

ECONOMICS

Paper 2281/12
Multiple Choice

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

10 613 candidates sat this paper. The mean mark was 21.4, which was a little lower than the mean for the paper last year which was 23.6.

The questions for which most candidates selected the correct answer were 6, 13, 19, 26 and 36. These questions were answered correctly by 70 per cent 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 9, 21, 22, 34, 39 and 40. These questions were answered correctly by 40 per cent or fewer candidates. The rest of the questions gave results which were well within the levels expected.

Question 9 involved an application of the concept of market failure. 11 per cent of the candidates chose the correct option, C, 8 per cent option A, 11 per cent option C and 72 per cent option D. The concept of market failure was introduced in the syllabus fairly recently. Option D concerns a change in tastes. A change in tastes and the consequent result can be taken account of within the market. The result, in the example in the question, is a surplus of supply. This could be shown on a demand and supply diagram. The change in price necessary to eliminate the surplus supply can also be shown on a market diagram and is within the usual market representation for the good

Question 21 asked about fixed costs. 20 per cent of the candidates chose the correct option, A. 16 per cent chose B, 36 per cent chose C and 27 per cent chose D. Average total costs is calculated by adding the average fixed costs and the average variable costs. At zero output there are no variable costs. So, whatever costs there were must be fixed costs. The highest fixed costs are shown on diagram A.

Question 22 was a question on a monopoly supplier. 32 per cent gave the correct answer, A, 30 per cent chose option B, 13 per cent chose option C and 24 per cent chose D. B, C and D involve actions that either limit consumer choice or increase business profits. The only possible advantage to consumers is if costs were lowered which then might be passed on in the form of lower prices. The lower prices are a *possible* consequence not a definite consequence.

Question 34 required an understanding of the features of a developing country. 20 per cent chose the correct option A, 19 per cent chose option B, 38 per cent chose C, 22 per cent chose D. Candidates were required to choose the option that would **not** necessarily be found in a developing country. While many developing countries do have a large population not all of them do. However, the other options are all part of the standard criteria which distinguish developing countries from developed countries.

Question 39 was on international trade. 34 per cent chose the correct option, B, 22 per cent chose option A, 17 per cent chose option C and 26 per cent chose D. The export of clothes would be shown on the current account. The change in expenditure would be uncertain. People in the developed countries to which the clothes are exported might be tempted to purchase them but the overall expenditure change is uncertain as the price of the clothes is lower and the quality uncertain.

Question 40 is on the price of goods as a result of a change in the rate of exchange. 38 per cent chose the correct option, B. 8 per cent chose option A, 38 per cent chose option C and 16 per cent chose option D. B and C are opposite responses. This was the last question on the paper and it may well be that candidates had little time left to consider the question carefully and chose the change in the incorrect direction. When there are fewer rupees needed to buy a dollar the price of US products would appear to be cheaper in Pakistan.

ECONOMICS

Paper 2281/13
Multiple Choice

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

250 candidates sat this paper. The mean mark was 20.5, which was lower than the mean for the paper last year which was 23.5.

The questions for which most candidates selected the correct answer were 6, 11, 26 and 34. These questions were answered correctly by 75 per cent 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 17, 21, 22, 33, 35, 39 and 40. These questions were answered correctly by fewer than 35 per cent of the candidates. The rest of the questions gave results which were well within the levels expected.

Question 17 concerned economies and diseconomies of scale. 11 per cent chose the correct option, D. 13 per cent chose option A, 32 per cent option B and 44 per cent option C. Those candidates who chose B presumably thought that the economy from bulk purchases was an external economy because of the expansion of the company into four cities. Similarly, those who chose C presumably thought that the organisational problems caused by distance were external to the company. However, these new branches in the other cities became part of the company and, therefore, any economy was an internal economy to the company.

Question 21 asked about fixed costs. 26 per cent of the candidates chose the correct option, A. 28 per cent chose B, 16 per cent chose C and 30 per cent chose D. Average total cost is calculated by adding the average fixed cost and the average variable cost. At zero output there are no variable costs. So, whatever costs there were must be fixed costs. The highest fixed costs are shown on diagram A.

Question 22 was a question which asked the candidates to consider why a monopoly might have lower prices (fares) than a competitive industry. The answer was because the monopoly may be able to benefit from economies of scale. Only 13 per cent of the candidates answered this question correctly. 40 per cent chose option A, 7 per cent chose B and 40 per cent chose option D. It may be that candidates misread the question and thought it was asking why a competitive firm, rather than a monopoly, might be able to reduce the price.

Question 33 asked the candidates to consider the effect of international trade. This was a variation of a type of question that is often asked where only percentage changes are given. Some of the options then usually suggest that absolute values may be calculated. It is not possible to determine with the information given any of the absolute values or comparisons mentioned in options A, B or D. 24 per cent of the candidates chose the correct option, C, 14 per cent chose option A, 5 per cent chose option B and 57 per cent chose option D.

Question 35 relates to population changes in one year in Nigeria. 57 per cent chose option A, forgetting that the figures only related to one year and no information was given about the death rate – apart from infants. 10 per cent chose option B - these candidates also forgot that no information about the death rate or migration was given. 9 per cent chose option C, forgetting that the figures relate to a thousand people and 23 per cent chose the correct option, D.

Question 39 was on the balance of trade and economic growth. 22 per cent chose the correct option, B. 5 per cent chose option A, 69 per cent chose option C and 4 per cent chose option D. The effect on the balance of trade would be uncertain. The rise in price of oil would be likely to have a detrimental effect but there has also been a fall in demand, higher unemployment and the closure of businesses. Total demand for imported oil would be likely to have fallen and the overall effect on the balance of trade would depend upon the relative changes of the increase in price and the decrease in demand.

Question 40 asked about exchange rates. It was necessary for candidates to recognise that when exchange rates change so that a higher amount of a foreign currency can be obtained for a given amount of the home currency then the imported goods will appear to be cheaper. When a lower amount of a foreign currency can be obtained then the imported goods will appear more expensive. The correct option is C, which was chosen by 34 per cent of the candidates. 7 per cent chose option A, 22 per cent chose option B and 37 per cent chose option D.

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Paper 2281/22
Structured Questions

Key Messages

Centres and candidates need to recognise the different demands of questions in **Section A** and **Section B**. In answering the questions in **Section A**, candidates need to read through and use the data carefully. In the case of **Section B**, candidates need to select their three questions carefully. It is important that candidates do not base their selection on just their perceived ability to answer parts (a) and (b). All parts of a question should be considered.

In answering questions in both sections, candidates must take into account the command words and the marks allocated. For instance, more time should clearly be allocated to a question with a mark allocation of eight, than to a question with a mark allocation of four. A question which requires candidates to 'discuss' will be more demanding than one which asks them to describe.

The questions must be read very carefully before candidates start to answer them as it is important that candidates answer the specific questions set. Some candidates misread a question whilst others seek to change the question to fit an answer they wish to give. It might be useful for candidates to underline or highlight key words in questions.

In answering questions which require candidates to explain, analyse or discuss, it is important that candidates do not just assert points. For example, it would not be sufficient for a candidate to write that a cut in income tax may increase the number of people employed. They would have to explain why, bringing out the links between e.g. lower income tax, disposable income, consumer expenditure, total demand, output and employment.

It is also important that candidates avoid common confusions. As in previous sessions, the answers to the questions on this paper revealed a number of confusions including between social and external costs and between the functions and characteristics of money.

General Comments

There was a wide spread of performance on this paper. Candidates generally performed well on **Question 1**, making good use of the information in extract 1. **Question 2** proved to be the most popular question from **Section B**, with a very high proportion of candidates selecting to answer it. In contrast, **Question 7** was answered by only a small proportion of candidates.

There was little evidence of candidates running out of time and most allocated their time quite well. There were few rubric errors with most candidates answering **Question 1** and the required three questions from **Section B**. Most candidates answered the question parts in order which is to be recommended as there is a logical structure to the questions.

There was some interesting and lucid writing although a number of candidates lost the opportunity to establish the points they were seeking to make by writing in note form.

Comments on Specific Questions

Section A

Question 1

- (a) Most candidates were able to identify at least three pieces of evidence from the extract. The three most popular factors identified were that Ghana is mainly an agricultural country, nearly a third of the population live in poverty and the infrastructure is poor. A number wrote at greater length than required, seeking to explore these factors.
- (b) This question was generally well answered. A relatively high number of candidates explained that people may move from rural parts of Ghana to the cities in order to gain employment or better jobs and so raise their living standards and in order to obtain better education as a result of more schools and/or the existence of universities in cities.
- (c) Only a small number of candidates transposed the demand and supply curves but more labelled the axes incorrectly. A pleasing number drew an accurate diagram, shifting the demand curve to the right and clearly indicating the original equilibrium and the new equilibrium, and provided a lucid explanation of how an increase in demand would result in a rise in price. Some, however, also shifted the supply curve and not all linked the higher demand to a rise in price.

Candidates need plenty of practice in drawing demand and supply diagrams to analyse real world events and in explaining the sequence of changes in market conditions.

- (d) There were some strong answers to this question. These drew on the extract and developed the points, making good use of relevant economic theory. For instance, some candidates explored how the local tribespeople could use any payment they might receive to improve the quality of their lives whilst also considering that the loss of their land might reduce their long term earnings. There was also some good discussion of the impact on the economy of Ghana, particularly in terms of the benefits of higher GDP and reduced pollution whilst recognising that the project will involve an opportunity cost. A number of candidates, however, wrote in note form, which prevented them from being able to discuss the points.

Section B

Question 2

- (a) There was less evidence than in previous sessions of confusion between factors of production and stages of production. The two most popular factors of production described were labour and land. These were generally well described although some candidates did not provide examples. Of those candidates who selected capital, most correctly described it in terms of human made goods used to produce other goods and services but some wrote about money. Most of those who selected enterprise/the entrepreneur were able to produce good answers.
- (b) Most candidates showed an accurate understanding of the term 'opportunity cost'. Most also recognised that people have unlimited wants whilst there are limited resources. The strongest answers went on to state that this results in the economic problem of scarcity and to explain that this gives rise to choices and these choices have to be made carefully, taking into account opportunity cost. A number of candidates, however, wrote about particular problems including unemployment and inflation rather than the economic problem.
- (c) Candidates identified a number of reasons for government intervention and a number of ways in which such intervention occurs. The strong answers developed arguments both for and against, for instance, redistributing income, reducing unemployment, providing public goods and increasing the output of merit goods. There were some very good comments on why market forces might result in an inefficient use of resources and also why government intervention may result in disincentive effects.

Question 3

- (a) A high proportion of candidates struggled with this question. As in previous sessions, there was confusion between social costs and external costs. Most candidates could identify costs of constructing a railway but few described the nature of these costs, in terms of private costs and external costs. A small number wrote about external benefits.
- (b) Candidates did not always make the best use of their time in answering this question. A relatively high number devoted most of their answer to explaining the difference between the private and the public sector, rather than directly answering the question. There was also some confusion about the nature of the public sector funding, with some interpreting it as borrowing from the general public.
- The strongest answers explained that a government might not have the money now to spend on the project, that there might be a significant opportunity cost involved in using tax revenue on the project.
- (c) The key to doing well on this question was to apply relevant economics to develop discussion. For example, a high number of answers mentioned that the project would reduce travel time. The strongest answers went on to explore how this might affect firms' costs of production and demand for other forms of transport. Many candidates also mentioned that a high speed railway might damage the environment, with the strongest answers examining the effect this may have on tourism. There was some good application of opportunity cost in a number of answers.

Question 4

- (a) Candidates often confuse the functions and characteristics of money and this was the case this year with a number of candidates describing general acceptability, durability etc. Not many of the candidates who did write about the functions of money were able to identify and describe all four. The two most common functions that were identified and described were a medium of exchange and a store of value.
- (b) Candidates found this to be a relatively challenging question. The main way identified was to raise the rate of interest and some concentrated just on this. Some others did explore advertising, developing new saving schemes and making it easier to save through opening new branches and increasing opening hours. A number of candidates, however, sought to answer a different question by describing the functions of a commercial bank or the ways in which commercial banks could increase lending.
- (c) Most candidates answered this in very general terms, discussing why some workers earn more than others but not relating the points very closely to workers in the public and private sectors. The strongest answers often related their points to the situation in their own countries. For instance, mentioning that public sector workers receive low earnings because they are compensated with higher pensions or, in other cases, that public sector workers receive higher earnings as the government seeks to ensure workers have a 'living' wage.

Question 5

- (a) Candidates tended to be quite good describing a co-operative with many mentioning that it is operated for the benefit of members and members have equal voting rights. There were some good descriptions of a public corporation but as in previous sessions, there was some confusion with a public limited company.
- (b) There were some interesting answers to this question, particularly in terms of a public corporation. Some candidates recognised that whilst traditionally a public corporation's key aim is to provide a service, some now act, in effect, as profit maximising multinational companies in other countries.
- (c) This was a well answered question. Most candidates showed a good understanding of both horizontal and vertical integration and provided relevant examples. A small number of candidates confused vertical integration with conglomerate integration.

- (d) Again, there were some good answers which explored some of the possible disadvantages of a monopoly. These were mainly examined from the viewpoint of consumers but some candidates also considered the disadvantages and advantages to the monopoly firm itself. Good use was made of economies and diseconomies of scale and there were some interesting discussions about what factors may influence whether a monopoly will innovate.

In the case of some answers, there was confusion between a monopoly and a sole proprietor. A number of these answers started by stating that a monopoly means a single seller but then interpreted this to mean that only one person owns the business.

Question 6

- (a) There was a range of responses to this question. Some explained a range of harmful effects of inflation, including a fall in purchasing power of workers with weak bargaining power and a loss of international competitiveness. A number stated that it might cause unemployment but many did not adequately explain why.
- (b) The performance on this question was stronger than that on **Question 6(a)**. Many candidates seemed aware of the costs of unemployment and how these costs would increase over time. Among the points covered were the loss of income to the unemployed, a reduction in their skills, a fall in the country's output, a loss in tax revenue and the opportunity cost involved in the payment of benefits to the unemployed.
- (c) Candidates found this a challenging question with many struggling to explain why the aims might conflict. In some cases, it appeared that candidates had selected to answer **Question 6** on the basis of their ability to answer **Question 6(a)** and **Question 6(b)** whilst being uncertain how to answer **Question 6(c)**.

The strongest answers discussed how higher total demand might promote a high rate of employment but may result in demand-pull inflation. Some of these also discussed how certain government policy measures designed to achieve one of the aims might harm the other, whilst supply-side policies might enable both a high rate of employment and a low rate of inflation to be achieved.

Question 7

- (a) Most candidates showed an awareness of specialisation but not all focused on regional specialisation. There were some good answers which did examine the benefits of a region specialising, particularly in terms of lower average costs, higher living standards and the development of a good reputation.
- (b) This was answered well. A high proportion of candidates revealed a good, accurate knowledge of the components of the current account although a number described only trade in goods and services.
- (c) A relatively high proportion of answers mentioned that changes in demand and supply would cause the value of a floating exchange rate to fall. Not many, however, went on to mention what might cause the demand for and supply of the currency to change.
- (d) There was a range of responses to this question. Some answers were rather vague and a number were limited to defining a floating exchange rate and a fixed exchange rate. Others were stronger and compared a number of features of the two systems, including stability, the role of reserves and adjustment to imbalances and external shocks.

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Paper 2281/23
Structured Questions

Key Messages

For **Section A**, which is the compulsory question, it is very important that candidates read all the data provided before they start writing and use it where appropriate in their answers. Most candidates made good use of the extract in their answers to parts **(a)** and **(b)** although a few tended to write out the third paragraph in their answer to part **(a)** and the first paragraph in their answer to part **(b)**.

For **Section B**, candidates should read through all questions on the paper before deciding which three questions they may be best at answering. In particular, candidates should look at the last sub-question before deciding which questions to answer since they usually carry the most marks. There were very few examples of candidates changing questions answered which suggests that candidates made the right selections.

Reference to local examples to illustrate answers is welcomed as it shows a candidate's ability to apply economic concepts to their local environment and this was clearly shown in some responses to 2 **(c)**, 4 **(c)**, 5 **(b)** and 6 **(a)** and **(b)**.

General comments

There were very few rubric errors this year and very few examples of candidates not completing four questions. There also appeared to be fewer examples of candidates using bullet points as their main method of answering questions. List-like answers were also seen less frequently. Answers to questions also broadly reflected the number of marks available, especially the last parts of some questions. These are all encouraging signs.

Most economic terms and concepts were well understood by candidates and good explanations or definitions were given which would have been rewarded. E.g. "inflation" (**Question 1**), the terms "capital", "enterprise" and "opportunity cost" (**Question 2**), "price elasticity of demand and supply" (**Question 3**), "tax" and "subsidy" (**Question 5**), "net migration" and "poverty" (**Question 6**), and "floating exchange rates", "quotas" and "embargoes" (**Question 7**). However, there still does not appear to be a good understanding of what the "Human Development Index" means and how this may differ from other ways of measuring the standard of living. Equally, not all candidates understood what was meant by a "very competitive market" (**Question 1**) and this led to some answers that received low marks.

Comments on specific questions

Section A

Question 1

- (a)** Most candidates drew correct diagrams with clear labelling showing a shift to the right in the supply curve, with a new equilibrium having a higher price and reduced output. Most candidates explained why there would be a rise in price. Two common errors were to label the quantity axis as either demand or supply but not both or leave it simply as quantity; and to show a shift in the demand curve to the right.

- (b) Most answers correctly identified that cost-push inflation arose from the increase in wheat prices and some candidates went on to explain how this affected the price of bread. A few candidates explained how this might trigger demand for higher wages which would also affect cost push inflation. A few gave a definition of cost push inflation. However, in some cases candidates made reference to higher wheat prices being the result of the ban on exports which does not explain the higher prices in Russia. These were the result of a fall in output caused by the wildfires and many candidates recognised this and explained inflation arising from supply falling whilst demand remained unchanged.
- (c) Answers to this part of the question differed significantly between Centres. Many candidates correctly defined inflation but there were errors in explaining how it was measured. Candidates in some Centres were able to give very full answers relating to the use of the Consumer Price Index or Retail Price Index and how it was constructed. Others made reference to base years, weighting and basket of goods without much conviction. There are still some Centres where candidates prepare very complex tables which probably take some time to set out and this is not required to gain full marks. However, there was a sizeable minority that stated that inflation was measured through GDP which is incorrect.
- (d) Some candidates were very clear about what a “very competitive” market meant. Many wrote about such markets having many sellers and no barriers to entry. Advantages mentioned included, low prices, high quality of goods, efficiency and quick response to meeting consumer demand. Disadvantages identified varied considerably. Common responses included production of demerit goods, failing to take account of external costs, small firms not benefiting from economies of scale and lack of differentiation between goods. Some candidates went down the route of stating that competitive markets could lead to firms going out of business and loss of jobs as firms attempted to reduce costs. A few candidates saw very competitive markets becoming monopolised if firms could differentiate products and gain from economies of scale. Whilst this is a plausible explanation, some answers purely wrote about monopoly, which was a narrow focus and therefore were restricted in the total marks they were awarded.

Section B

Question 2

- (a) The response to this question was generally disappointing. Far too many candidates still explain capital in terms of being money used to purchase the other factors of production, and in some cases relate it to financial investment. However, many answers correctly identified capital as man-made goods and were able to give examples such as machinery. The question invited candidates to go beyond a definition and explain how capital was important to the production process. It was encouraging to see a number of responses where candidates explained how capital was essential to the modern production process and the complexity of products made using specialist equipment. Speed, efficiency and replacement of labour were often given as reasons why capital was important.
- (b) There was some overlap in the use of the terms “enterprise” and “entrepreneur” but the majority of candidates were clear that the entrepreneur was responsible for the decision making on what goods and services were provided and how they were produced. Only about half of the candidates referred to risk-taking and that profit was the reward for that risk. Good answers wrote about not only what were the characteristics of a successful entrepreneur but also why some entrepreneurs failed.
- (c) The concept of opportunity cost was well understood by nearly all candidates. However, some candidates had difficulty in explaining how this concept applied to consumers, firms and governments. This was particularly true for firms where explanations tended to be about what to produce and how to maximise profit rather than the opportunity cost of one decision over another. In some cases, candidates used production possibility curves to explain opportunity cost to firms and this worked well. Most candidates were comfortable in explaining opportunity cost as it related to consumers and answers were also generally sound for governments. Here, a common response was around how government allocated resources to meet the different macro policies. For example, spending extra funding on education would result in better skilled workers which would generate economic growth but it would reduce spending on the health service with an explanation of what this might mean for the general health of the public.

Question 3

- (a) Price elasticity of supply was understood by nearly all candidates although a few mistakenly saw changes in supply affecting price or level of demand. Most candidates were able to explain the range of values from 0 to more than 1. Few stated that it was a positive relationship i.e. supply rose when price rose. A few explained in some detail why supply might be inelastic or elastic but this was not required by the question. A problem with this approach was that some answers to part C were very thin on price elasticity of supply perhaps because candidates had explained this in part A. A number of candidates drew examples of supply curves which showed their understanding of price elasticity of supply, but this was not necessary to gain full marks.
- (b) A number of candidates started their answer by giving a definition of price elasticity of demand and this would have been rewarded. There were some very good answers on what influenced price elasticity of demand and a sizeable minority of candidates gained full marks on this section. However, quite a few candidates did not do so well and there were two main reasons for this. Firstly, what they explained was factors affecting demand e.g. growth in population would lead to higher demand. Secondly, they identified a relationship e.g. goods which are a necessity tend to have price inelastic demand but then did not develop the answer by explaining why demand would be inelastic e.g. because even if the price rose, consumers would still buy the product.
- (c) This part of the question was not as well done as the first two parts. Most candidates had the basic understanding that if firms lowered the price of a product with price elastic demand, demand would rise by more than price fell and therefore revenue would rise. Some candidates illustrated this with a diagram showing revenues gained and lost. The same applied to goods with price inelastic demand. However, some candidates confused revenue with profits and some wrote in very general terms about how revenue might be affected. Some related price elasticity of demand with the imposition of taxes on goods which again illustrated the impact of price elasticity of demand and would have been given some credit. Answers on price elasticity of supply were generally poor. The answers for some confused demand and supply. Some just repeated what price elastic and inelastic supply was. However, some candidates were able to explain that price elasticity of supply affected the ability of the firm to respond to a change in demand and that making your supply more elastic by storing goods or increasing capacity would assist in responding to changes in demand. Indeed, some very strong candidates explained the impact of a good with both a high price elasticity of demand and supply.

Question 4

- (a) This part of the question was generally well understood. Candidates were aware that shareholders received dividends and that they would make a capital gain if share prices rose. Fewer candidates went on to explain that shares carry voting rights enabling shareholders to influence the running of the company.
- (b) Again candidates had a good understanding that the Stock Exchange provided a market for the buying and selling of shares although fewer were aware that it also enabled the government to raise funds. The explanation that the share prices on the stock exchange provided an indicator of how well the economy was doing was more limited. There were a few misconceptions about the role of the Stock Exchange e.g. that it was a place for buying and selling goods or currencies.
- (c) This part of the question was reasonably well done in that the majority of answers indicated that pay, fringe benefits and working conditions were likely to be better than many other jobs especially in developing countries. Reference was made to skills and level of education needed to do such jobs and that status might be a factor in attracting some people to working in the financial sector. Some candidates related jobs in financial services to other jobs in the primary and secondary sector and therefore why such jobs would be more appealing in their country.

- (d) Most candidates were able to give a reasonable understanding on the role of trade unions and how they assisted their members. However, the question went beyond this and asked candidates to discuss the extent to which trade unions could benefit the economy. For a sizeable minority of candidates, there was no direct acknowledgement of the impact of trade unions on the economy with answers purely being how trade unions affected pay and working conditions for their members or affected individual firms. Whilst this would have gained some marks, there was a need to explain for example how raising qualifications and skills of trade union members would raise productivity, output and therefore growth within the economy. Most candidates were generally able to explain that higher wages could result in inflation; better candidates would have stated this was cost-push inflation and made reference to the loss of international competitiveness of home based companies if wages rose too fast.

Question 5

- (a) This should have been a straightforward answer for most candidates to gain all four marks. However, a considerable number did not make reference to the government in their answer and many others spent too long explaining why taxes were used to change prices of goods without any reference to income tax, which generates considerable revenue in some countries. Answers were generally better on subsidies although here again often answers were too long and the response given was more relevant to part b. A few confused subsidy with a substitute good.
- (b) This was generally well answered with many gaining full marks. Common reasons given related to provision of merit goods, providing support for infant and sunset industries in respect of international trade, reducing prices of necessities e.g. rice for poor families in time of inflation and generally reducing the prospect of unemployment. In some cases diagrams were drawn to support the text but this was not required to gain full marks.
- (c) Generally speaking, the length of answers given to this part of the question reflected the fact that 10 marks were available. Answers as to why income tax should be raised were generally sound. Typical responses included reducing aggregate demand and addressing demand-led inflation, providing additional revenue to allow government expenditure on education, health services etc. and redistributing income from rich to the poor. There were some incorrect comments which suggested for example that income tax be used to reduce consumption of demerit goods. Arguments put forward against increasing income tax were generally weaker. The common responses related to demotivation for those paying tax which could have an impact on output, and that lower demand at a time of recession could lead to higher unemployment. Other comments included that it could lead to a “brain drain” and discourage multi-national companies from coming to the country. Some candidates wrote instead about reasons for reducing income tax, which whilst often correct, was not the question asked and therefore gained few if any marks.

Question 6

- (a) The majority of candidates understood the term net migration, although a few explained it as an outward flow only. For some countries migration was a big factor in determining the overall change in the population. For some candidates more could have been written about other factors such as birth and death rates and indeed which factor was likely to be the main factor affecting the size of the population. Good answers often explained how in a developed country with low birth and death rates, net migration could well be the main factor.
- (b) Most candidates showed an understanding of what were health programmes, however for many there was a misconception that people paid for them and therefore often reached a conclusion that health programmes would not reduce poverty. Good answers explained that if the result of better health programmes was to reduce illness and enable more people to work this could reduce poverty. The most common viewpoint was that health programmes would contribute but were not enough in themselves to reduce poverty and could even divert resources away from actions that would reduce poverty. There was a good understanding that spending money on education, creating jobs and improving infrastructure would enable more people to have jobs and therefore move out of poverty.

- (c) Detailed understanding of the Human Development Index was limited to a few Centres although many candidates had a broad understanding of the sorts of indicators that measured living standards. Many candidates struggled to explain how useful HDI was in comparing living standards in different countries and overall this part of the question was not well done. In many cases candidates were not aware that HDI consisted of GDP, life expectancy and education e.g. literacy and argued that these indicators were more relevant. Common concerns expressed related to the use of GDP and unequal distribution of income and hidden economies.

Question 7

- (a) Demand and supply were commonly identified as factors influencing the value of a currency in a floating exchange rate. Fuller answers also made reference to interest rates, speculation and changes in the level of imports and exports affecting demand and supply. A few candidates also made the point that there was no government intervention.
- (b) This part of the question was also generally well done. Answers often correctly identified that exports were now more expensive and demand would fall; whereas imports were now cheaper and this would lead to a rise in imports and that overall there would be a deficit on the current account. Stronger answers referred to the fact that there could also be a fall in growth and rise in unemployment. Some commented that because imports of raw material were now cheaper, this might benefit some firms and that overall this could have a favourable effect on prices in the economy.
- (c) Most candidates were able to explain fully the difference between a quota and an embargo and in many cases an example of a quota or an embargo was given.
- (d) Trade protection was well understood and there were many competent answers on the reasons why a government would protect a home industry. The most common reasons related to infant and sunset industries, strategic industries (including agriculture) and as an anti-dumping measure. Potential advantages of free trade were generally well explained as well with higher world output and standard of living and wider choice for consumers often given as reasons for supporting free trade. Some candidates, however, did not state the reasons in support of free trade but instead explored why the impact of trade restrictions could be negative e.g. retaliation from other countries and less choice and higher prices for consumers. This was equally acceptable as an approach.