

# CONTENTS

---

<b>ECONOMICS .....</b>	<b>2</b>
<b>GCE Ordinary Level .....</b>	<b>2</b>
Paper 2281/01 Multiple Choice .....	2
Paper 2281/02 Structured Questions .....	3

# FOREWORD

---

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# ECONOMICS

---

## GCE Ordinary Level

<b>Paper 2281/01</b> <b>Multiple Choice</b>
--

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>C</b>	21	<b>A</b>
2	<b>C</b>	22	<b>C</b>
3	<b>B</b>	23	<b>B</b>
4	<b>C</b>	24	<b>B</b>
5	<b>A</b>	25	<b>B</b>
6	<b>A</b>	26	<b>C</b>
7	<b>B</b>	27	<b>D</b>
8	<b>A</b>	28	<b>A</b>
9	<b>C</b>	29	<b>A</b>
10	<b>B</b>	30	<b>B</b>
11	<b>D</b>	31	<b>C</b>
12	<b>C</b>	32	<b>C</b>
13	<b>C</b>	33	<b>B</b>
14	<b>D</b>	34	<b>C</b>
15	<b>D</b>	35	<b>A</b>
16	<b>D</b>	36	<b>B</b>
17	<b>B</b>	37	<b>B</b>
18	<b>C</b>	38	<b>C</b>
19	<b>B</b>	39	<b>B</b>
20	<b>C</b>	40	<b>D</b>

### General comments

10 934 candidates took this paper in November 2003 and the mean score was 21.3, the highest mean mark since 1999.

**Question 36** was the easiest for the candidates with 82% choosing the correct answer. When this question was set it was not thought to be particularly easy.

The hardest question on the paper was **Question 14**. 33% chose option **C** and 23% chose the key, **D**. It is uncertain why candidates chose **C**, but as 21% chose **A**, and 22% **B**, the overall distribution would indicate that candidates were guessing the answer to this question.

**Questions 18 and 19** also had a distractor (incorrect answer) that was more popular than the key (correct answer). In **Question 18**, 46% chose option **A** and 31% the key, **C**. This may have been because they did not calculate the percentage increase correctly or because they misunderstood the term 'real wage'. For **Question 19**, 57% chose option **D** and 28% the key, **B**. It is likely that those who chose the incorrect option may not have noticed that the chart referred to hourly earnings and not total earnings.

Overall, the candidates performed very well compared with recent previous years.

<p><b>Paper 2281/02</b></p> <p><b>Structured Questions</b></p>
--

### **General comments**

The performance of candidates seemed to be broadly in line with that of previous years on this paper. There were again some excellent answers to the paper and those candidates are to be congratulated on their hard work. However, there are several points that might be helpful in enabling other candidates to achieve higher marks by using their knowledge and understanding in a more effective manner.

- Candidates should be given clear guidance that when a question asks for an explanation or a discussion, a simple list of items is insufficient. The points must be presented in the form of sentences and paragraphs with at least a brief comment on each one. On the other hand, when the question asks for points to be listed or identified, then a brief set of bullet points is required and not a lengthy description to explanation, which is a waste of the candidate's time.
- A number of candidates did not seem to take notice of the mark allocation in brackets at the end of each sub-section of a question and they sometimes wrote as much for a section carrying eight marks as for a section carrying only three marks.
- It has been mentioned many times in these reports that candidates should be encouraged to use diagrams where appropriate. When diagrams are used they should be drawn neatly and accurately with correct labels for the curves and the axes.
- In order to gain high marks in questions that use the words 'discuss' or 'evaluate', candidates need to present more than one side of an argument and then come to a conclusion. They should also be prepared to state their own point of view on the matter. Many answers present the case for or against the advantages and disadvantages, but then finish the answer without a conclusion. This is a pity and prevents the candidate achieving the highest marks. Candidates should be encouraged to read the question carefully and to realise that their view of the matter is significant. When they have presented the evidence required by the question, they should not be afraid to indicate what weight should be given to that evidence. They should decide whether, for example, the advantages outweigh the disadvantages, or the case for a given change mentioned in the question is greater than the case against. They should then clearly state what they conclude.
- Candidates should check that the pages that they have written are in the correct order and that each question number and section letter is clearly shown in the margin. There were a number of scripts that had their pages tied together in the wrong order.
- While most candidates conformed to the instructions on the question paper, a few answered more than the required number of questions and some answered all of the questions on the paper. Candidates should be encouraged to answer the number of questions required and no more.

### **Comments on specific questions**

#### **Question 1**

- (a) Some candidates were able to define 'investment' in terms of additions to the stock of capital goods. However, too many candidates thought that investment was money put into such things as shares or stocks with a view to making a profit.
- (b) Only a minority of candidates were able to state correctly that 'at current prices' meant that the figures were not adjusted for inflation. Many believed that the phrase meant the prices at the present time.

- (c)(i) Many candidates were able to define economic growth correctly in terms of an increase in the Gross Domestic Product of a country.
- (ii) In this section candidates needed to explain that investment is likely to lead to an increase in productive capacity, thereby leading to increases in real output. A number of answers linked increased spending to increased output, but there were few clear expositions that referred to increases in productive capacity.
- (d) There were some good answers to this question, which required candidates to explain how an increase in economic growth could result in a change in other economic indicators such as a rise in incomes, a rise in employment, a change in government revenue or a better use of resources. Some candidates wasted time on their answers because they dwelt on the drawbacks of economic growth. The question only asked for the *benefits* of growth.
- (e) This section caused a number of problems for candidates, many of whom took the figures at their face value and accepted the implied statement that the primary sector must be the most important because it had grown most in the period in question. Only the more perceptive answers showed an understanding of the need for absolute figures for all three sectors and not just the growth figures for the primary and secondary sectors to make a valid conclusion.

### Question 2

- (a) This question was handled well by candidates who gave accurate descriptions of a subsidy together with correct diagrams that showed a shift to the right of the supply curve. The most common error involved diagrams in which the supply curve was moved to the left.
- (b) Candidates were able to discuss the effect on profits, revenues and costs, but not always as clearly as was hoped. The disease affected revenues, and farmers were not able to cover their costs. Costs would have increased, as farmers would have had to replace livestock. As a result, profits decreased. The extent of the decrease would have been affected by the subsidy. Better candidates mentioned the likely short-term effects and contrasted these with possible long-term effects as farmers might have changed to other types of farming.
- (c) The majority of candidates were able to state that price elasticity of demand was a means of measuring the responsiveness of the demand for a product when there was a change in its price. Most candidates gave the correct explanation of how price elasticity is calculated and some gave a clear analysis of the possible range of values that price elasticity might have supported by appropriate diagrams.
- (d) The answers to this part of the question were often less convincing, especially from those who tried to answer it with a poor understanding of the concept of price elasticity of demand. Some candidates were able to explain the relationship between changes in the price of a good and the total revenue gained from its sale when the elasticity is either greater or less than one. However, there were too many vague answers that showed little understanding beyond the fact that changes in price would cause changes in the level of demand for the farmer's product.

### Question 3

- (a) The better candidates were able to explain that all four factors were involved in the decision. Land was bought by the RSPB; capital was used in the construction of the visitors' centre, which was managed by labour. Entrepreneurial skill was used to co-ordinate the project. A simple list of the four words identifying the factors was not sufficient to gain full marks for this question; the answer should also have explained how the factors were involved. Many incorrect answers stated that the capital involved was the donations given to the RSPB.
- (b) In the answer to this question candidates were expected to discuss how the increase in the tourist trade might have affected employment and incomes in the area. They could have balanced the increase in both of these with the loss of housing or other amenities. In any question that asks for a discussion candidates should draw an overall conclusion. If they present this with introductory words such as 'therefore' or 'it may be concluded' or 'as a result it may be said that', it aids the overall style and presentation of the answer. Not many candidates did present their comments in such a way and not many formed an argument that led to a conclusion.

- (c)(i) Most candidates were able to give correct examples but they could not always give a clear explanation of the term private cost.
- (ii) Social costs were less well explained or defined as the sum of private costs and external costs, and the examples given were too general in that they did not relate to both aspects of the definition.
- (d) Most candidates made an attempt to consider whether the protection of rare birds should be the responsibility of a government or a private charity but many of the answers were rather superficial and did not really get very far. For example, there was very little discussion of the idea of market failure and the possible need for action by the government. Furthermore, a number of candidates did not seem to understand what was meant by a private charity, thinking that it was out to make a profit.

#### Question 4

- (a)(i) This question required candidates to explain that a lack of skill or education or training might result in a lack of good human resources. This question was answered well by most candidates.
- (ii) This part was not so well answered though; it could have been explained in terms of the concentration on a few goods, a lack of variety of products or services or in terms of concentrating on a single sector in the economy rather than on producing in the primary, secondary and tertiary sectors together.
- (b) Candidates should have explained that while it may be true that people in developing countries might be poorer on average it does not mean that all people in developing countries will be poor, and there would usually be a few rich people. Candidates could have commented on the extent or inequality of income distribution, maybe with a comparison to the likely situation in developed countries.
- (c) A few candidates did not seem to understand what was meant by the occupational distribution of the population and wrote about the population structure. However, there were some good answers, which discussed the likely distribution in terms of a very high percentage in the primary sector, some in the secondary sector but a very small percentage in the tertiary sector.
- (d) There were some good answers to this final part of the question. In terms of the structure of the population, a developed country would be likely to have a lower birth rate and this would have the effect of slowing down the rate of growth of population, leading to an ageing population. In terms of its occupational distribution, the relative size of the primary sector would be likely to fall, whereas the percentage employed in the tertiary sector would be likely to rise.

#### Question 5

- (a) Candidates were expected to state that the trade restrictions could take the form of quotas, tariffs, embargoes or regulations together with a brief description of each. Many were able to answer this correctly.
- (b) There were seven marks available for discussing the immediate effects whereby more exports would probably affect the visible (goods) current account rather than the invisible (services) account. National income in poorer countries could rise, with consequent effect on employment, but there may also be increased imports that would alter the overall position in developing countries. The final result might depend on which tariff barriers existed in the first place and which were abandoned.

There was scope to discuss the longer-term effect on the employment structure, industrialisation and the development and exploitation of resources.

- (c) There were also some good answers to this final part of the question. Many candidates recognised that it might be useful to produce as many products as possible and to protect the domestic producers, but that this might lead to the protection of inefficient producers. It might therefore be better to apply the principles of absolute and comparative advantage and take advantage of specialisation but there was a danger that this could lead to some domestic producers going out of business, leading to an increase in unemployment. The better answers weighed up all of these arguments before coming to a reasoned conclusion. However, some candidates tended to take one side or the other thereby restricting the number of marks that they could achieve.

### Question 6

- (a) Many candidates recognised that a retail price index measured the rate of inflation by analysing changes in the general level of prices over a period of time in relation to a base year.
- (b) There were some very competent answers to this part of the question, with candidates clearly contrasting demand-pull and cost-push inflation. There was also some useful discussion of monetary and imported inflation. A few candidates, however, misunderstood the meaning of the word 'causes' and developed their answer to the previous part on the measurement of inflation.
- (c) Again, there were a number of good answers to this final part of the question with candidates demonstrating a clear understanding of why inflation was a problem and why governments might be worried about the rate of inflation because of its potential effects on spending and saving, investment and economic growth and the balance of payments. Only the best candidates referred to distortions in the distribution of income and wealth.

### Question 7

- (a) Weaker candidates tended to make vague statements about increasing profits, but the majority of candidates were able to discuss the principle of profit maximisation in terms of the difference between total revenue and total costs. A few of the more able candidates also discussed it in terms of marginal cost equal to marginal revenue.
- (b) Most candidates recognised that the increase in the number of customers was likely to increase profits, but fewer of them then went on to say that the effect of being willing to pay compensation to certain customers was difficult to determine. If it showed that the company was very confident of its ability to satisfy customers, this was likely to further increase the number of customers and therefore the profits; on the other hand, if a great deal of compensation was paid out, this would have the effect of increasing costs and possibly reducing profits.
- (c) Most candidates demonstrated a sound knowledge and understanding of the different types of business organisation, ranging from the sole trader and the partnership to the private and public limited companies, with a number of the latter operating as multinational companies in different countries. Most argued that the public limited companies would be likely to be the most significant in a developed economy, although many did say that there would still be a role to play for the other types of business organisation as well. Some answers failed to come to a conclusion about which type of business organisation was likely to be the most significant in a developed economy. One error made by a number of candidates was the confusion between a public limited company in the private sector and a public corporation in the public sector.