ECONOMICS

Paper 2281/11
Multiple Choice

Question Number	*Key*	*Question Number*	*Key*
1	**B**	16	**A**
2	**B**	17	**B**
3	**D**	18	**B**
4	**B**	19	**C**
5	**A**	20	**C**
6	**C**	21	**C**
7	**C**	22	**D**
8	**C**	23	**A**
9	**B**	24	**A**
10	**A**	25	**D**
11	**D**	26	**C**
12	**C**	27	**A**
13	**D**	28	**B**
14	**D**	29	**B**
15	**D**	30	**A**

195 candidates sat this paper. The mean mark was 17.9 which is lower than the mean for last summer's examination.

The questions for which most candidates selected the correct answer were 9, 20, 21, 24, and 27. 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 5 and 6. These questions were answered correctly by fewer than 40% of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall. (If this were to be the case then it may indicate that those who scored well on the test overall might have seen an alternative, and possible, interpretation of the question which could possibly indicate a fault in the question).

Question 5 was answered correctly by 37% of the candidates who chose option A. 8% chose option B, 45% chose option C and 10% chose option D. Option C refers to a rise in the price of an associated product not the product (cars) in the stem of the question. Any change in the demand, or supply, for an associated product would cause a shift in a curve for the product in question. Of the options given, only a fall in price of cars would cause a movement along the demand curve.

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Question 6 was answered correctly by 37% of the candidates who chose option C. 33% chose option A, and 17% chose option B and 13% chose option D. The majority of candidates understood that the external cost would increase (options A and C) if the conservationists are correct and the area would be ruined. However, of those two options, the tourists may gain from the existence of hotels but, given that the tourists go to see the rare animals which may not be there anymore, the overall effect on their benefit is uncertain.

The rest of the questions gave results which were well within the levels expected.

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Paper 2281/12
Multiple Choice

Question Number	*Key*	*Question Number*	*Key*
1	**C**	16	**A**
2	**B**	17	**A**
3	**A**	18	**B**
4	**C**	19	**C**
5	**B**	20	**A**
6	**B**	21	**C**
7	**B**	22	**A**
8	**C**	23	**A**
9	**C**	24	**B**
10	**C**	25	**D**
11	**D**	26	**A**
12	**B**	27	**A**
13	**C**	28	**D**
14	**D**	29	**D**
15	**D**	30	**C**

5162 candidates sat this paper. The mean mark was 19.9 which is lower than the mean from the examination from June 2013.

The questions for which most candidates selected the correct answer were 1, 3, 26 and 27. These questions were answered correctly by 85% 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 2, 7, and 29. These questions were answered correctly by fewer than 45% of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall. (If this were to be the case then it may indicate that those who scored well on the test overall might have seen an alternative, and possible, interpretation of the question which could possibly indicate a fault in the question).

Question 2 was answered correctly by 42% of the candidates who chose option B. 4% chose option A, 41% chose option C and 13% chose option D. There is no change in the amount of labour (resources) that it is possible to use. More of the labour remains unused so the production point moves within the existing curve.

Question 7 was answered correctly by 26% of the candidates who chose option B. 27% chose option A, 8% chose option C and 39% chose option D. The US government declared that the manufacture of fuel from crops such as corn should increase. This would increase the demand for crops such as corn. Increasing the demand would cause a movement along the supply curve. Subsequently, in the long term, the supply of corn may increase which would be represented by a movement to the right of the supply curve. However,

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this long term option was not one of those available. Certainly the supply curve would not shift to the left – option D.

Question 29 was answered correctly by 24% of the candidates who chose option D. 21% chose option A, 37% chose option B and 24% chose option C. It might be possible that candidates mis-read the question and thought it said 'why might this be desirable for Finland'. It is difficult to understand why candidates thought that an increase in demand which might increase exports **(A)**, and proportionately greater increase in output than an increase in costs **(B)** and the possibility of further trade **(C)** would be undesirable. Possibly for B, candidates only read that there was an increase in costs and failed to consider that increase with reference to the corresponding greater increase in output.

The rest of the questions gave results which were well within the levels expected.

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Paper 2281/21

Paper 21

Key messages

- This is the first exam of the new style paper. **Question 1** has 30 marks, and is based on information within a long extract. Candidates appeared to respond well to the new format, and the extra 15 minutes appeared to enable candidates to read the extract and answer the extra questions.

General comments

Candidates generally selected only the relevant information when answering the 8 parts of **Question 1**. Candidates occasionally included less relevant information, which suggests that they were unsure of how to answer the question.

Each of the six questions in **Section B** included a brief extract, which aimed to guide candidates towards an appropriate answer. Very few candidates misunderstood the question, and the extract appeared to aid the weaker responses.

Candidates are encouraged to tailor their answer to the command words in each question. For example, in **Section B** all the final part questions use the command word "discuss". This invites candidates to put forward a balanced view on for example the advantages/disadvantages or benefits and costs of a proposed action. One-sided arguments will limit the marks that can be awarded. Most candidates understood the need for a balanced presentation in answering these questions.

Comments on specific questions

Section A

Question 1

(a) Most candidates understood that economic growth referred to the increase in Gross Domestic Product or National Income. Some candidates did not mention that the growth was measured over a period of time, usually a year.

(b) Candidates usually identified key information from the extract that indicated that Mongolia's HDI was likely to increase in the future. Better answers mentioned that incomes would rise, and that the government planned to spend more on education. The best answers linked these facts to the composition of HDI e.g. GDP and the number of years of full-time education. Lower-scoring answers copied the text and did not demonstrate how it related to HDI.

(c) Most candidates drew a correct diagram, which included a rightward shift in the demand curve. Some diagrams lost marks for either wrongly labelling the demand and supply curves or adding shift in the supply curve, which produced an incorrect new equilibrium point. Many candidates explained what would happen to copper in 2011. This was not required of the question, and thus gained no marks.

(d) Correct responses discussed government monetary policy aimed at reducing spending (and therefore aggregate demand) by encouraging people to save as the reward would be higher, thus reducing demand-pull inflation. Marks were lost by responses which discussed higher interest rates as a means of compensating either banks or consumers for the depreciation in the value of their assets/savings or in terms of earning extra income to meet the cost of higher prices of goods and services.

(e) Many candidates provided evidence from Table 1 to support the view that countries with high inflation had higher interest rates than those with lower inflation rates. Answers commonly referred

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to Mongolia and India as having high inflation and high interest rates and at the other end Japan where inflation was -0.3% and interest rates were low. These candidates recognised that the unemployment rate needed to be deducted from the misery rate to reach the inflation rate and quite a few produced a table showing their calculations. Some candidates assumed that the misery rate was the inflation rate and as a consequence quoted incorrect figures and/or reached wrong conclusions. Lower-scoring answers presented statistics from Table 1, and did not include an analysis or evaluation of the statement.

(f) Most candidates understood the meaning of 'exchange rate'. Some candidates were unsure of how a rise in the exchange rate would affect the international competitiveness of a country. This was often because it was explained in terms of the impact on the value of the domestic currency, and often reached a conclusion that a strong currency where the exchange rate was rising was very competitive. Competitiveness refers to the ability to export goods and services. Most candidates understood this and explained how a rising exchange rate would make exports dearer and imports cheaper leading to a fall in demand for exports and a rise in demand for imports. The best answers explained that cheaper imports used in producing goods for exports could result in a reduction in exports prices and thereby offsetting the rising exchange rate. Others pointed out that price was only one factor and that the quality of the good or service being exported also affected competitiveness. A few candidates explained that if a good being exported was highly inelastic (e.g. few substitutes) demand was not likely to fall significantly, and some explained that with a floating exchange rate if exports fell and imports increased the exchange rate would then fall restoring the country's competitiveness.

(g) Most candidates identified pollution as the reason why social costs were higher than the private costs of mining in Mongolia. A few candidates explained that pollution was an external cost, and that social costs consisted of external costs plus private (internal) costs, which was why social costs would be higher than the private costs of mining in Mongolia.

(h) A few candidates provided less accurate explanations of the impact of an increase in income on tax revenue. In some cases they argued that there would be higher tax revenue because the government would increase tax rates if income was rising. In other answers there was a misconception that if taxes were regressive then an increase in income would reduce tax revenue. Tax revenue would still rise with a regressive tax but the rate of increase would be less than the rate of increase in income, resulting in a smaller percentage of income being taken. Most candidates, however, did explain correctly that as income tax is normally a progressive tax, tax revenue would rise as income rose. A few stated that those on low incomes might still not pay tax if their income remained below the tax threshold. Many candidates also explained that rising income could mean higher expenditure on goods and services and therefore indirect taxation revenue would also rise. Some candidates stated that if people increased their savings as their income rose, revenue from indirect taxation might rise more slowly.

Question 2

(a) Most candidates explained that land was a natural resource and labour was a human resource, or referred to labour as workers. Many examples of land and labour were given. This was not required by the question, and thus did not gain any marks. The most common differences mentioned were that whilst land was immobile, labour was more mobile and that the reward for land was rent and for labour it was wages/salaries.

(b) Most responses presented an accurate definition of opportunity cost. Many candidates were unsure of how to explain the concept applied to decisions taken by a government. Those that did often used information in the extract which related to sending a spaceship to the planet Mars, using the factors of production to improve education, or the building of more roads.

(c) Most candidates understood the concept of a production possibility curve, and many correctly labelled and drew a curve. Some candidates drew a second curve to the right and/or explained that an increase in resources moved the curve to the right and enabled an economy to produce more of both goods. Common errors included putting factors of production as the axes, or drawing a demand curve.

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(d) There were some excellent answers which discussed whether the building of more roads would benefit an economy. The best answers successfully balanced how an economy would or would not benefit. To some extent, answers were influenced by candidates' perceptions of the state of existing roads in their country and this was taken into account when awarding marks. Most candidates identified shorter journey times and the creation of new jobs to build the roads with income rising which had an impact on standard of living/GDP. Stronger answers referenced the improving communication links and encouraging tourism, trade and investment from abroad, and most candidates referenced the external costs which arise from building the roads e.g. destruction of the local environment and noise and air pollution. Stronger answers also commented on the opportunity costs e.g. that money could have been spent on education and health which might have had a more beneficial effect for the country.

Question 3

(a) Most responses either accurately defined price elasticity of supply or presented an accurate formula. A few candidates linked a change in supply to a price change. Some responses incorrectly explained that it related to how price was affected by a change in supply. Some responses incorrectly included the definition for elasticity of demand.

(b) A few candidates provided three reasons why supply might decrease. Common reasons included: changes in government taxation/subsidies for bananas, poor weather/natural disaster and an increase in costs of production e.g. wages and or other inputs such as cost of fertilisers or storage. A few strong responses explained that as farmers could grow a range of crops, they might cut back on banana production if other crops became more profitable. A common error was to provide reasons that affected the demand rather than the supply of bananas.

(c) Most candidates recognised that as bananas are substitutes good for apples, an increase in the price of apples would result in an increase in demand, supply and price of bananas. Many candidates also drew a correct demand and supply diagram to illustrate the point. Lower-scoring answers sometimes did not make a direct link with demand for apples or did not explain that both the price and supply of bananas would rise.

(d) There were some very good answers given to this question. Most candidates recognised that the addictive nature of cigarettes meant demand was likely to be inelastic. Therefore, an increase in tax was not likely to considerably reduce demand, but would increase tax revenue. Many candidates also argued that the tax should be increased, due to the external cost of cigarettes on the environment, and the damaging the health of both smokers and non-smokers. Whilst the increase in tax might not reduce consumption significantly, it would give extra revenue to the government for advertising/health campaigns and to meet the cost of health care. Some candidates also added that it depended how much the tax was raised by on how effective this would be. There were concerns expressed that increased taxation would lead to tobacco companies cutting back on production and making staff redundant and that it could encourage black markets and smuggling. Some candidates recognised that it was a regressive tax and therefore impacted most on the poor. Lower-scoring answers generally concentrated on the health issues rather than the economic impact.

Question 4

(a) The key characteristics of a co-operative were not always well understood. Co-operatives were sometimes confused with limited companies or two firms joining together. Some candidates recognised one or two features e.g. that cooperatives are formed to enable members to pursue mutually agreed objectives, that profits are shared, that members had one vote each and that they had limited liability but were unable to develop the description.

(b) Most answers included some comparison of the difference between a monopoly and perfect competition. These responses would have benefitted from further development and clarity. Candidates were generally better able to describe the characteristics of a monopoly. Responses often did not explain that there were many small sellers in perfect competition, and stated that there were a variety of goods rather than being exactly the same provided under perfect competition.

(c) Most candidates understood the meaning of 'integration', and gave several advantages of vertical integration, such as benefiting from economies of scale and ensuring a supply of raw materials or outlets for their product. Some candidates less accurately described vertical integration.

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(d) This question was more challenging. Some candidates were not aware that profits are the difference between revenue and costs. There was also some confusion concerning the meaning of the terms 'revenue' and 'profit', and some assumed that increased sales meant higher profits. Better answers made reference to costs, and that profits could be affected by rising costs and that increased production could lead to economies of scale and lower average costs. Better answers also identified the risk that a rise in output might not be matched by rising demand and goods might be left unsold or only sold at a much lower price, thereby reducing profits.

Question 5

(a) Most candidates identified two influences which the amount people spend, which commonly included income, interest rates, confidence in the economy/job security, and personal factors such as age and family. Stronger answers fully explained how these factors affected the level of spend. Some candidates referred to factors affecting the spending on particular goods or services. Lower-scoring answers misinterpreted the question and discussed the impact of spending on the consumption of particular goods or on the economy more generally.

(b) Some answers were quite general, and discussed the disadvantages of bartering. Most responses identified the function of money as a medium of exchange, and its divisibility enabled differing payments to be made for goods and services with different values. Responses often discussed the weight of transported money (e.g. portability), if it could not be divided into smaller amounts.

(c) Most responses discussed two advantages of working for a large company, including: higher salary/wages, better work conditions, and better promotion prospects. Their explanation regarding why large companies were able to offer these advantages could often be improved. The most common reason given was that large companies benefited from economies of scale and therefore were able to meet the costs of these benefits.

(d) There was a good understanding of the benefits of belonging to a trade union. The question required candidates to consider the benefits for the firm, and many candidates made indirect reference to the benefits for the firm such as better communication, reduction in conflict, increased productivity arising from training provided by trade unions. Most candidates recognised reasons why firms might not benefit e.g. the higher costs incurred from higher wages, better work conditions and the impact of industrial action; all of which could affect a firm's competitiveness in the market.

Question 6

(a) Most candidates had some understanding of the birth rate but often either did not mention that it was expressed per 1,000 of the population or did not give a time period. The fertility rate was understood by a few candidates. Common misconceptions related the fertility rate to the number of women of child bearing age or the infant mortality rate, rather than the average number of children a woman has over their lifetime.

(b) Overall, most responses accurately analysed how an increase in average incomes could affect a country's population size. Many candidates gave reasons why it could increase or reduce the population. Common answers for an increase included attracting immigration because of the higher standard of living and that higher income meant better health provision reducing infant mortality rates and death rates with people living longer and that higher income meant that families could afford more children. Many candidates also recognised that higher income often meant better education especially for women which led to better birth control and that fewer children were required to provide an income for the family. Lower-scoring responses tended to refer to only one or two of these features and were often one-sided.

(c) Most candidates identified that there were reasons to be concerned and not to be concerned about a fall in the country's population size. The reason and the size of the fall in population were generally explained. Concerns included the impact of a fall in the size of the working population on output, national income and government tax revenue and expenditure, especially if it was due to emigration. The reason for a high death rate was also identified as a concern especially if this was due to poor health. On the other hand if the country had been overpopulated this might mean a better use of scarce resources. Some candidates were not concerned if the reduction was due to a low birth rate since the number of immigrants could always be increased. If a fall in population meant less overcrowding and less negative impact on the environment than the government would

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be less concerned. The strongest answers attempted to reach a balanced conclusion. Weaker answers often tended to highlight issues for the government in loss of income and a decline in the status of the country if output fell and it was no longer able to provide for the needs of the population.

Question 7

(a) A wide range of reasons were given for why exports might increase. Better answers related to reasons for an increase demand from other countries either because the goods were cheaper (linked with a change in the rate of exchange or subsidies from the government) or the quality had improved. Weaker answers generally explain that increased output in the country would lead to higher exports. A few answers mentioned the removal of quotas and other trade restrictions or a rise in tourism. Some referred to comparative rates of inflation and the absolute advantage a country might have gained in producing a particular product e.g. Mongolia and copper production.

(b) There was a good understanding of low unemployment and why governments aimed for low levels of unemployment. Most candidates explained that low unemployment meant a reduction in government benefit payments to the unemployed and that it meant a higher standard of living and a higher GDP. Better answers also explained that higher income meant higher tax revenue for the government which could therefore spend on improving the infrastructure of the country including improving education and health. Most candidates were also aware that low unemployment could lead to demand–pull inflation. A few candidates mentioned that it might lead to greater imports causing a balance of payments problem. Better answers also made reference to the fact that a reduction in unemployment often meant a reduction in poverty since being unemployed was a major cause of poverty.

(c) This was a more challenging question, especially with respect to decreasing taxes as a means of reducing inflation. A few candidates did understand that it depended on which taxes were used and whether or not it was demand-pull or cost-push inflation. Most candidates understood that increasing taxes generally would reduce income thereby reducing total (aggregate) demand and this could result in lower inflation/prices might rise more slowly or in some cases fall. In many cases there was no reference to direct or indirect taxes and most candidates seemed to assume it was demand-pull inflation. However, there were quite a few candidates who incorrectly felt that reducing taxes would reduce inflation because companies would not need to give employees a pay rise thereby reducing costs (and prices). Also reducing corporation tax was also mentioned by some candidates as a method for reducing inflation as firms would not need to put prices up to make a profit. Some candidates were able to explain that lowering indirect taxes could assist in reducing prices thereby assisting in reducing cost-push inflation. Some of the best answers also mentioned that the level of government expenditure would also have an impact on inflation e.g. that increased taxation along with increased government expenditure was unlikely to reduce inflation.

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Paper 2281/22

Paper 22

Key messages

- Candidates are encouraged to avoid the use of slang terms such as 'stuff' in favour of more precise terms which better demonstrate their knowledge, and are therefore more likely to be rewarded marks.
- In answering the question parts in **Question 1**, candidates are advised to interpret the extract carefully and may wish to devote sufficient time to reading through the data.
- For **Section B**, candidates are encouraged to look at the sub-questions of each main before deciding which questions to answer.
- Previous reports have emphasised the need for candidates to pay careful attention to the command words. This session most candidates followed this advice, with the exception of **Question 1(c)**.

General comments

High-scoring scripts included detailed and clear answers, and made good use of relevant economic analysis and which were logically structured. Some scripts demonstrated a strong understanding of the syllabus topics, an ability to think as an economist, and made good use of examples from their own countries and from recent economic events.

Most candidates answered **Question 1** and devoted sufficient time to it. The three most popular questions in **Section B** were **Question 2**, **Question 3** and **Question 4**. The least popular question was **Question 7**.

There was a mixed performance on the question parts in **Question 1**, which required the use of data-handling techniques. In some cases, candidates needed to pay closer attention to the extract. The quality of the answers to **Question 1(f)** and **Question 1(h)** varied, but most candidates provided two-sided answers.

There was some imprecision in the answers to the first question parts of the questions in **Section B**. A significant proportion of candidates did, however, provide strong answers to the last question parts of the questions in **Section B**. In these answers, many candidates showed an ability to both analyse and evaluate.

There were few misinterpretations of the questions, and most candidates directly answered the question.

Comments on specific questions

Section A

Question 1

(a) There was a mixed performance on this question. Some candidates discussed the relevant evidence from the extract. Others explained the meaning of specialisation, but did not sufficiently address the question. Many candidates wrote that the high level of production of oil in Angola meant that the country was specialised. It is the proportion of total output rather than the level of production of a particular product that determines whether a country is specialising. A country might produce a high quantity of the product, but it might still be devoting only a relatively small proportion of its resources to its production

(b) A few candidates picked up on the specific reference to 2010. Some candidates explained the high taxi (cab) fares with reference to high economic growth. The 2010 reference, however, related the

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high fares to the existence of one taxi firm. Most candidates who recognised there was only one firm did explain that its monopoly power would give it the ability to set the price at a high level.

(c) This question was generally well-answered. Most candidates drew clear, well-labelled diagrams which showed the demand curve shifting to the right, price rising and supply extending. Most candidates also wrote an explanation of what was happening in the diagram which was not actually required in this case.

(d) This was a relatively challenging question for candidates. It was anticipated that they would be likely to write about the increased pressure on resources which may arise from having more dependants, yet most candidates wrote about how an increase in the supply of labour may result in unemployment and a fall in wages. There is no fixed number of jobs, and a high population growth may increase both the demand for and supply of labour. There may at anyone time be a discrepancy between the demand and supply of labour, so it was decided to accept this approach.

(e) This was generally a well-answered question. Most candidates concluded that most of the information supported the view. This was supported by evidence mainly from Uganda and South Africa, whilst recognising that Angola was an exception.

(f) The strongest answers explained how an increase in a country's GDP may increase average income, employment opportunities and the government's ability to spend on measures to reduce poverty. These then went on to discuss how a rise in GDP may not reduce poverty if the increase in incomes goes to the rich and if the rise in GDP is accompanied by either a rise in the price level or the size of the population.

(g) Most candidates identified two relevant reasons, but these were not always fully explained. The two most popular reasons identified were a lack of education and poor health care.

(h) There was a range in the quality of the answers to this question. Some provided clear links between cuts in both direct and indirect taxes and unemployment and then discussed why a reduction in taxes may not reduce unemployment. These focused particularly on people saving the rise in disposable income resulting from a cut in income tax and how higher spending could lead to inflation which, in the longer run, may increase unemployment. Some candidates provided a good analysis of how a cut in taxes could reduce unemployment, but did not consider the other side and so did not establish an evaluation.

Section B

Question 2

(a) This question was generally very well answered, and most candidates demonstrated a good awareness of the economic problem. A few candidates wrote about problems that may not affect all economies at all times.

(b) There were some good answers to this question. Some of the diagrams and explanations were not sufficiently detailed to gain higher marks. A number of candidates drew a demand and supply diagram. Some mislabelled the axes and a relatively high number did not draw the curve or line to both axes. A number also showed the curve dipping down as it reached the vertical axis. A high number of candidates wrote about production possibility curve diagrams without directly answering the question. For instance, they wrote about what production points on, inside and outside the curve mean but did not explain how a production possibility curve diagram can show choice.

(c) There were some good answers to the question, and most candidates demonstrated an awareness of how resources are allocated in market and mixed economic systems. Most of these responses referred to consumer sovereignty, the role of the price mechanism and profit motive in a market economy and the role of both the private sector and public sector in a mixed economy. Some candidates explained how resources are allocated in a planned economy. This point could not be rewarded, as it was not a requirement of the question.

(d) Candidates performed well on this question, and provided depth of analysis and evaluation. Some interesting answers discussed both sides, and included some particularly strong comments regarding the possible impact on output, the opportunity cost involved and the effect of an ageing population.

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Question 3

(a) This was generally well-answered. Some responses would have gained more marks by using greater precision in their terms.

(b) The question required candidates to recognise that their response needed to discuss the causes of an increased demand for bicycles, namely, the causes of shifts to the right in the demand curve. Some answers identified causes. The strongest answers identified and explained these causes.

(c) There were some well thought-out answers to this question, and some answers demonstrated a strong awareness of the factors that influence price elasticity of demand. There were some particularly interesting answers which related differences in price elasticity of demand in particular countries explaining, for instance, differences in the availability of substitutes. Some candidates seemed to confuse the meaning of price elasticity of demand, and seemed to think it is concerned with a measure of how much price changes.

(d) This was quite a challenging question, though there were some interesting answers. Some candidates confused inelastic demand and perfectly inelastic demand with a number, and wrote that imposing a tax on products with inelastic demand would result in no change in the quantity demanded. Some also wrote that imposing a tax on products with inelastic demand would raise producers' revenue. The strongest answers compared the impact on government revenue with the relative ineffectiveness in discouraging the consumption of products that harm the environment or cause high external costs. They also explored the regressive nature of indirect taxes and the harmful effect a rise in taxes on necessities would have on the poor.

Question 4

(a) Many candidates wrote about a central bank's role as a lender of last resort. This is likely to reflect up to date teaching on the recent problems faced by banks in a number of countries. A small number of candidates wrote about the function of a commercial bank rather than a central bank.

(b) This was a relatively challenging question for candidates. Some answers identified two types of internal economies of scale, and a few explained them accurately. In terms of a managerial economy of scale, some candidates sought to explain it in terms of a growing bank being able to employ high quality staff rather than specifically specialist staff. There was more confusion regarding the meaning of a financial economy of scale. The type of economy of scale that was most accurately explained was a technical economy of scale. The strongest answers provided relevant explanation linked to a growing bank.

(c) Most candidates recognised that higher paid workers will spend a higher proportion of their income on luxuries, and a smaller proportion of their income on necessities than lower paid workers. Some compared the total amount spent and the proportion of total income spent of the two groups.

(d) There was a variety of answers to this question. Some strong answers applied demand and supply analysis to explore the influence of differences in qualifications and skills. They also examined the role of trade union power, experience and the level of economic activity in an economy.

Question 5

(a) Most candidates recognised that the key characteristic of a multinational company is that it produces its services or goods in more than one country. Some candidates mentioned other characteristics, such as having its headquarters in one country, with its branches in other countries.

(b) Candidates found this a relatively difficult question. Some did explain increasing market share but a number seemed uncertain about the goals a multinational company may have. Some referred to lowering costs of production but did not relate these to a goal.

(c) Again, a number of candidates struggled with this question. Some recognised that pollution is an external cost but did not go any further. The stronger answers started by defining market failure and then explaining how pollution gives rise to market failure.

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(d) This was the best answered part of **Question 5**. There were some intelligent answers which made a strong comparison between the benefits of having a mine operated by the government and one being operated by a foreign multinational company. There were some particularly good comments made in terms of differences in goals, differences in attitudes towards external costs and benefits and efficiency.

Question 6

(a) Most candidates demonstrated an accurate awareness of monetary policy. A few candidates referred to government spending and taxation.

(b) A number of candidates implied that government's aim was for low and stable inflation, because it would mean prices would be falling. The stronger answers explained that a low and stable inflation may increase international competitiveness and may encourage investment and make it easier for a government to plan ahead because of greater certainty.

(c) Most candidates recognised how an increase in government spending may influence demand, labour productivity and/or costs of production but not all went on to explain the link to economic growth. The two most popular forms of government spending mentioned included spending on education and subsidies to domestic firms. Some candidates discussed a cut in taxes rather than an increase in government spending.

(d) This question was generally well answered, and candidates often recognised a number of advantages and disadvantages of a reduction in a country's unemployment rate. A few candidates suggested that the unemployed are not part of the labour force.

Question 7

(a) Candidates showed a good awareness of a tariff. Most described how it would raise price and reduce demand but only a few mentioned its impact on firms' costs of production and supply.

(b) Some candidates produced good answers, most commonly analysing the high inflation rate, a high exchange rate and protectionism abroad. Other candidates stated, for example, that the imports of services might exceed the exports of services and income received from abroad may be less than the income earned from abroad, without explaining why.

(c) A few candidates attempted **Question 7**. A relatively high proportion provided strong answers, and some of the excellent answers explored in depth the possible effects of a growing current account deficit and the influences on whether it would be regarded to be a problem. There were some particularly well thought-out comments on the importance of considering what had caused the growing deficit on the current account of the balance of payments.

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