ECONOMICS

Paper 0455/11
Multiple Choice

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

Key messages

To achieve a high score on this exam, candidates must demonstrate a broad understanding of the topics outlined in the syllabus. This is particularly important when questions involve working with graphical, numerical, or diagram-based data that will not be immediately familiar to the candidates.

Candidates should read each question thoroughly, paying close attention to any text highlighted in bold before choosing their answer.

General comments

The questions for which most candidates selected the correct answer were **Questions 2**, **13**, **17**, **19**, and **20**. These questions 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 **Questions 5**, **7**, **15**, **27** and **29**.

Question 5

Question 5 was answered correctly by 39 per cent of the candidates who chose option **D**. 47 per cent chose option **B**, 12 per cent chose option **C** and 2 per cent chose option **A**. This question relates to the outcome of an increase in the demand for and supply of peaches. Those selecting the correct option understood that an increase in both demand and supply would increase the quantity traded but leave the price change uncertain. The other three options provided a definitive price movement that could not be determined from the data provided.

Question 7

Question 7 was answered correctly by 38 per cent of the candidates who chose option **D**. 25 per cent chose option **B**, 24 per cent chose option **A** and 13 per cent chose option **C**. The question required candidates to select the price decrease from given market data that exhibited price-inelastic demand, this was option **D**. Options **A** and **B** were incorrect because they exhibited price-elastic demand.

Question 10

Question 10 has been discounted because there was an error in this question. The answer options listed both 'cheque' and 'credit card' which we do not accept as forms of money. We recognise that different definitions and explanations of forms of money exist. However, we identify the main forms of money as coins, bank notes and bank accounts, and we do not accept credit cards, debit cards or cheques as forms of money. The question was discounted to make sure that no candidates were disadvantaged.

Question 15

Question 15 was answered correctly by 33 per cent of the candidates who chose option **A**. 33 per cent also chose option **C**, 22 per cent chose option **B** and 12 per cent chose option **D**. The question presented four factors and asked which was the least likely to have increased given a move to greater capital-intensity by a firm. Those answering correctly, one third of the candidates, recognised that shifting to a greater use of capital is likely to involve borrowing money and would be least likely if interest rates had increased. An increase in the other three options would likely not prompt the increase in capital intensity. Most candidates understood that such a decision would be positively related to the productivity of capital and successfully ruled out option **D**.

Question 27

Question **27** was answered correctly by 40 per cent of the candidates who chose option **D**. 29 per cent chose option **C**, 22 per cent chose option **A** and 9 per cent chose option **B**. The question concerned the reason for an increase in specialisation in an economy. This item required candidates to select option **D** recognising that a reduction in the range of vehicles assembled by a firm would lead to greater specialisation. The other options were incorrect because they would not impact specialisation.

Question 29

Question 29 was answered correctly by 32 per cent of the candidates who chose option B. 24 per cent chose option **D**, 22 per cent chose option **A** and 22 per cent chose option **C**. This item presented the candidate with a foreign exchange market diagram in initial equilibrium and asked which action by a central bank would lead to an appreciation of their currency. The candidates who answered correctly realised that the central bank would need to purchase the specific amount of their own currency depicted in option **B**. A similar proportion of candidates incorrectly believed the central bank would either need to buy a smaller amount of their own currency or sell specified amounts of the currency.

ECONOMICS

Paper 0455/12
Multiple Choice

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

Key messages

To achieve a high score on this exam, candidates must demonstrate a broad understanding of the topics outlined in the syllabus. This is particularly important when questions involve working with graphical, numerical, or diagram-based data that will not be immediately familiar to the candidates.

Candidates should read each question thoroughly, paying close attention to any text highlighted in bold before choosing their answer.

General comments

The questions for which most candidates selected the correct answer were **Questions 4**, **5**, **12**, **13**, and **21**. These questions 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 **Questions 2**, **10**, **11**, **22**, **25** and **30**.

Question 2

Question 2 was answered correctly by 34 per cent of the candidates who chose option **B**. 58 per cent chose option **A**, 5 per cent chose option **C** and 3 per cent chose option **D**. The question provides information about a recently unemployed worker. The question asked about his occupational immobility. Whilst many candidates selected the correct option relating to skills, the majority incorrectly selected a response relating to geographic immobility.

Question 10

Question 10 was answered correctly by 45 per cent of the candidates who chose option **B**. 46 per cent chose option **D**, 7 per cent chose option **A** and 2 per cent chose option **C**. The question provides gender wage rates in four countries and asks where the greatest relative wage discrimination against females is. Many candidates recognised that in country **B** females earned just 50 per cent of the male wage. However, more candidates incorrectly gave option **D** which displayed the greatest absolute difference in gender wage rates.

Question 11

Question 11 was answered correctly by 56 per cent of the candidates who chose option **C**. 24 per cent chose option **B**, 13 per cent chose option **A** and 7 per cent chose option **D**. The item provided the candidates with a post-merger average total cost curve diagram for a firm and asked for a reason why a particular movement along the curve became likely. Over half of the candidates were able to identify the increase in average cost being the result of post-merger problems of co-ordination between departments. A significant minority of candidates thought this was the result of one or other economies of scale, which was incorrect.

Question 22

Question 22 was answered correctly by 54 per cent of the candidates who chose option **D**. 37 per cent chose option **B**, 6 per cent chose option **D** and 3 per cent chose option **A**. The question provides labour market statistics and asks for the percentage of working-age people in the labour force. Over half of candidates answered correctly, understanding the labour force refers to the total number of people who are actively participating in the economy by either working or actively seeking work. Over one third of candidates incorrectly chose option **B** that only included those employed in the economy.

Question 25

Question 25 was answered correctly by 56 per cent of the candidates who chose option **C**. 19 per cent chose option **A**, 17 per cent chose option **B** and 7 per cent chose option **C**. This item addressed the problem of GDP accuracy in the face of self-sufficient communities. Over half of candidates correctly selected the fact the value of food is unknown as an issue. Around a quarter of candidates incorrectly thought the fact that such produce is not exported was the problem and another quarter incorrectly thought that GDP does not include agricultural production.

Question 30

Question 30 was answered correctly by 39 per cent of the candidates who chose option **B**. 36 per cent chose option **C**, 18 per cent chose option **D** and 7 per cent chose option **A**. The question asked about the consequence of a surplus on the current account of the balance of payments. Well over one third of candidates recognised that high (export-driven) domestic demand would likely reduce unemployment. However, a little over one third of candidates confused the possible cause and consequence by selecting option **C**, a depreciation of the foreign exchange rate.

ECONOMICS

Paper 0455/13
Multiple Choice

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

Key messages

To achieve a high score on this exam, candidates must demonstrate a broad understanding of the topics outlined in the syllabus. This is particularly important when questions involve working with graphical, numerical, or diagram-based data that will not be familiar to the candidates.

Candidates should read each question thoroughly, paying close attention to any text highlighted in bold before choosing their answer.

General comments

The questions for which most candidates selected the correct answer were **Questions 1**, **22**, **25**, **26**, and **27**. These questions 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 **Questions 7**, **13**, **15**, **19**, and **24**.

Question 7

Question 7 was answered correctly by 35 per cent of the candidates who chose option **A**. 57 per cent chose option **B**, 4 per cent chose option **D** and 3 per cent chose option **C**. The item provided the value of a price elasticity of demand. The question asked about the relative price elasticity. Around a third of candidates answered correctly with price elastic. However, the majority answered incorrectly selecting price inelastic, possibly confused by the negative sign. Very few candidates were distracted by the other two options.

Question 13

Question 13 was answered correctly by 37 per cent of the candidates who chose option **D**. 27 per cent chose option **A**, 20 per cent chose option **B** and 17 per cent chose option **C**. The question showed a firm's average total cost curve and asked at which point on the curve the firm experienced diseconomies of scale. Around one third of candidates correctly identified this was where average total costs increased as output increased. The most common incorrect answer selected the point on the curve where average total costs were falling most steeply, options **B** and **C** also attracted large numbers of responses, showing a misunderstanding of the concepts involved.

Question 15

Question 15 was answered correctly by 39 per cent of the candidates who chose option **C**. 41 per cent chose option **D**, 17 per cent chose option **B** and 3 per cent chose option **A**. This question provided data relating to a firm's output, fixed cost and total variable cost, then asked about the firm's average total cost. The correct option could be determined by making straightforward calculations of costs of production based on the data provided. The most common error (option **D**) could have been to simply take the data in the table as the object data and note its continuous rise. Fewer candidates were distracted by options **A** or **B**.

Question 19

Question 19 was answered correctly by 31 per cent of the candidates who chose option **B**. 35 per cent chose option **A**, 20 per cent chose option **C** and 15 per cent chose option **D**. This question gave information regarding highly paid workers who reduced their working hours because of very high-income tax rates at higher levels of income. The options then explored a possible disadvantage of this income taxation. A little under one third of candidates correctly identified the only plausible option as **B**. A little over a third incorrectly chose option **A** that cited additional uncertainty that would not be created by a known tax rate. Similarly, those who selected option **C** and **D** made choices that could not be correct under the circumstances stated in the question.

Question 24

Question 24 was answered correctly by 34 per cent of the candidates who chose option **D**. 25 per cent chose option **C**, 22 per cent chose option **B** and 19 per cent chose option **A**. This item provided four possible causes of deflation and asked which one of them is most likely. Around one third of candidates correctly recognised the link between advances in technology and a decrease in the price level. One quarter of candidates believed an increase in the money supply (that would decrease the value of money) would be deflationary, which is incorrect. A similar proportion of candidates incorrectly thought that higher employment or higher production costs would be deflationary when in fact they would be more likely to be inflationary.

ECONOMICS

Paper 0455/21
Structured Questions

Key messages

There are two important takeaways that emerged from the exam. Firstly, in ***Section A***, candidates must engage closely with the source material and follow the instructions on page 2 to 'Read the source material carefully before answering **Question 1**.'. This plays a critical role in candidates' performance, and was particularly relevant for the external benefits of rainforests in **Question 1(b)** and the impact on Gabon's current account of the balance of payments in **Question 1 (c)**. Secondly, in ***Section B***, precision in reading each word of the question is vital. Many items, including 2**(b)**, 3**(b)**, 4**(b)**, 5**(a)** and 5**(b)**, explicitly required **two** responses (indicated in bold) but this was often overlooked. In **Question 4(a)**, which asked for **two** macroeconomic aims, numerous candidates attempted to provide four aims. Time management continues to pose difficulties to the candidates, particularly with the ***Section B*** **part (d)** questions worth 8 marks. These require a balanced, in-depth response that considers both sides of an issue and should therefore be more comprehensive than answers to the less demanding 4- and 6-mark items. Many candidates allocated more time than necessary to crafting descriptive responses, limiting the opportunity to demonstrate the nuanced, dual-perspective approach required for full credit. To excel in these extended sections, candidates should follow a clear structure: begin with foundational understanding defining relevant economic concepts and then expand into a reasoned and developed discussion that explores a two-sided viewpoint.

General comments

Candidates adopted a range of approaches in the exam, yielding varied levels of success.

1. Using source material and applying economics

In ***Section A***, candidates who performed well carefully engaged with the source material and tied in relevant economic concepts. However, some candidates deviated from the question by for example quoting the importance of unrelated commodities in **Question 1(d)**. In ***Section B***, short-answer items often rely on syllabus terminology, for instance, **Question 3(a)** asked for the rewards to capital and land. Many candidates misunderstood the question and gave the reward to other factors of production. For the **part (b)** items, few answers included sufficient development of the basic economic point introduced.

2. Targeting the Questions (c) and depth in (d)

There were strong responses to several **(c)** parts, especially 5**(c)**, although some answers deviated from the focus of the question. The **part (d)** questions showed the widest variation: a few responses merely listed points, while the strongest answers delivered well-rounded economic discussions and used their broad knowledge effectively. Some candidates included a conclusion in their **part (d)** answer. This approach can enhance responses *if* it goes beyond what has already been discussed. Simply restating earlier points does not earn additional credit.

3. Order and labelling of answers

Some candidates answered questions out of sequence, which increases the risk of accidentally skipping questions. Others mislabelled their responses by error.

Candidates could improve by:

- Engaging fully with the provided source material and incorporating accurate economic concepts.
- Reading every question carefully to understand exactly what is being asked.

- For short questions, staing focused and precise; for **part (c)** questions, adding sufficient depth; for **part (d)** questions ensuring that the answer is developed and two-sided.
- Using conclusions to support economic reasoning, instead of just summarising or asserting.
- Ensuring each answer is clearly labelled.

Comments on specific questions

Section A

Question 1

(a) Most candidates selected the right data of $6.6bn (oil output) and $22bn (GDP). Many then made the right calculation to produce the correct answer 6.6bn/22bn = 30 per cent. A few candidates calculated 30 correctly but then showed the answer in billions ($) rather than as a percentage.

(b) Nearly all candidates were able to identify two external benefits of rainforests from those mentioned in the source material – reduced air pollution, protection against floods and the prevention of soil erosion. A common error was to include wood provided for timber production as an external benefit. This was rather than seeing timber as a product harvested and sold in the market, thus internalising the benefit.

(c) This question proved challenging for most candidates. The majority were able to confirm the direction of the international money flow generated by increased (inbound) tourism for Gabon, but did not refer to the increase in exports which was crucial in this question. Moreover, the majority of candidates simply stated a version of the idea that the current account of the balance of payments would increase, which was too vague. The better responses added a degree of precision by stating either that there would be an increase in a trade in services (invisible) surplus/reduced deficit or that there would be improvement in the current account balance surplus/reduced deficit.

(d) Candidates were generally good at explaining the two separate reasons why the Government of Gabon wants to reduce its reliance on oil. The idea of oil as a finite resource that is running out was well noted and the likely ensuing broad impact on the wider economy was a common development point. The water pollution created by oil was picked up by most candidates as a second reason as was a valid development relating to either external cost or wider environmental impact. Candidates who did not score full marks on this question either simply stated the correct reason(s) without development or continued to elaborate on one reason having already secured the maximum marks available for it. Several candidates tried to develop the idea of 'alternative commodities' as the *reason* why the Government wants to reduce its reliance on oil which was not the focus of the question.

(e) Most candidates were able to score full marks for drawing the correct diagram. This required correctly labelling both axes and the initial demand and supply curves, a correct rightward shift in the supply curve and a correct indication of the shift in equilibrium. The most common error was a lack of identification of a shift in the equilibrium. Several candidates got the demand and supply curves the wrong way round or shifted the demand curve in error. Some shifted the supply curve to the left, or shifted both demand and supply curves. Less common approach was drawing two diagrams, one for demand and one for supply. This approach cannot gain full marks. Many candidates provided a text commentary with their diagram. This was not good use of their time, as it was not required by the question and no marks could be awarded.

(f) There were some strong responses that showed candidates fully understood the data in Figure 1.1. These responses correctly identified the overall trend as a negative or inverse relationship, then described the relationship using Mali and South Africa as examples of countries with a high proportion of workers in agriculture and a low level of literacy and vice versa. The responses then correctly identified and explained why Gabon was an exception. Some candidates described the relationship accurately but summarised it incorrectly as being indirectly proportional. Weaker responses described each data point without offering any additional information to suggest they had understood the relationship between each item, for example by stating that Mali's numbers were 80 and 35 whereas South Africa's were 5 and 95. Other weaker candidates referred to the data as showing 'per cent of labour force' rather than 'per cent of labour force employed in agriculture' and therefore full marks could not be awarded.

Below is an example of a strong answer.

As the literacy rate increases the percentage labour force employed in agriculture decreases. For example, South Africa has the highest literacy rate around 95 per cent and the lowest percentage employed in agriculture at 5 per cent. Also, Mali that has the lowest literacy rate around 35 per cent and the highest percentage employed in agriculture. This is because as literacy rates decrease it means that people have less skills and therefore it is harder to find higher wage jobs in the secondary sector. However, the exception is Gabon where it has a higher literacy rate than Tunisia but also a higher percentage employed in agriculture.

(g) Good responses were able to take the information in the case study about the impact of not offering training and use it to explain the benefits and drawbacks of offering training. For example, how gaining skills could help to increase output and so lead to economic growth; or how the variability of the quality of training might limit the policy's ability to achieve the stated benefits. Strong responses tended to discuss benefits and drawbacks beyond the case study, for example the policy's impact on government finances or the government's ability to fund it without reducing spending on other areas. Weaker responses tended to restate items in the case study without explaining them.

Here is an example of a strong answer:

A government should pay private sector firms to give work experience to unemployed young people so that they gain the necessary skills and experience. This will increase employment and therefore increase tax revenue as more individuals earn an income. An increase in efficiency will also increase GDP.

However, this may cause the government a budget deficit as they spend more on training and have less left over to spend on other things like education, possibly leading to the government raising tax rates.

(h) Strong responses recognised that this question is about economies and diseconomies of scale. Responses which identified and explained at least three economies and diseconomies of scale could achieve full marks. Weaker responses merely listed economies of scale or instead discussed factors which, although they would affect total costs, might not necessarily affect average costs. These include employing more workers or purchasing additional capital equipment. Employing more workers will increase total costs but would only reduce average costs if greater efficiencies occur as a result, such as might arise from managerial economies of scale.

Below is an extract from a strong answer:

On one hand as the production size increases textile firms can benefit from economies of scale. This means as production increases there will be purchasing economies of scale which allow for buying in bulk leading to discounts and lower average costs. Also, they can benefit from technical economies of scale as they can afford advanced capital.

However, if they grow too much, the firms can encounter diseconomies of scale because there is too much labour making it more difficult to command and communicate effectively.

Section B

Question 2

(a) Most candidates correctly identified gender and age. Also accepted as meaning gender were sex, female and male, women and men, and boys and girls. However, a few answers could not identify any factors displayed in a population pyramid. Common misconceptions were that it measures birth rate and death rate, while some candidates stated that it measures income and wealth.

(b) This question required candidates to give reasons why income may become more unevenly distributed. Common reasons given were regressive taxes, fall in progressive taxes, unemployment, education provision, level of skills, economic growth and discrimination. The development of the explanation for most of the reasons was poor. Many answers provided factors

causing uneven distribution of income rather than factors for an increase in uneven distribution of income.

(c) There was a wide range of answers given to this question and some strong responses. Most candidates were able to identify 'substitutes', 'proportion of income spent on shoes', 'necessity', and 'durability of shoes' as factors that will influence the price elasticity of demand (PED) of shoes. The strongest responses developed these ideas with respect to either elastic or inelastic demand. Weaker answers were more generic, stating that the PED of shoes would be determined by the industry, the season, or school going children and adults.

(d) Most candidates had some knowledge of what a mixed economy is and what its advantages are. Candidates provided advantages of government intervention in the mixed economy appreciating the provision of public goods, merit goods, and regulations to limit market failure. They also recognised some of the disadvantages that the government intervention may cause. There was also some appreciation of the importance of private sector provision of goods and services, and how they benefit people living in the economy by providing good quality and variety which allows people to make choices. Weaker answers were simply descriptive, often failing to analyse how a mixed economy will benefit people living in that economy. A few candidates just described a market economy.

Below is an extract from a Level 1 answer.

It will definitely benefit the economy as first of all a mixed economy consists of both private and public sector and by this way the people of the economy can get access to both economies.

Question 3

(a) Most candidates provided the correct factor rewards, interest and rent, for capital and land. Some candidates incorrectly provided rewards for labour and land and a few, enterprise. Weaker responses mistakenly identified the reward for capital as the provision of goods and services or machinery, and the reward for land as buildings or farmland.

(b) This part of the question appeared to be challenging for most candidates. Common answers included decrease in profits, increase in corporation tax, increase in interest rates, reduction in education, emigration of entrepreneurs, lack of confidence and recession. In most cases the one or two causes provided were not developed with an explanation, resulting in candidates scoring one or two out of the four available marks. Weaker responses included a static discussion of the determinants of enterprise rather than identifying the impact of what changes.

(c) A large number of candidates found this question part challenging, resulting in generally weak responses. Candidates who correctly interpreted the question as relating to factors that may shift the supply curve and the effect on prices were able to score high marks. Such factors included increase in cost of production, a natural disaster, changes in weather and government subsidies, amongst others. A few responses only identified changes in conditions of supply. Weaker answers simply analysed increases and decreases in supply and how this affects a firm's prices without explaining what factor will cause supply to increase and decrease.

(d) Generally, candidates had a strong understanding of the impact of a minimum wage and the harm or otherwise it could create in an economy. Common advantages mentioned were the increase in motivation that will lead to more people entering the work force, increase in productivity, and creating a reduction in poverty. Candidates noted that a rise in minimum wages, however, could harm the economy through a rise in unemployment, demand pull-inflation, and increasing government payment of unemployment benefits. Weaker responses provided a one-sided answer or misinterpreted the minimum wage as minimum price.

Below is an extract from a Level 3 answer.

A national minimum wage (NMW) is a government policy which is the least salary every worker must receive. A rise in the NMW would lead to a reduction in absolute poverty making them afford basic necessities such as food and shelter.

A rise in the NMW would also improve the incentive to work with unemployed workers now seeking employment and looking for jobs so they can earn more. This would reduce unemployment which is beneficial.

A rise in the NMW would also give workers better access to healthcare and increase their productivity which gives higher output levels and more GDP and does not harm the economy.

However, every firm may not be able to afford to pay every worker the NMW and may start laying off workers. This would lead to harmful unemployment. Also, the government may not be able to properly enforce the regulation in all areas of the country this would mean people still remain in poverty.

Question 4

(a) Many candidates where able to identify two macroeconomic aims that may conflict. Candidates who failed to do this either did not know what macroeconomic aims were and gave responses such as increased total demand or high population growth. Some candidates were too vague in their answer, for example just stating 'unemployment' or 'inflation'. Some provided overly detailed responses assuming they were required to provide two pairs of conflicting aims.

(b) Most candidates performed well on this question. However, some candidates did not explain the points identified. For example, they just stated high birth rate and low death rate but then failed to identify the factors that caused them. Some candidates stated that families in less developed countries may be larger but did not develop the point.

(c) There were many strong answers to this question. The strongest answers made a clear link between the cut in corporation tax and firms having increased funds or retained profit available to them. They then explained how the firms could use these funds and the possible impacts of this usage. However, many candidates mistook the fall in corporation tax for a fall in personal income tax. As a consequence of this, they explained how this would affect individuals' disposable income and consumption expenditure, therefore not answering the question asked.

(d) Better responses accessed this question effectively, showing the link between a fall in government expenditure and inflation. They often identified a fall in individual components of government expenditure and how this would affect demand pull or cost push inflation. Some candidates correctly identified cuts in components of government expenditure but then went on to discuss how this affects other macroeconomic aims such as economic growth or low unemployment rather than inflation. Some candidates also discussed the effects of an increase in government expenditure rather than a decrease.

Here is an example of a Level 3 answer:

A decrease in government spending on welfare benefits can result in a decrease in consumer expenditure which leads to a fall in aggregate demand and leads to a fall in demand-pull inflation. Further, a decrease in spending on education can lead to a fall in worker productivity and a fall in worker incomes and purchasing power. This could also result in a fall in aggregate demand and GDP and demand-pull inflation.

However, a fall in government spending on subsidies will result in higher cost of production for firms. This leads to a transfer of the burden of the increase to consumers in the form of higher prices which leads to cost-push inflation. Also, the decreased government spending could lead to a decrease in transport subsidies for firms that could increase costs of production hence leading to a rise in cost-push inflation.

Question 5

(a) Candidates found this item the most challenging of all the two mark questions. The most common answers were 'provide jobs' and 'profits'. Many scored 1 or 0 marks, often identifying 'reputation' as a response or other incorrect factors that do not provide a benefit for an MNC's home country.

(b) There were many candidates who understood the idea that imposing a tariff would make imported goods and services more expensive to purchase. Moreover, they understood that this could add to cost-push inflation. The idea that the tariff would reduce trade and/or lead to retaliation was also

well noted. However, there were fewer candidates who could develop these notions to gain the second development marks. Many candidates incorrectly focused on the effect on the government.

(c) There were many strong answers to this question. A good number of candidates understood the components of the HDI and thus could gain marks easily through developing their thoughts regarding investments in education and healthcare. Others took a more generalised approach focusing on the benefits of investment that creates employment and growth leading to a rise in a country's per capita GDP and HDI value.

(d) Responses to this question varied. A small number of candidates were confused by the concept of a floating exchange rate. Many responses were limited to the difference between a strong and weak currency without answering the question with respect to the effects of the floating exchange rate regime. The focus was often on the relatively higher or lower price of imports or exports based on the changing exchange rate. The best responses recognised the ability of a floating exchange rate to eliminate a current account imbalance. A more common approach was to discuss the fluctuations in a floating exchange rate and the disbenefits created through the level of uncertainty this would create surrounding investment and trade.

Below is an example of a Level 2 answer.

A floating exchange rate can benefit the economy by automatic correction of the current account of the balance of payments.

Firstly, the exchange rate is determined by market forces therefore the current account of the BoP is balanced very fast. For example, if the exchange rate is too high demand for exports falls because they are too expensive so demand for the domestic currency will fall eliminating a deficit in the current account of the BoP by increasing demand for exports.

However, a floating exchange rate system also discourages foreign investors since they are afraid to invest in a foreign asset when they have no guarantee of future value. They are not sure that the exchange rate will be high when they need it to be to convert their asset back to the original currency.

ECONOMICS

Paper 0455/22
Structured Questions

Key messages

- In answers to the **(g)** and **(h)** parts of **Question 1**, candidates are required to interpret and develop the source material, rather than just quoting it.
- Candidates should read the **(b)** part of the optional questions carefully before starting their response.
- Candidates should ensure that the answers to the **(d)** part of the optional questions are two-sided and have depth.
- Candidates would benefit from learning to clearly distinguish a government budget deficit and current account deficit.
- Candidates should check carefully on what classifies as unemployment.

General comments

There was a full range of responses provided on all the questions. Most candidates attempted all the questions. Among the small proportion of candidates who did not answer all questions, **Question 1(a)** was the most frequently omitted. This question requires candidates to calculate, which appears to discourage some of them from attempting it. Only a small proportion of candidates answered four rather than the three required optional questions.

Most candidates answered **Question 1** first. Many candidates made good use of the source material and candidates continue to perform well on **Question 1(f)**.

The **(a)** parts of the optional questions were generally well answered. Some candidates would have benefited from thinking through their answers to the **(b)** parts of the optional questions more carefully before writing them. The answers to the **(c)** parts of the optional questions were generally better with some strong analysis being provided. There was a wide variation in the performance on the **(d)** parts of the optional questions.

There was a fairly even spread across the optional questions selected, although **Question 2** was more popular than the other optional questions and **Question 3** was slightly less popular than the other questions.

Comments on specific questions

Section A

Question 1

(a) Most candidates answered this question accurately. A small proportion of candidates made numerical mistakes. For example, some candidates wrote that $310 m minus $292 m was $28 m. A number of candidates gave the answer as $18 rather than $18 m. Some candidates appeared to confuse the government budget deficit and the current account deficit by answering $56 m. Notably, this figure did not involve a calculation.

(b) Many candidates identified two relevant examples of land specifically mentioned in the source material. However, some showed confusion over the nature of land by giving forts and buildings as their answers. Some candidates gave carrots and onions as their answer. However, carrots and onions are referred to as ‘agricultural products’ in the source material – the output of land rather than land.

(c) Most candidates explained how tourism could cause pollution or another relevant external cost. However, not many candidates explained why the effect identified was an external cost.

(d) Many candidates identified two out of the three reasons given in the source material. Most of them provided a good explanation of the points, particularly of high income and high literacy rate. However, some of the candidates who correctly identified absence of personal income tax showed some confusion over who pays personal income tax.

(e) There were some well-drawn diagrams. These were accurately labelled, showed the supply curve shifting to the right and the original and new equilibriums. However, some candidates shifted the supply curve to the left and some got the demand and supply curves round the wrong way. Many candidates provided a written explanation. When the command word is 'Drawn', a written explanation is not required.

(f) This question was well answered. Many candidates identified the relationship, provided relevant supporting evidence drawn from the table, explained the direct relationship and identified why Monaco was an exception. There were, however, some candidates who just stated the figures given in the table without interpreting them. Others did not examine the data carefully enough. For example, some wrote that Canada had the highest spending on healthcare as a percentage of GDP and the highest life expectancy. They did not recognise that Canada had the second highest life expectancy. There were also some candidates who explained the reasons for the expected relationship between healthcare spending as a percentage of GDP and life expectancy but made no reference to the data.

(g) This question was also generally well answered. There was some good use of economics in exploring the effect of an increase in the size of the fishing industry on St Kitts and Nevis. Below is an example of a strong answer which explored both sides in a clear and analytical way:

An increase in the size of the fishing industry of St Kitts and Nevis would be beneficial as the trade deficit could be improved on large quantities are imported and once there is an increase in the size of the fishing industry, more fish can be caught. A surplus could also be exported and imports would be reduced which could lead to a trade surplus which could improve the current account balance. More jobs would be created as the industry expands as e.g. fishermen would be needed, so employment would increase, leading to an increase in income and so purchasing power increases, reducing poverty and improving standard of living.

However, a huge amount of finance would be needed as newer equipment and fishing boats would be needed, more training may have to be provided and the government may have to step in which would create an opportunity cost for the government. This is the next best alternative given up. For example, if the government increases spending on the fishing industry by giving it a subsidy, it will not be able to spend on other projects like education and healthcare. Moreover, fish is a natural resource and could be depleted. This would prevent sustainable development which could reduce future generations' standard of living.

(h) This proved to be a relatively challenging question and on average, candidates did not perform as well as on **Question 1(g)**. Some candidates just quoted words from the source material, for example: 'This affected people's purchasing power, saving and debts. It also affected the country's exports and firms' investment decisions.'. These candidates did not interpret the information, for example, by explaining that deflation may decrease investment as firms may reduce their output. Some candidates got confused and wrote about how a fall in the price level could result in inflation and then discussed the effects of deflation. However, a number of candidates developed the references in the source material and built on them. There were some excellent answers which compared the effects of 'bad' and 'good' deflation.

Here is an example of a strong but relatively straightforward and brief answer:

Firstly, deflation may have reduced firms' investment since firms would be less confident. This would reduce spending on capital goods, reducing output and therefore reducing productive potential. As a result, this would cause an economic decline and, if for two consecutive quarters, it would have resulted in a recession.

However, deflation would reduce prices of goods and services making them more internationally competitive. This will increase exports and reduce imports and so improve the balance of payments

position. Moreover, it would increase household's purchasing power and would increase the real value of savings.

Section B

Question 2

(a) There was a wide range of relevant advantages given. The two most popular advantages given were to increase market share and to take advantage of economies of scale.

(b) There were some strong answers to this question. Most of these focused on the effects of a loss in income and a loss of skills. However, many candidates only explained one disadvantage or identified two disadvantages but did not explain either of them.

(c) This question was well answered. Many candidates distinguished between the effects of an increase in geographical mobility and an increase in occupational mobility. There was some good analysis concerning the likely impact on unemployment, firms' flexibility and output.

(d) Some candidates did not answer the actual question set. Instead, they wrote about whether demand for chocolate will increase or decrease in the future. Candidates who tried to answer the actual question set did not all bring out the meaning of price elasticity of demand in their answers. Some appeared to be confused about how, for example, the existence of substitutes would be likely to affect price elasticity of demand by stating it would make demand price inelastic. There were also some strong answers which showed a good understanding of price elasticity of demand in the context of chocolate. Below is an example of a strong, Level 3 answer, which was two-sided and had depth:

Price elastic demand is where a percentage change in price leads to a more than proportional change in quantity demanded i.e. the value of PED >1.

The demand for chocolate may be price elastic if there are many close substitutes, for example, there are many chocolate producing firms in the chocolate industry itself. This means that if one firm raises prices, consumers are able to switch to alternatives which would be similar. This makes the demand for certain chocolates to be price elastic.

Additionally, chocolate is considered a luxury good in many countries. This means that if the prices rise any further consumers would be unwilling to buy chocolate, leading to a large contraction in quantity demanded.

However, in high-income countries, chocolate takes up a small proportion of people's incomes, so it is unlikely that people would be deterred by small price rises. Therefore, if the price of chocolate rises in high-income countries, this would have minimal effect on the proportion of income taken up and so unlikely that the quantity demanded will fall by a lot. This makes chocolate relatively price inelastic in high-income countries.

Additionally, chocolate contains a lot of sugar, which can make it addictive for many, especially the younger generation. Therefore, even if prices rise, due to how addictive chocolate can be, consumers may not be able to stop themselves demanding it. In this case, the demand for chocolate is price inelastic.

In conclusion, I believe the demand for chocolate will most likely to be price elastic due to how many substitutes are available which counteracts how small a proportion of income chocolate takes – because consumers will still be likely to find cheaper substitutes.

Question 3

(a) Most candidates stated that the axes of a production possibility curve measure the output of two goods or services. Many candidates gave capital goods and consumer goods as their answers. A small proportion of candidates showed confusion with a demand and supply diagram by mentioning that price and quantity are measured on the axes.

(b) Some candidates appeared not to have read this question carefully. As a result, they wrote about the difference between a merit good and a demerit good. Some answers were too vague. For

example, some candidates wrote that merit goods are beneficial for consumers rather than recognising that they are more beneficial for consumers than consumers realise. The most common examples of merit goods given were fruit, education and healthcare. The most common examples of public goods given were street lighting and defence. A small proportion of candidates gave education or healthcare as an example of a public good. These candidates did not recognise that both services are rival and excludable and can be produced by both the public sector and the private sector.

(c) There were some excellent answers to this question. These answers provided good and relevant links between e.g. specialising in particular tasks, productivity, quality, costs, prices, demand and profits. There was also some good analysis concerning the amount and cost of training. However, not many candidates explained how division of labour may help firms to mechanise production.

(d) There were some strong answers to this question. These answers examined both sides, making good use of economic concepts including economies of scale, elasticity of demand and profit maximisation. However, some candidates did not explain the points they made, for example why consumers might benefit from only one firm producing shampoo. Some candidates wrote that one firm producing shampoo may mean charging a lower price but did not explain why this might be the case. Some candidates also wrote that having only one firm would mean that pollution would be low. These candidates did not recognise that the amount of pollution created relates to the production methods used and total output rather than the number of firms that produce the output.

Below is an example of a Level 1 answer which stated points rather than explained them:

The consumer would benefit from only one firm producing shampoo because customers may find it easier to choose the shampoo.

However, the price may high and the quality of the product will not have to improve because there is only one firm in the market, this is called a monopoly.

Question 4

(a) The two most common types of unemployment identified were structural and cyclical. A small proportion of candidates described unemployment in general terms without identifying specific types.

(b) Several candidates would have benefited from a more careful consideration of the question. Some candidates wrote about what could cause the money received from relatives working abroad to increase, rather than concentrating on what the recipients could do with the money which could raise their living standards.

(c) There were some excellent answers to this question which demonstrated a good understanding of how an increase in direct taxation could cause unemployment. Most candidates provided clear analysis of how an increase in personal income tax could affect unemployment through a disincentive effect and through a fall in total demand. They also provided clear analysis of how an increase in corporation tax might persuade some firms to dismiss some of their workers to lower costs and protect profit.

Some candidates showed confusion by stating that higher direct taxes could encourage some workers to emigrate which would cause unemployment. Such movement could reduce employment, but it would not increase unemployment.

Very few candidates confused direct taxation with indirect taxation.

(d) The vast majority of candidates were able to recognise some of the influences on whether or not a doctor would benefit from working in another country. The strongest answers covered a good range of influences and examined these influences in some depth. In the following example of a middle range Level 2 answer, the candidate could have considered other influences, e.g. fringe benefits and working hours. The points mentioned could also have been examined in more depth. For example, demand and supply analysis could have been used to explain why a doctor may gain high wages in another country. In discussing discrimination, the candidate could have examined how this could affect the doctor's chances of promotion.

Doctor might benefit from working in another country because doctor is a skilled worker and so may gain high wages. Also, in another country there might be better medical technology, so doctor can work more efficiently. They will have better standard of living. Doctors will have great opportunity to learn different surgical methods from other country.

However, doctors might not benefit from working in another country because of discrimination. People in the other country might want to have a doctor from their own country. Language barrier will be a problem. Then, doctor might be unemployed in any hospitals. It will be hard for a foreigner to obtain loans so a doctor will have to live in bad quality housing.

Question 5

(a) The two most common influences on household spending mentioned were income and the interest rate. A small proportion of candidates did not answer the actual question and instead identified two consequences of a fall in household spending.

(b) There was some good explanation particularly in terms of how experience may mean that older workers will have gained skills. However, some candidates appeared to be confused about the definition of unemployment. These candidates wrote that employing older workers would reduce the number of retired people and so would reduce unemployment. The candidates did not appreciate that the retired are not part of the labour force. They are economically inactive rather than unemployed.

(c) As with the other **(c)** question parts, there were some excellent answers to this question. Many candidates provided clear analysis of how an increase in household spending could cause both demand-pull inflation and cost-push inflation.

(d) This question was generally well answered with most candidates demonstrating an understanding that the impact of imports would depend on the nature of the goods and the response of domestic firms. Below is an example of a very strong Level 3 answer:

The government should aim to increase imports to increase consumer choice. Citizens/firms will be able to consume outside the production possibility curve.

Moreover, it will allow the country to specialise according to factor endowments. This means that they can produce what they are best at without worry of not producing other items because they can simply import them and focus on what their country is already gifted with.

The government can also get revenue from imports through a tariff and this means they can spend on their macroeconomic aims and reduce problems like inflation and unemployment.

Importing from other countries will be beneficial as they can be importing capital goods which in the long run can shift the entire production possibility curve and long run aggregate supply/productive capacity.

It will also increase competition in the domestic market, motivating firms to become more competitive and capable of being on the same level or higher. This promotes efficiency which can increase the real GDP of a country and increase its international prestige and may even attract MNCs to come into the country.

On the other hand, the government should not aim for this as it will lead to a current account deficit. This will have negative impacts on the country causing the currency to depreciate as well.

It can also cause unemployment. This is because it will negatively impact a country's sunrise and sunset industries, accelerating the latter into a further decline and the former does not get to be put on equal footing. The rise in unemployment may result in poverty.

It will create dependency on other countries for their goods in case of war or high prices the country will not have other substitutes and will lack self-sufficiency. There will be lop-sided development and there is a chance of dumping. This means that local firms will be driven out of the market due to low prices which will be detrimental for the economy.

ECONOMICS

Paper 0455/23
Structured Questions

Key messages

There are two key messages to emerge from candidate responses in this examination: the importance of referring to the source material (the data) in ***Section A*** and the need to read the wording of the questions very carefully in ***Section B***.

There are clear instructions on the question paper for ***Section A***: '*Read the source material carefully before answering Question 1'* (page 2) and *'Refer to the source material in your answers'* (page 3). This source material provides the basis for answers in ***Section A***, but a significant number of candidates based their responses on material that is not found in the data. This was particularly noticeable in **Question 1(f)**, where some candidates reflected on the potential effects of the Covid pandemic for example, rather than using the graph provided to interpret the behaviour of the two variables given, investment and economic growth.

In ***Section B***, some candidates misread just one word of the question and were, therefore, unable to provide an appropriate answer. A good example of this was **Question 5(b)**, where a significant number of candidates interpreted 'a market' as the whole economy and their responses were based upon allocation of the factors of production – land, labour and capital – rather than upon a singular market that allocates its resources through the interaction of supply and demand for a product.

General comments

There has been a noticeable improvement in how candidates follow the question paper instructions. However, there was still a small number of candidates who answered all of the questions on the paper, rather than selecting three from ***Section B***. Most candidates labelled each part of their answers clearly but there were some candidates whose labelling of questions could be very confusing. It is not necessary to put the ***Section*** (***A*** or ***B***) in the left hand margin for each question, where there is space for question number and question part only. The section of the examination paper is not the same as the question part: for example, **Question 4(a)** in ***Section B*** should only be labelled **4** in the first column and **a** in the second column, not **4 A B**.

There was significant increase in the number of candidates writing conclusions this year. Whilst conclusions can add new points to the discussions, the majority of conclusions were unnecessary because they merely summarised what had been written previously. Conclusions that repeat points that have been made previously do not add anything to the answer. It is possible to produce an excellent response without writing a conclusion; the important thing is to discuss both sides of the question.

Comments on specific questions

Section A

Question 1

(a) Most candidates were able to multiply Egypt's population of 110 million by the poverty rate of 27.9% to obtain a figure of 30.69 million for the number of people in poverty. Answers such as 3.069 or 394 however, demonstrate that candidates should have thought through their answer more carefully. It is unlikely that there would be only 394 people living in poverty in a country with a population of 110 million.

(b) This question was well answered, with nearly all candidates able to identify either oil, gold or fruit as primary products. A small number gave textiles (secondary) or tourism (tertiary) as answers, and these were incorrect.

(c) It is very important that the candidates refer to the source material in their answer to this question. Most candidates could identify that building a new city would create job opportunities but only a minority then explained that, as these jobs were to build a city, they would be in construction, or gave examples of jobs like bricklayers or architects.

(d) There was good use made of the source material in this question, with candidates able to identify Egypt's ancient attractions and its natural attractions as sources of growth. Stronger answers then explained that tourists would be attracted to spend money and create job opportunities. There were not many responses that identified the weak Egyptian currency as a reason and the better affordability of holidays that resulted from this weakness.

(e) This question was overall well-answered, and most candidates were able to identify a leftward shift of the demand curve as a consequence of falling incomes. However, many candidates who demonstrated clear understanding of the question then neglected to label every relevant aspect of their graph and therefore restricted the marks that could be awarded. This was noticeable with axes, supply and demand curves that were left unlabelled, and particularly the omission of p1/q1and p2/q2, or E1 and E2, to indicate the equilibriums.

(f) The strongest responses to this question used the data in the source material to analyse the relationship. Weaker answers, on the other hand, were too discursive and speculated about the growth of Egypt's economy without reference to the data provided. The following is an answer that achieves both thoroughness and precision by a giving a clear interpretation of the graph in the source material. It achieves the maximum five marks with an economical use of words.

'As investment increases, the economic growth rate increases. This is a direct relationship. This happens because investment contributes to the GDP of an economy (C+I+ G + X – M). For example from 2015 to 2019, the investment has grown and likewise the economic growth has increased. However between 2020 and 2021, the investment has decreased and the economic growth has increased.'

(g) Candidates who focussed on the consequences of deregulation in education that were given in the source material produced the best answers to this question. Thus 'an increase in the number of schools and universities' provided the basis for a good answer. More educational establishments would give more opportunities for training and therefore acquisition of skills; these skills could lead to higher paying jobs and therefore improve living standards. On 'the other side' of the response, the most popular and successful response was to indicate the problem of the unaffordability of private education and the possibility that inequality might increase as a result.

There were some candidates who did not 'discuss' the question by looking at both sides and therefore restricted their score to a maximum of 4 marks. This was also noticeable in responses to **Question 1(h)**.

(h) The strongest responses to this question focussed on the impact of a fall in the value of the Egyptian currency upon imports and then discussed the impact upon exports for the 'other side' of the answer. These candidates then explained that imports would become more expensive and could cause cost push inflation, decreasing the purchasing power of Egyptians and reducing their standard of living. By examining exports, candidates could then argue that by contrast, cheaper exports could boost demand for them, leading to economic growth and creating jobs in Egypt. Weaker responses usually did not specify the impact upon exports and imports but discussed the problem of inflation in general and concentrated on the impact of the currency fall on tourism alone, rather than the economy as a whole.

Section B

Question 2

(a) Most answers to this question were acceptable and able to define international trade in terms of exchange of products between countries. The few candidates who produced a partial answer

tended to repeat the question wording (trade) or omitted to specify that countries were involved in international trade.

(b) This question proved challenging, with only a few candidates achieving maximum marks. Those who did well on this question focused on the importance of loans, both to the private sector and to the government, that could facilitate investment. There was, however, a lack of a clear understanding of the role of commercial banks, with many candidates confusing commercial banks with central banks.

(c) The strongest responses to this question had a clear structure that used the macroeconomic aims of government specified in the question. With this structure, how road building could affect unemployment, inflation, economic growth and the balance of payments, were all a good basis for a successful answer. The most popular approach was to explain that road building requires labour and reduces unemployment, increasing incomes and therefore increasing total demand in the economy. There were also many other successful answers that examined the effect on exports or investment for example. It is important to note however, that 'analysing' questions such as this may not require an alternative view. Although government spending on roads may cause inflation, this 'other side' of the answer was not relevant in the context of this question because increasing inflation is not usually a macroeconomic aim of government.

(d) The following is a Level 1 response that attempts using economic theory, but the answer is not developed into a discussion that analyses the question sufficiently. Employment, investment and taxes are identified but there is no discussion beyond these points. The candidate does however attempt the question and is able to reach Level 1. Many candidates who attempted **Question 2** omitted this question altogether.

'They benefit the countries and its economy. It generates labour, makes investments, pay taxes etc. The MNCs benefit the country and the people, so for countries is very positive'.

Question 3

(a) This question was generally well-answered, with most candidates demonstrating a clear understanding of the public sector as the sector owned or managed by the government.

(b) Nearly all candidates who attempted this question could identify horizontal and vertical mergers, with some candidates also identifying conglomerates. On the other hand, there was a substantial amount of misunderstanding about the exact nature of these mergers because candidates confused **stages** of production with **sectors** of production.

(c) There were some excellent answers to this question, with the best responses focussing on how differences in healthcare can lead to differences in productivity in various countries. With better healthcare, workers will take less time off due to sickness and may therefore, with better health, have improved productivity. The resulting higher incomes should improve living standards, a feature of the economic development asked for in the question. There were however a considerable number of candidates who misunderstood the meaning of the question and assumed that it concerned the differences between public and private provision of healthcare. This was not indicated in the wording of the question. Some candidates also discussed both sides of this issue, which was not required in this question.

(d) The following answer is a two-sided Level 2 response that examines both sides of the argument, but the second side of the argument is noticeably brief. It is therefore imbalanced (reasonable on the first side but very limited on the second side) and was awarded a mid-range Level 2 mark. The most important strength in this response is the emphasis on the focus of the question – benefits to consumers:

'Competitive markets are beneficial for consumers for many reasons. For a company to stay in the market, they have to reduce prices to become more competitive. This means that consumers buy goods and services at a lower price. Furthermore, in a competitive market, companies have to stand out, and they do this by bettering the factors of production. Thus, consumers are also getting a better quality in their products. Lastly, a competitive market widens consumer choice, which means that based on their taste and preferences they can purchase a good/service at a reasonable price.

However, widening consumer choice too much is not good as it can make them overwhelmed and put pressure on which product to buy.'.

Question 4

(a) There was a clear distinction in responses to this question between candidates who understood the economic theory of costs and those who only had a vague understanding. Good succinct answers simply stated that total cost is the sum of variable and fixed costs, whereas weaker answers alluded to all of the money spent without mentioning fixed or variable costs.

(b) As in part (a), there was a clear divide between the answers to this question. There were few strong answers that showed a clear understanding about factors that can lead to an increase in supply of a product, for example lower costs, increased productivity or better weather, and that could shift the product's supply curve to the right. Many candidates were determined to make the question about demand for a product, rather than its supply. One example of this type of response was '*The more consumers that want a product, means the more it will sell or be provided.''.* This answer confuses the two forces of supply and demand.

(c) Candidates who read the question closely and understood its meaning, were at a considerable advantage compared to those who did not consider the wording of the question carefully enough. The key words were 'to buy **a certain** product' and the best responses analysed a fall in the product's price, increased incomes, and improved quality, for example, as reasons for its increased demand. Candidates who read the question as 'products' (plural) and analysed their response in terms of inflation and total (aggregate) demand in the economy misunderstood the question. Similarly, some candidates did not appreciate that the question referred to an '**increase'** in willingness and ability to buy a product and their responses only referred to a '**change**' in price, rather than a decrease in price. Neither of these approaches could be considered sufficient.

(d) This answer is a strong Level 3 response that discusses both sides of the question well:

'Economic growth would improve living standards in a city. Firms would seek growth and produce more goods and services, increasing demand for labour, which would decrease unemployment. The tax revenue of the government increases and they can spend it on healthcare, education and other merit goods and public goods, improving living standards. Higher employment and government benefits might reduce poverty as well. As economic growth occurs, wages and non-wage benefits can increase as firms gain more revenue, enabling workers to enjoy more goods and services.

On the other hand, economic growth would not improve living standards in a city. More production would increase external costs, such as pollution, worsening living standards. Economic growth might facilitate purchase of cars, which would increase traffic. These increase stress among the citizens. Also benefits of growth may be unevenly distributed, so only firms might enjoy, and living standards of normal people would be the same. Inequality also increases if this occurs. Inflation might occur due to economic growth. If the rate of inflation is higher than increase of wages, consumers might not be able to afford things they enjoyed, decreasing living standards. Poor people also could not afford to buy basic necessities, causing poverty. Houses in the city can also get more expensive and people might not be able to buy them.'

The most important aspect of this response is that the candidate maintains attention throughout on the focus of the question.

Question 5

(a) This question was well-answered by the majority of candidates, who understood that limited resources and unlimited wants are the basis of the economic problem.

(b) As noted in the key messages above, there was a widespread misinterpretation of this question amongst the candidates who attempted it. The most common error was to interpret 'a market' as the economy or, occasionally, as the government. This led to incorrect responses that focussed on either the factors of production (land, labour and capital) that obtain resources or on the three sectors of the economy (primary, secondary, tertiary) that are the different parts of the economy. Strongest responses to this question explained that a market consists of buyers/demand and

sellers/supply that interact to create equilibrium. The best answers explained the operation of the price mechanism and price signals, but it was rare to see price mentioned at all in answers.

(c) The structure of the answer was the key to a successful response to this question. The best approach was to start with the benefits from exports and then analyse the benefits of imports to a country. Good answers then linked these to the various macroeconomic indicators, such as economic growth, employment and the balance of payments. Exports are part of total demand of a country and thus can contribute to economic growth and this can create employment for those who work for firms producing exports. Imports, on the other hand, can benefit consumers with lower prices and greater choice, and this could improve their living standards. Weaker responses were more general in nature and adopted a less structured approach, with little reference to exports and imports specifically.

As noted for other questions, some candidates approached this as a 'discuss' question rather than an 'analyse' question. This often led to a much longer answer than was required, when the candidate could have moved on to part d and produced a longer answer for that part of the question instead.

(d) The following answer is a Level 2 response to this question. There is a limited reasoned discussion of how an increase in government spending will benefit an economy, but it lacks depth. There is no second side to the discussion and so it can be no more than a low Level 2 response.

'An increase in the spending of the government means that the funds gathered would be spent on facilities needed by the country this means investment in infrastructure the healthcare which will improve the lifespan and extend how long the people are in the workforce this spending will motivate persons to be a patriot of the country if it is spent in the right locations. Which would be a great boost to the economy the education would be invested in causing a boom in opportunities for high skill jobs boosting the workforce and once again benefitting the economy.'