand, raising taxes – direct or indirect – would give an increase in revenue and a decrease in demand, as a result of reducing budget deficit through revenue. This decrease in demand could increase unemployment and slow down economic growth.
It is impossible to know which would be better, cutting government expenditure or raising taxes without knowing which specific items of expenditure would be cut and who they would affect and which taxes would be increased and their effect on the economy.

Question 4

4ai, 4aii - Good performance by students.

4aiii - Too many students gave advantages of globalisation rather than its causes.

Good example:
Advanced technology in telecommunications allows better communication around the world between buyers and sellers.

Scarce resources are being depleted so there is a growing need for more trade between countries.

4aiv - Most popular ways in which this question could be answered ranged from multinationals/FDI to advantages of international trade. Evaluation was often based on how governments can overcome disadvantages and/or comparison of its effects on developed and developing countries.

Good example:
On the one hand, globalisation will improve standards of living because jobs will be created in the country reducing unemployment. It would increase consumer choice which would benefit consumers and multinationals might train workers thus improving their skills and job prospects.

On the other hand, globalisation might produce negative externalities such as factory pollution by powerful foreign firms who are not restricted by governments. It might also lead to local businesses going out of business because competition has reduced the demand for their products. If workers are exploited by foreign firms their standard of living may not increase.

In conclusion, it depends on whether the workers are paid fairly and whether or not the companies are putting locals out of business, because if they pay little and locals are losing jobs, it does not improve standard of living.

4av-4avi - Students could show and explain either the effects of the tariff on the total market for solar panels ie a shift of supply to the left or the effects of the tariff on the market for US solar panels ie a shift of demand to the right. As with 1bii students should be familiar with the diagrams.

4avii - Quotas proved the most popular correct measure to reduce imports.

4bi-4bii - Good performance.

4biii - Higher interest rates and increased demand for exports were the most popular responses.

Good example:
An increase in demand for a country's exports leads to an increase in demand for their currency so the currency appreciates.

High interest rates would mean foreign people would put their savings into other countries' banks which would increase the demand for their currencies and lead to an appreciation of them.

4biv - Almost half of all students were able to explain the impact of an appreciation of a currency on the price of imports and exports and linked this effectively to the effect on the current account. Students were also able to highlight the importance of price elasticity of demand on the amount spent on imports and earned from exports and the impact this had on the current account. However, many students failed to take this a stage further and mention the importance of the *relative* price elasticity of imports and exports. A good example is given below:

If the value of a currency appreciates, the exports and domestic goods of the country will seem to be more expensive. People may demand more imports because they are cheaper and less exports because they are more expensive. Imports are greater than exports so the current account of the balance of payments will worsen.

However if exports are inelastic this will work in the country's favour, similarly if the demand for imports is inelastic the reduction in price will have little effect. This means that the impact on the current account following an appreciation of the currency will be uncertain; it would depend on the relative price elasticity of imports and exports. Furthermore, the impact on imports will depend on whether or not there are any import controls in place eg quotas.

Exchange rates are continually changing so the appreciation may be followed by depreciation and the situation as regards the current account reversed. The impact may also depend on how long the appreciation is sustained, if it is a few days it will have minimal effect on the current account.

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