ECONOMICS

Paper 2281/11

Multiple Choice 11

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

244 candidates sat this paper and the mean mark was 23.9.

The questions for which most candidates selected the correct answer were 1, 4, 5, 14, 15, 24, 27 and 29. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 6, 34, 38 and 39.

Question 6 asked candidates to represent on a demand and supply diagram a change in the market situation caused by a decrease in production costs. The supply curve should have been shifted downwards (or to the right). Some candidates chose Option C, but this involves an increase in demand and this change in demand was not mentioned in the question.

Question 34 asked about the effectiveness of using GDP per capita as an indicator of the comparative level of development in different countries. Sometimes GDP is used as a comparative indicator but one of the difficulties of using GDP is that it does not take account of either the different size of the population in different countries or changes in the size of the population. A better indicator is one that takes account of the size of, or change in, the population. This indicator is GDP per capita. Candidates were asked to decide

what does **not** lead to difficulties when using this indicator. Population changes do not lead to difficulties in using an indicator that takes account of them.

For **Question 38**, some candidates chose option A, illustrating a misunderstanding of the direction of the change in the exchange value. Exports from the US to South Africa would become more expensive in South Africa. The demand for them would not increase as stated in option A.

Question 39 was directed to the section of the syllabus which asks about the benefits of specialisation and the merits of free trade and protection. Textbooks state that if protection of international trade is decreased countries can concentrate on specialising in the production of the goods and services in which they are most efficient. Subsidising job creation or protecting businesses would not encourage specialisation. Neither would diversification into areas of production which does not necessarily make the most efficient use of resources. The question asks which of the options would best encourage greater specialisation. There may be alternative policies which would be possible but the best one of those stated is the policy to promote free trade.

ECONOMICS

Paper 2281/12

Multiple Choice 12

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

5039 candidates sat this paper and the mean mark was 27.8.

The questions for which most candidates selected the correct answer were 2, 3, 4, 5, 14, 15, 16, 19, 25, 27, 28, 30, 38 and 39. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were 35 and 36.

Question 35 asked about the effectiveness of using GDP per capita as an indicator of the comparative level of development in different countries. Sometimes GDP is used as a comparative indicator but one of the difficulties of using GDP is that it does not take account of either the different size of the population in different countries or changes in the size of the population. A better indicator is one that takes account of the size of, or change in, the population. This indicator is GDP per capita. Candidates were asked to decide what does **not** lead to difficulties when using this indicator. Population changes do not lead to difficulties in using an indicator that takes account of them.

Question 36 was directed to the section of the syllabus which asks about the benefits of specialisation and the merits of free trade and protection. Textbooks state that if protection of international trade is decreased

countries can concentrate on specialising in the production of the goods and services in which they are most efficient. Subsidising job creation or protecting businesses would not encourage specialisation. Neither would diversification into areas of production which does not necessarily make the most efficient use of resources. The question asks which of the options would best encourage greater specialisation. There may be alternative policies which would be possible but the best one of those stated is the policy to promote free trade.

ECONOMICS

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Paper 2281/21

Structured Questions 21

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General comments

This report should be read alongside the published mark scheme.

Overall, this paper appears to have worked well in enabling candidates to show their understanding of key economic concepts. There were a pleasing number of very good responses across many Centres and relatively few very weak responses. Rubric errors were few and there was little evidence that candidates did not have enough time to complete their answers.

However, there were a number of concerns about candidate responses that impacted negatively on their overall marks. Firstly, in **Question 1**, it was clear that some candidates had not read and fully understood the information in the paragraphs above the chart, which led them to give inadequate answers in parts **(b) (c)** and **(e)**.

Secondly, candidates need to be more aware of the meaning of the command words used in the questions (e.g. explain, discuss, analyse), since this affects the answer expected from them. For example, **Questions 2 (d)** and **6 (b)** asked candidates to show the differences between types of economies and monopoly and perfect competition respectively, but many explained what they were without direct comparison. On the other hand **Question 7 (b)** did not require a compare and contrast response but many candidates did just that, although the question was about explaining three functions of a central bank which were different from commercial banks.

Thirdly, it is surprising that, despite comments made in previous Examiners reports and in the published mark schemes, an overwhelming majority of candidates failed to make any explicit reference to demand and supply when explaining why pay may differ between occupations (or indeed individuals). In **Question 3 (c)**, although 10 marks were available, marks were limited to a maximum of 6 if no explicit reference to demand and supply was made. Centres need to teach candidates that factors affecting demand and supply are the key factors influencing pay. Equally, in **Question 7 (a)** it was apparent that many candidates had not been taught the four functions of money.

Comments on specific questions

Section A

Question 1

All candidates were required to answer this question. Overall the responses were disappointing and, in many cases, candidates appeared not to have fully read the information provided.

(a)   Whilst many candidates correctly identified the current account, very few wrote that they were recorded in the visible imports. Many candidates referred only to visible trade or the trading account, or even referred back to the balance of payments.

(b)   There was some confusion in answering this part of the question. Weaker candidates repeated the answer they were to give in part **(e)** or explained the detrimental effects of a quota. Better candidates were able to make several points about positive impact e.g. on home production, employment, standard of living and balance of payments. The best candidates also made reference to possible retaliation from other countries that lost exports.

(c) Few candidates fully answered this question. A significant number described the changes in imports from China without explanation. Whilst most made reference to the imposition of a quota to explain the fall in imports in 2007, few were able to give a possible reason why imports rose significantly from 2003 and particularly in 2006.

(d) Most candidates were able to explain how trade unions benefited workers through negotiations on wages and conditions of employment. However, some were confused over clothing and textiles and thought these were different groups of workers. The best candidates did make reference to the issue of employment guarantees in the fashion business as limiting the extent to which trade unions could affect employment. Otherwise many answers could have been about any trade union situation.

(e) Given the responses for parts **(a)** to **(d)**, this part was surprisingly well done. Most candidates got up to 5 or 6 marks by mentioning that, while the aim of reducing imports was successful in that imports fell by 13%, this was less than was hoped for and the aim of increased home production was not achieved e.g. by reference to lack of raw materials, a reduction in employment and lack of capacity for some firms. More sophisticated answers gained high marks. It was a little worrying that some candidates spent a disproportionate amount of time explaining what other information they required to make a judgement. In doing so, they failed to make use of the information that was available. Candidates need to look carefully at the question asked of them. In this case it did not explicitly ask them to comment on what extra information they would need to make a judgement.

Section B

Question 2

This was not a popular question and in quite a few cases it was the final question chosen by candidates. Nonetheless, some candidates answered this question very well.

(a) Most candidates were capable of giving a reasonable definition of opportunity cost. However, they were less able to identify an opportunity cost relating to a subsidy for candidates attending university. Weaker candidates gave examples which they had learnt, but gained no marks if these examples were not relevant. Some candidates made a vague reference to the government having the benefit of extra funds but failed to explain why this was an opportunity cost. A few strong candidates made reference to the opportunity cost for candidates of paying higher fees.

(b) A good proportion of candidates drew a correct diagram, with a shift in the supply curve to the right. Many showed a shift in the demand curve to the right instead; some showed both. A few showed a shift in the supply curve to the left, in some cases relating back to the withdrawal of the subsidy for candidates. Some were unable to produce one diagram with both demand and supply curves. Those that got the diagram right were able to explain that supply would increase and prices would fall. However, very few candidates went on to explain that the change in supply and prices would depend upon the elasticity of demand and/or supply. The few that did, illustrated this with additional diagrams.

(c) Most candidates identified taxes and better candidates explained how they worked and why they were put on goods. A few candidates identified minimum and maximum prices, some using diagrams. However, some got confused about how they worked. A number of candidates referred to tariffs and quotas but, in the latter case, were unable to fully explain how this affected prices.

(d) Most candidates were able to give at least a basic explanation of market and mixed economies. However, all too often, candidates wrote about one economy and then the other without much linkage, or they wrote about the second economy almost as a mirror image of the first. Good candidates were able to identify three key characteristics and contrast these features.

Question 3

This proved to be a popular question but very few candidates made explicit reference to demand and supply in answering part **(c)**.

(a)   Candidates generally did well in identifying three non-wage factors. Common examples were location, working conditions, hours worked, company car, and provision of healthcare. Candidates did less well in explaining what the concept meant. Some wrote too much for the 4 marks available.

(b)   Again, candidates did well in answering this part of the question. Responses included reference to income, age, job security, and planning for specific future expenditure such as buying a house and investing in a pension.

(c)   The quality of answers to questions about pay, especially those about why some people are paid more than others, continues to be rather disappointing. The majority of answers to this part of the question were mainly descriptive and superficial. There were very few references to either demand or supply influencing pay. As a consequence, only a few candidates gained high marks. The question asked why some occupations are paid much more than others. However, many of the responses were written about circumstances affecting individuals, which is not the same thing.

Question 4

(a)   The majority of candidates successfully identified a multi-national company, but relatively few went on to explain that it was also likely to be a public limited company.

(b)   Most candidates were able to identify a number of reasons such as low cost, a new market and the ability to grow in size, spreading the risk and enjoying larger profits. However, some candidates misinterpreted the question and wrote about the benefits to the country rather than the company and, in doing so, this overlapped with their answer to part **(c)**.

(c)   This was reasonably well answered by most candidates. The benefits and disadvantages for the multi-national company and the host country appear to be well understood. However, this question also asked about the impact on existing Indian companies and some candidates did well on this and others did not. Another issue was in maintaining a reasonable balance between the impact on the country and the impact on individual companies. Good candidates could see the potential conflict, but equally also saw that some companies that acted as suppliers would benefit from the multi-national company locating in India.

Question 5

(a)   Whilst most candidates had some understanding of economic growth, answers were often basic and short, not reflecting the five marks available. Many responses were descriptive and brief. Often the answer related to how GDP was calculated rather than to economic growth being a measure of the change in GDP. A number of candidates confused economic growth with the standard of living. A few candidates illustrated economic growth in terms of an outward shift in the production possibility curve.

(b)   This was generally well answered, with most candidates referring to seasonal, frictional and cyclical unemployment. A few candidates got the unemployment types correct but then muddled the description, and a few explained why an individual might be unemployed, which was not the question. Overall, though, unemployment appears to be well taught and understood by the majority of candidates.

(c)   Most candidates responded well to the guidance for this part of the question and structured their answers accordingly. Answers to how consumers and firms would benefit were generally better than the answers given about how the government would benefit. A few candidates showed a very impressive understanding of the inter-relationship between consumers, firms and the government and gained all 9 marks. Some candidates did not stick wholly to the question asked and wrote about the disadvantages of economic growth.

Question 6

(a)   The majority of candidates identified all four factors of production; the difference between 2 and 4 marks reflected the extent to which they gave an explanation. Explanations for land, labour and enterprise were usually sound (in previous sessions, candidates have been weak on enterprise), but too many candidates are still explaining capital in terms of money available for investment rather than in terms of equipment/machinery.

(b)   The characteristics of monopoly were generally well presented. However there was some confusion with perfect competition, with a significant number of candidates relating to a competitive market, which is not the same thing. Another weakness was that some candidates simply described each term in turn without drawing a comparison, whilst others were superficial in their answers.

(c)   This was well answered, especially in respect of the expansion of firms, suggesting that this is well taught in Centres. Most candidates drew the distinction between internal and external growth and concentrated on the types of integration that brought about external growth. Responses were more varied on the advantages of monopolies - some were extremely good, others very short. Some candidates restricted their answers to the advantages for either the monopolist or the economy, whereas the question allowed for both.

Question 7

(a)   A number of candidates struggled with this first part of the question. Most textbooks give a clear and full description of the four functions of money and yet many candidates were only able to write adequately on the function as a medium of exchange. A significant minority confused functions with properties, e.g. portability and acceptability, or described at some length how money was used, without reference to any function. This should be a straightforward answer, and Centres need to ensure that candidates are well taught so that they understand this part of the syllabus.

(b)   This was more convincingly answered by most candidates. However, a common error was to misinterpret the question as requiring candidates to compare and contrast the functions of a central bank and a commercial bank, whereas what was required was to explain 3 functions of a central bank which differ from commercial banks. As a consequence, some candidates wrote about commercial banks as well as central banks, but the depth of their answer on central bank functions was therefore more limited. Nonetheless, for those candidates that concentrated on the central bank, common answers highlighted the functions of being lender of last resort, of being responsible for the issuing of notes and coins and of being banker to the government. Some candidates are still confused about what a central bank can do. For example, a few believe that consumers can deposit money in a central bank in the same way as they can in commercial banks.

(c)   Most candidates were able to demonstrate some knowledge and understanding of the possible causes of inflation, especially in relation to demand-pull and cost-push. Others were also able to consider alternative possible causes, such as in relation to money supply. Unfortunately some candidates did not read the question carefully enough and wrote about the meaning of inflation, including definitions and how it was calculated, or about the consequences of inflation. Some candidates chose to use diagrams to illustrate the cause. However, far too often there was confusion between micro and macro diagrams.

ECONOMICS

General Comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates, who successfully demonstrated a sound knowledge and understanding of economics and a sensible and mature ability to discuss, analyse and evaluate key economic concepts and issues. There were also, however, a number of relatively weak answers, where the candidates failed to demonstrate very much knowledge or understanding of the subject.

There were relatively few rubric errors, although some candidates did answer all seven questions on the examination paper when the requirement was to answer **Question 1** in *Section A* and three other questions from *Section B*. This meant that a great deal of valuable time in the examination was wasted.

Candidates need to pay very close attention to the precise wording of the question, especially in terms of the particular command or directive word being used. For example, if the question asks the candidate to explain what is meant by something, as in **Question 1 (a)**, where candidates were required to explain what was meant by a recession, or in **Question 2 (b)**, where candidates were asked to explain what was meant by price elasticity of demand, then he or she simply needs to write a relatively brief answer. However, if the question requires the candidate to discuss something, as in **Question 5 (c),** where candidates were required to discuss the extent to which taxes can be successful in redistributing income in a country, or in **Question 6 (c)**, where candidates were asked to discuss how effectively Gross Domestic Product (GDP) measures the standard of living in a country, the candidate needs to go into much more detail, often giving two sides of an argument and then coming to a logical and well-reasoned conclusion.

Candidates also need to look very closely at the number of marks given to each part of a question, as this gives a very clear indication of how much detail is required and how much time should be taken to answer it. For example, **Questions 1 (a)** and **(b)** were given just two marks each whereas **Questions 3 (c)**, **5 (c)** and **6 (c)** were each allocated ten marks.

Comments on specific questions

Section A

Question 1

(a)   The majority of candidates were able to explain what was meant by a recession. They had a clear idea that it meant a downturn in a business or trade cycle, characterised by a rise in unemployment. Some candidates defined it very precisely in relation to two successive quarters of negative growth.

(b)   This proved to be a more difficult question for many candidates. They were often able to define productivity in terms of output per worker, but failed to refer to a particular period of time. A number of candidates offered very disappointing answers which indicated that they thought that productivity was exactly the same as output or production.

(c)   In the majority of cases, this was answered very well. Candidates were able to refer to separate legal identity, limited liability, ownership by shareholders, trading in shares on a stock exchange, the importance of an AGM and the separation of ownership and control. A number of candidates, however, got very confused and thought that a public limited company was something that was in the public sector, owned and run by the government.

(d) There were some excellent answers to this part of the question. The majority of candidates were able to explain three possible reasons that could influence a worker's decision to move from one job to another, such as differences in remuneration, hours of work, working conditions, promotion prospects and fringe benefits.

(e) Answers to this part of the question varied enormously. Some candidates offered only a very limited answer on trade unions. Other candidates related trade union activity to individual firms and the government, but made no reference to how effective they might be. The better answers, however, did attempt to discuss how effective trade unions might be in terms of their potential influence on individual firms and the government.

Section B

Question 2

(a) (i) A number of candidates were able to use a demand diagram to show an increase in demand for a product, shifting the demand curve to the right. Some candidates, however, shifted the demand curve to the left, while others got rather muddled and drew a supply diagram instead. It was disappointing to see that a number of candidates drew a diagram but did not label it accurately.

(ii) The majority of candidates were able to correctly identify two causes of such an increase in demand, such as a rise in incomes or as a result of a successful advertising campaign. Some candidates unfortunately offered very general answers.

(b) Most candidates were able to explain what was meant by price elasticity of demand, although it was worrying to see a number of candidates get the formula the wrong way round. Candidates need to take great care to ensure that they can define terms accurately.

(c) There were some very vague and general answers to this part of the question, reflecting the fact that many candidates had little idea of why the concept of price elasticity of demand might be very useful to a business. Some answers, however, were very good, explaining that if PED was inelastic, prices should be raised to increase revenue, whereas if PED was elastic, prices should be lowered to increase revenue.

(d) This final part of the question was answered very poorly by many candidates who did not appear to understand what was meant by market failure. Market failure refers to the situation where some goods, such as cigarettes or alcohol (known as demerit goods), might be over-consumed in a market, or where some goods, such as health or education (known as merit goods), might be under-consumed. It also refers to a situation where some goods would not be provided in a market at all; these are goods such as defence (known as public goods). Market failure can also refer to a situation where monopolies exist and there is an inefficient allocation of resources. It can also refer to a lack of information and knowledge and to the existence of externalities.

Question 3

(a) Most candidates were able to clearly define fixed and variable cost in relation to output, and were able to give one example of each, such as rent (in the case of fixed cost) and raw materials (in the case of variable cost).

(b) This was answered very well by the majority of candidates. They selected three factors of production from four (land, labour, capital and enterprise), and then went on to explain them in relation to the operation of an airport.

(c) This part of the question was also answered reasonably well by the majority of candidates who demonstrated a sound knowledge and understanding of social costs and benefits. There was good application to the context of building a new runway at an airport, although some candidates offered a rather list-like answer. This is not a good way to answer a question where the command word is 'discuss'.

Question 4

(a)   This part of the question was answered very well by the majority of candidates who were able to offer a very clear distinction between a sole proprietor and a partnership.

(b)   This was also answered well by the majority of candidates who recognised that there were a number of possible reasons why a business might wish to change from a partnership to a private limited company, such as to take advantage of limited liability and to be better able to raise finance through offering shares in the business.

(c)   Most candidates were able to describe various reasons why small firms might be successful, such as the personal service that could be offered to customers, but many of the answers related to small firms generally and not specifically to those in the retail trade.

(d)   In this final part of the question, there were some good answers generally on economies of scale, but there were two issues which prevented many candidates from doing better than they did. Firstly, the question did specifically refer to the television manufacturing industry, but many candidates made no reference to this industry. The other issue was that the question specifically required candidates to discuss to what extent a large firm in that industry might be able to benefit from economies of scale, but many candidates failed to address the 'extent'.

Question 5

(a)   There were some very good answers to this part of the question. The majority of candidates were able to offer a good explanation of why governments imposed taxes, such as to pay for the services being provided, including education and health, and also in relation to the operation of a country's fiscal policy.

(b)   This was also answered reasonably well by the majority of candidates who were able to describe the differences between direct and indirect taxes using appropriate examples.

(c)   This part of the question was, unfortunately, answered less well. The focus of the question was the extent to which taxes could be successful in redistributing income in a country, but a number of the candidates wrote about taxation generally without concentrating on the redistributive element. Candidates should have developed what was said in the previous part of the question, emphasising the progressive nature of direct taxes. In other words, they do not simply take more from the incomes of the richer people but a higher percentage of their income.

Question 6

(a)   The majority of candidates did reasonably well in this question, describing one economic advantage to a country of having a very large population, such as providing a large group of consumers and workers, and one economic disadvantage, such as the possible burden on limited resources and a high rate of unemployment.

(b)   This part of the question was also answered reasonably well by most candidates who were able to explain the reasons for the different rates of population growth in different countries. Differences in birth rates, death rates and net migration are examples of the reasons that were given.

(c)   Candidates generally demonstrated a good knowledge of Gross Domestic Product but many of the answers were rather descriptive. The key to achieving a good mark was to focus on how effectively GDP measured the standard of living in a country; in other words, to consider the various limitations of GDP as a way of measuring living standards. There were, however, some very good answers which went beyond GDP and looked at other possible ways of measuring the standard of living in a country, such as the Human Development Index.

Question 7

(a) The majority of candidates were able to define an exchange rate in terms of the price of one currency in relation to the price of another.

(b) There were some very good answers to this part of the question. Most candidates were able to explain what determines the value of a freely floating exchange rate in relation to trading patterns, the level of confidence in a particular currency, differences in interest rates and the degree of speculation in various currencies.

(c) This part of the question was also answered well by the majority of candidates who were able to clearly describe two methods of trade protection, such as tariffs, quotas or subsidies.

(d) A number of candidates offered a very one-sided answer to this part of the question, arguing the case for a country imposing more trade restrictions. The better answers looked at both points of view, contrasting the advantages of trade protection with the possible disadvantages.