

ECONOMICS

Paper 2281/01
Multiple Choice

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

General comments

9844 candidates took this paper in November 2006 and the mean score was 20.6. In November 2005 the mean was 21.7.

Three **Questions, 1, 3 and 32** were particularly easy for the candidates with over 80% choosing the correct answer. Apart from **Question 1**, which is sometimes set as a relatively easy introduction, when these questions were included in the paper they were not thought to be simple.

If questions are found to be relatively easy the discrimination index is sometimes below the norm expected for questions of average difficulty. This did not occur with the above questions. However, the discrimination index was also below that expected for **Questions 17 and 29**. When the discrimination index is low it could mean that the question might have been answered correctly by candidates who scored less well on the test overall and incorrectly by candidates who scored well on the test overall. Such a result could mean that there was something inherently incorrect with the question.

These two questions together with **Question 8** were in fact the most difficult on the paper. **Question 8** was answered correctly by 20% who chose option D. 36% chose C and 29% A. Candidates who chose A or C confused a cause of a shift in the supply curve with a cause of a shift in the demand curve. The correct key D requires the candidates to recognise that an increase in advertising could well result in an increase in demand for the product. As this is for a rival product there will be a decrease in demand for the product in question and the demand curve will shift to the left.

Question 17 was answered correctly by 7% of the candidates. 73% chose option A. Option A refers to an absolute amount. There is no information about absolute wage payments in the question, only about proportionate changes. Candidates who chose A confused the use of absolute and percentage changes – a common mistake in past papers for this examination.

Question 29 referred to composite parts of the balance of payments. A surplus of \$20 m on one part of the balance had turned to a \$10 m deficit when all the items were included. Somewhere there must be a total of \$30 m deficit to cause this. The only option allowing this to happen was option C. Those who chose A omitted to notice the plus sign. Upon reflection, this question was thought to be too hard and focused on too narrow an aspect of the syllabus. Consequently the scores for the question were ignored and the paper was, in fact, marked out of a total of 39. It is unfortunate when this happens and it was not thought at the time when the paper was set that this would be such a difficulty. By deleting the question from the paper and adjusting the grade boundaries accordingly it is not thought that candidates were disadvantaged.

ECONOMICS

Paper 2281/02
Structured Questions (Extended)

General comments

The quality of the answers varied greatly. There were some very good answers from a number of candidates, who demonstrated a sound knowledge and understanding of economics and a mature ability to analyse, discuss and evaluate key economic concepts and issues. There were also, unfortunately, a number of weak answers where the candidates failed to demonstrate very much knowledge or understanding. There were relatively few rubric errors, although some candidates did answer all seven questions instead of the requirement of **Question 1** and three other questions.

Candidates need to pay attention to the precise instruction in the question. For example, if the question asks the candidate to state something, as in **Question 1(a)** or **Question 3(a)**, then he or she simply needs to write a brief answer. However, if the question requires the candidate to explain something, as in **Question 2(a)** or **Question 6(b)**, or to discuss something, as in **Question 4(d)** or **Question 7(b)**, he or she needs to go into much more detail. In the case of a discussion, the candidate will often be expected to give two sides of an argument, or to consider the advantages and disadvantages of something and then come to a reasoned and logical conclusion. Candidates also need to look very closely at the number of marks given to each part of a question, as this gives a clear indication of how much time to allocate to each part and how much detail is required.

One problem for the examiners is that a number of candidates fail to put the answers in the correct order, often mixing up answers to different questions. This makes it much more difficult to mark; candidates really need to try and allow some time at the end of the examination to make sure that the work being submitted is in the correct order.

Comments on specific questions

Question 1

- (a) Most candidates were able to correctly state four ways in which multi-national companies can help developing countries, such as Bangladesh and these included an increase in employment, the development of new skills, an improvement in the infrastructure and a boost to exports.
- (b) A number of candidates struggled with this part of the question. However, many of them recognised that what was required was a contrast of the two statements, i.e. a recognition that there might be some good reasons for a country to have trade agreements, but that, despite these, there could also be good arguments to be said in favour of free trade, giving countries the opportunity to benefit from specialisation at the international level.
- (c) The majority of candidates were able to provide a summary of the main argument of the Foreign Minister of Bangladesh, but some of them simply copied straight from the text and so were unable to gain more than half marks for this part of the question.
- (d) There were a number of good answers to this final part of the question, with candidates recognising that it might be difficult for employment in the clothing industry to be replaced by employment in the manufacture of medicines. Candidates recognised that these were very different types of work which would limit the degree of occupational mobility; there were also large differences in the number of workers required in the two industries: 50 000 in medicine and 1.8 million in clothing.

Question 2

- (a) The majority of candidates were able to clearly explain the difference between an equilibrium price, i.e. one where there was no tendency for it to change, and a disequilibrium price, i.e. one where it was likely to change because of a situation of excess demand or supply. The question did not explicitly ask for a diagram, but many did decide to draw one and generally used it to good effect to aid the explanation.
- (b) The second part of the question did specifically require a diagram to be drawn and the better answers included a shift of both the demand and the supply curve to the right, explaining why both would be likely to occur. Incomes had generally been rising, leading to an increase in demand and firms had been responding to this by increasing the supply. Some candidates, however, focused on only one of the two aspects and so limited the mark they could be awarded. A few candidates failed to draw a diagram despite being asked to do so.
- (c) Answers to this part of the question varied a great deal. Many candidates were able to clearly define the concept of price elasticity of demand and went on to suggest why different goods had different price elasticities, such as whether they were essential or luxury goods and the proportion of income spent on them. Other candidates, however, did not seem to have a good understanding of the concept and/or were unable to suggest why price elasticities varied so much. A few candidates wrote extensively on the concept, explaining in theory how PED could vary from perfectly inelastic to perfectly elastic and including a large number of diagrams, but said nothing on particular goods and so were unable to gain more than two of the available five marks.
- (d) As in the previous part of the question, answers to this final part varied a lot. A number of candidates offered very good answers, explaining that holiday tours would be likely to be relatively price elastic in most cases and so firms would find it preferable to reduce prices in order to increase revenue (a few candidates went even further and gave some examples of tours where the demand would be more likely to be price inelastic, such as with the more expensive and exclusive segment of the market). Others, however, found it very difficult to apply the concept to holiday tours in any meaningful way.

Question 3

- (a) The majority of candidates were able to correctly state four non-wage influences on an individual's choice of occupation and these included working conditions, holiday entitlement, the likelihood of promotion and the distance/time to travel. A few included wages despite the question explicitly asking for non-wage influences; it is clear that some candidates need to read the questions much more carefully.
- (b) The first part of the question was answered well in the majority of cases, with candidates explaining clearly what was meant by the primary, secondary and tertiary sectors of production, usually with the inclusion of appropriate examples to aid the explanation. The second part of the question, however, was found to be more difficult in many cases. It was expected that candidates would describe how the primary and secondary sectors would decline in importance and the tertiary sector would gain in importance over a long period of time as a country developed (the secondary sector would initially grow in importance and only decline at a much later stage), but relatively few offered a good description of this likely process of development.
- (c) The majority of candidates were able to clearly explain what was meant by a trade union, in terms of an organised group of workers with the aim of increasing the wages and improving the working conditions of the members. Some candidates were able to explain the different types of trade unions in existence. A few, however, got completely confused and thought that a trade union was a trading group of countries, such as the European Union. Another area of confusion was that some candidates thought that it was a group of employers rather than employees.

- (d) Many candidates found this a rather difficult question to attempt. A number of candidates simply wrote about the different methods that could be used by trade unions to try and achieve their aims. The key element of the question was the reference to 'relative strengths' and candidates should have focused on why some trade unions might be more powerful and more likely to be successful than others. For example, they could have considered the size of the union, the proportion of people in an industry in the union or its financial resources. There should also have been a consideration of how the factors might have influenced the demand for and supply of labour and possible reference to the level of earnings in particular occupations.

Question 4

- (a) The majority of candidates were able to explain how inflation could be measured through a retail or consumer price index. There were some very clear and detailed answers which fully explained such things as a basket of goods, the base year of 100, the weights given to particular goods and services and the actual construction of the index. A few candidates, unfortunately, misunderstood what was required and wrote about the differing degrees or types of inflation, such as creeping or galloping inflation, or about the different causes of inflation, such as demand-pull or cost-push.
- (b) This part of the question was also answered well by the majority of candidates. The two aims that were chosen included economic growth, the balance of payments, the redistribution of income and full employment. A few candidates, however, decided to write about low inflation as one of the aims, despite the reference in the question to two **other** aims apart from low inflation; yet again, this was an example of some candidates not reading the question carefully enough.
- (c) Most candidates recognised that high oil prices could contribute to inflation, either in terms of a direct impact on the RPI or CPI or indirectly through its effect on other prices, especially in relation to production and/or transport costs, contributing to cost-push inflation.
- (d) The last part of the question was answered reasonably well by the majority of candidates who were able to discuss a range of actions which governments might take to control inflation, including both monetary measures, such as a rise in interest rates, and fiscal measures, such as reduction in government expenditure and/or an increase in taxes. Weaker candidates, however, paid no attention to the command word '**discuss**' and simply listed a number of possible actions, limiting the number of marks that could be awarded to the answer.

Question 5

- (a) The majority of candidates had a basic understanding of what was meant by the term 'conservation', but they did not always clearly relate this to resources.
- (b) Most candidates were able to consider who might benefit from an urban development project and answers included the developers, the users of the development project, such as consumers if it was a shopping mall or residents if it was a housing development, the people who might gain employment, the people taking advantage of the improved infrastructure and the government if there was an increase in receipts from taxation.
- (c) Most candidates explained how a government might control private companies that wanted to develop an area through the use of taxes, but some went further and included a consideration of various types of licences and different types of regulation, such as planning permission.
- (d) The majority of candidates were able to discuss why the development and exploitation of an urban area might be disadvantageous and they considered a range of externalities, such as visual intrusion, noise and air pollution, the destruction of homes in order to build a new development, a possible reduction in profits of existing firms in the area and the possible consequences of overpopulation and overcrowding as people were attracted to the area.

Question 6

- (a) In part (i), most candidates were able to distinguish between direct and indirect taxation in terms of the former being a tax on income and the latter a tax on expenditure. Appropriate examples of the two types of taxation were given, such as income tax as an example of a direct tax and value added tax (or any other kind of sales tax) as an example of an indirect tax. A few candidates, unfortunately, got the two types of tax completely mixed up. In part (ii), many candidates understood the meaning of a progressive tax, explaining how the income tax rates would be higher for greater levels of income, but there was a great deal of confusion over a regressive tax, such as a sales tax. It is not that the rate of tax changes, but that it takes up a higher proportion of the income of poor people compared to the better-off.
- (b) The majority of the answers to this part of the question were of a good standard. Candidates were able to explain a number of reasons why governments imposed taxes, such as to raise revenue to finance public expenditure, the provision of public and merit goods and the discouragement of demerit goods, such as alcohol and tobacco. A few candidates ignored the command word 'explain' and simply provided a list of the possible reasons, limiting the number of marks that could be given to the answer.
- (c) There were a number of reasonably good answers to this part of the question. Candidates considered the likely positive effects, such as the increased revenue that could then be spent on the people, such as an improvement in the education and health provision, the effect on controlling the rate of inflation and the fairer distribution of income that would be a likely consequence. Many of them then went on to discuss the likely negative effects, such as the disincentive to work resulting from the higher rates of income tax that would be paid, reducing the net income.

Question 7

- (a) The majority of the answers to the first part of the question were generally of a good standard. Most candidates recognised that fixed costs would remain constant even if there was a change in output, such as the cost of rent or interest, whereas variable costs would alter if there was a change in output, such as the cost of raw materials. Average total cost was less well understood; candidates needed to explain that it consisted of both the fixed and variable costs and that this total cost needed to be divided by the output to give an average figure.
- (b) Most candidates were able to discuss what might happen to these costs if a firm replaced labour with machines. The fixed costs would be likely to increase as machines would be generally regarded as a fixed factor and the variable costs would be likely to decrease as labour would be generally regarded as a variable factor (some of the better candidates discussed the extent to which labour should be regarded as a variable factor, arguing that some forms of labour could be regarded as a fixed factor, such as the senior management). Discussion of the effect on average total cost was more difficult, but it might be expected to decrease if there was a greater degree of efficiency as a result of the increased use of machinery.
- (c) The answers to this part of the question were generally of a good standard. The majority of candidates were able to explain the different forms of integration, including horizontal, backward vertical, forward vertical and conglomerate or diversifying, and many of them included appropriate examples to support the explanation. They then went on to suggest a number of possible reasons why integration happens, such as to reduce costs (there were some very good explanations of the different forms of economies of scale), increase profit and to gain a greater market share.