

# ECONOMICS

Paper 2281/12  
Multiple Choice

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

## General comments

The questions for which most candidates selected the correct answer were **1, 2, 5, 11, 12** and **25**. These questions were answered correctly by 70% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions that proved most challenging on the paper were **3, 6, 7, 13, 16, 19, 22** and **26**. These questions were answered correctly by fewer than 40% of the candidates.

## Comments on specific questions

**Question 3** was answered correctly by 30% of the candidates who chose option **C**. 8% chose option **A**, 3% chose option **B** and 59% chose option **D**. The term capital in economics refers to a factor of production. It is attributed to anything that is used as an input for further production, for example a piece of machinery. In this question, capital would refer to the factory (option **C**).

**Question 6** was answered correctly by 15% of the candidates who chose option **A**. 22% chose option **B**, 17% chose option **C** and 46% chose option **D**. The lower the price elasticity of supply the harder it is for the producer to change the supply in the market. If demand for a good increases, then the price in the market will rise. It will rise the most when the supply cannot be increased quickly. Those who chose option **D** may have confused the meaning of inelastic and elastic price elasticity of supply.

**Question 7** was answered correctly by 20% of the candidates who chose option **D**. 30% chose option **A**, 30% chose option **B** and 20% chose option **C**. When the total revenue a firm receives remains the same even though the price of the product has been reduced, it means that the proportionate change in the price is

matched by the proportionate change in demand. This occurs when price elasticity of demand is unitary. (option **D**).

**Question 13** was answered correctly by 31% of the candidates who chose option **D**. 12% chose option **A**, 37% chose option **B** and 20% chose option **C**. In a particular industry, earnings may differ because of different policies used by the separate firms in the industry, because of the differences in the strengths of the trade unions or workforce and the different policies that a government might impose – maybe in the form of subsidising some firms but not others. Inflation, however, will affect all the firms in the industry and is, therefore, not a reason for the differences in the earnings (option **D**).

**Question 16** was answered correctly by 38% of the candidates who chose option **D**. 32% chose option **A**, 22% chose option **B** and 8% chose option **C**. The firm produces five units and the average cost of each is \$20. The total cost is, therefore, \$100. The marginal cost of the sixth unit is \$26. This would make the total cost of six units  $\$100 + \$26 = \$126$ . The average cost of six units is, thus, \$21 (option **D**).

**Question 19** was answered correctly by 34% of the candidates who chose option **B**. 14% chose option **A**, 38% chose option **C** and 14% chose option **D**. When the rate of interest increases it would make borrowing more expensive. It is likely that the firm would need to borrow money for large investments and the rise in interest rates would make this more expensive and less appealing to undertake (option **B**).

**Question 22** was answered correctly by 24% of the candidates who chose option **B**. 23% chose option **A**, 26% chose option **C** and 27% chose option **D**. This distribution of responses could well mean that the candidates were guessing, particularly as the question occurs towards the end of the paper. To reduce cyclical unemployment there needs to be some increase in production. This would occur if the government increased its expenditure. An increase in a budget deficit would mean that the amount that the government spends, in excess of the amount it receives in revenue, has increased. The expenditure would be likely to increase economic activity and reduce cyclical unemployment (option **B**).

**Question 26** was answered correctly by 35% who chose option **B**. 35% chose option **A**, 13% chose option **C** and 17% chose option **D**. Subsistence farming, subject to changes in the weather and possible poor soil conditions, does not guarantee that a family will be able to produce enough on which to live (option **A**). Production would not be efficient (option **C**) and there would not be a high level of trade as the family would need most of what they produce for themselves (option **D**). Production is likely to be labour intensive and it could be concluded that there would be a low level of capital investment (option **B**).

# ECONOMICS

Paper 2281/13  
Multiple Choice

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

## General comments

The questions for which most candidates selected the correct answer were **8, 11, 24** and **25**. These questions were answered correctly by 75% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **7, 12, 15, 20, 23** and **30**. These questions were answered correctly by fewer than 35% of the candidates. The rest of the questions gave results which were well within the levels expected.

## Comments on specific questions

**Question 7** was answered correctly by 34% of the candidates who chose option **D**. 26% chose option **A**, 24% chose option **B** and 16% chose option **C**. An increase in the time a product can be stored would increase the flexibility of supply and thus increase the price elasticity of supply.

**Question 12** was answered correctly by 33% of the candidates who chose option **A**. 36% chose option **B**, 23% chose option **C** and 8% option **D**. A fall in interest rates would make the return for savings decrease. Those who chose options **A** or **B** recognised this. Those who chose option **B**, however, misunderstood the effect of a fall in interest rates on the cost of borrowing. A fall in interest rates would decrease the cost of borrowing (option **A**) not increase it (option **B**).

**Question 15** was answered correctly by 18% of the candidates chose the correct option **B**. 31% chose option **A**, 20% chose option **C** and 31% chose option **D**. The existence of monopolies would not attract entry of new firms into the market (option **A**). It is unlikely that a government would be keen to increase the price

consumers have to pay for a product if its aim was to keep inflation under control (option **C**) and equally unlikely that it would be keen for the monopoly to make maximum profits (option **D**).

**Question 20** was answered correctly by 31% of the candidates who chose option **D**. 34% chose option **A**, 21% chose option **B** and 14% chose option **C**. The aim of supply-side measures is usually to increase the supply of goods in an economy. The only option that would be likely to increase the supply of goods in the market is option **D**.

For **Question 23**, 34% of the candidates chose the correct option **B**. 48% chose option **A**, 8% chose option **C** and 10% option **D**. Most candidates chose either option **A** or option **B**. During inflation prices rise and the real value of money declines. Those who have borrowed money in the past would find that the value of what they need to repay has decreased and, therefore, they will benefit (option **B**).

**Question 30** was answered correctly by 19% of the candidates who chose option **A**. 38% chose option **B**, 17% chose option **C** and 26% chose option **D**. The question asked what is measured in a country's secondary income of the balance of payments. Secondary income includes international redistribution of income by governments, multinational organisations and charities to other international and regional organisations (option **A**). It is similar to a transfer payment where there has not been an initial provision of a good or service. Primary income is the net inflow of income from factors of production abroad (option **D**). This is money earned from the provision of a good or service and is not a transfer payment, so is incorrect.

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| <p><b>Paper 2281/22</b><br/><b>Structured Questions 22</b></p> |
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## Key messages

- Candidates need to answer 3 optional questions – see General comments.
- As in some previous sessions, some candidates needed to provide more precision on the **(a)** parts of the optional questions. Long answers are not required but accuracy is needed.
- Candidates should recognise that **Question 1** is a data response question and they should draw on the source material in their answers.
- Candidates need to answer the **(d)** parts of the optional questions in depth. To gain the high marks, they have to achieve Level 3. To show the difference between Levels 1, 2 and 3, possible answers to **Question 5d** (Discuss whether or not an increase in exports will benefit an economy) answers at these different levels may be considered:

### Level 1

Answers in this level are those which define key terms in the question and/or make statements which are not supported by relevant explanation. In the context of **Question 5(d)**, a Level 1 answer would be:

*More exports would mean more employment. But more exports can cause inflation. There is both cost-push and demand-pull inflation. Prices of products will rise. There are products produced by the primary sector, the secondary sector and the tertiary sector. Primary sector includes farming. Countries grow crops and keep livestock.*

The answer identifies two possible effects of an increase in exports – more employment and inflation. However, the answer does not explain why these effects may occur or why the effects may be beneficial or harmful. The rest of the answer does not add anything directly to examining the effect of an increase in exports.

### Level 2

Answers at this level do explain some of the relevant points. The answer may be one-sided or, more commonly, the explanation may be somewhat limited.

A Level 2 answer would be:

*More exports may mean that firms will increase their output. They may employ more workers. This would reduce unemployment. More exports may mean more export revenue. This could reduce a current account deficit as the current account balance is the difference between export revenue and import expenditure.*

*However, more exports may mean that the higher demand causes firms to raise their prices. More exports may mean that the higher demand causes firms to raise their prices. More exports may also increase demand for the currency. A higher value currency could reduce exports.*

In this answer, some links are provided. It is explained why unemployment and a current account deficit may be reduced and why prices may rise. However, a link is needed between a higher value of the currency and lower exports and more effects might have been considered.

### Level 3

At this level, answers will be two-sided and will have depth and width of explanation. A Level 3 answer would be:

*More exports may mean that there will be higher demand for the country's products. This can increase output and the economic growth rate may be higher. The higher output may reduce unemployment. Higher output is likely to increase incomes which can raise living standards.*

*More exports may raise tax revenue. If export revenue rises above import expenditure, a current account deficit will be reduced. Governments aim for its export revenue to equal import expenditure in the long run.*

*However, the higher total demand, caused by more exports, could result in demand-pull inflation. Total demand may increase by more than total supply, if the economy is approaching full employment. As more workers are employed, the increased competition for workers may push up wages. In turn, higher wages could increase costs and result in cost-push inflation.*

*It is possible that an increase in exports may involve an increase in the export of non-renewable resources. If a country, for example, sells a large amount of its copper now, it will not be able to sell it in the future.*

*More exports would increase demand for the currency. This may cause the currency to rise in value. A higher currency will increase export prices. This may mean that again, in the long run, the rise in exports may be short-lived.*

This answer does provide good explanatory links and is a well = thought out, two-sided answer.

### **General comments**

There did appear to be an increase in the proportion of candidates who attempted all the optional questions. This is not a good strategy as it means they cannot spend sufficient time on the three required questions.

Of those who did select three of the optional questions, **Question 3** and **Question 4** were the two most popular questions. They were very few unanswered questions. Most candidates answered **Question 1** first and then the optional questions. As in previous sessions, there were a small number of candidates who misnumbered their answers, It is important that candidates correctly identify the questions they are answering.

There was less confusion on economic terms this session than in some previous sessions. For example, only a small proportion of candidates confused a current account deficit and a government budget deficit in their answers to **Question 5(d)**.

### **Comments on specific questions**

#### **Section A**

#### **Question 1**

As in previous sessions, the overall performance on this compulsory question was good.

- (a) Most candidates answered this question accurately. However, a small proportion ignored the word 'percentage' in the question and some gave the answer as 8.3m. Some even gave an answer of 83m, a figure larger than the total size of Honduras's population as given in the fact file in the question paper.
- (b) Most candidates answered this well. The most common benefits identified were an increase in exports sold to the US and more money sent back to relatives by Honduran workers employed in the US.
- (c) Not all candidates paid attention to the command word 'Explain'. As a result they identified two advantages. A number of other candidates wrote about the advantages of specialisation in general rather than in the context of the information provided. Most of those candidates that did take into account the information provided, focused on the greater skills that may arise from specialisation. A number of these provided good explanations of how this could be beneficial.
- (d) There was a full range of responses to this question. The strongest answers recognised that a progressive income tax system takes not just a larger amount of the income of the rich but more significantly a higher proportion of the income of the rich. It is important that candidates are aware that not only a progressive income tax system but also proportional income tax and regressive income tax systems will take a larger amount of the income of the rich.

The explanation of the provision of unemployment benefit tended to be stronger with some good links as to how this could improve the position of those with lower incomes.

- (e) Some candidates wrote long explanations of the diagram they had drawn. No explanation was needed. The instruction to 'Draw a demand and supply diagram to show...' should indicate to a candidate that they just need to draw a relevant diagram.

The diagrams provided varied in accuracy. A disappointing number of candidates confused the demand and supply curves. Other candidates did not accurately show the original and the new equilibriums. Some candidates did, however, provide clear, well-labelled and accurate diagrams.

- (f) Over time, the quality of numerical data interpretation has improved. There were some strong answers which recognised that the main relationship was an inverse one with the higher the level of poverty, the lower the life expectancy. These answers provided supporting evidence, explained reasons for the negative relationship and recognised there was an exception. Some candidates, however, just reproduced the data without any interpretation. For example, just stating that Sweden had 0.2 per cent of its population living in poverty and a life expectancy of 83 does not involve any analysis. In contrast, comparing the information for the other countries and recognising that Sweden had the lowest percentage of population in poverty and the highest life expectancy involves analysis. A small proportion of candidates did not look at the data carefully enough and wrote about population sizes.

- (g) This was quite well answered. A relatively high proportion of candidates developed points from the source material, making good use of relevant economics. There were some particularly good comments about the effects of increased training, more use of capital and lower unemployment. An example of a strong response:

*If the training of workers increases, they will be more skilful, effective, and productive. Hence production costs are reduced. If their working conditions are improved, they may put more effort into their work and may not demand higher wages. The use of more capital goods should make production faster and reduce human errors. This would increase the output of clothes and expand their production scale, allowing the clothes industry to enjoy economies of scale, like financial and marketing economies.*

*However, cotton is an agricultural product with an inelastic supply. Weather conditions could reduce the supply of cotton and so increase raw material costs. The investment in capital goods may make it difficult to immediately cut costs. This is because capital goods are expensive, so there may be a short run increase in average costs of production.*

A small proportion of candidates wrote about whether the price, rather than the cost, of producing clothes would fall in the future. A number also just stated points rather than explaining them.

- (h) This was generally well-answered. There was particularly good explanation of how demand-pull inflation could arise from a fall in unemployment in Honduras. Most of those candidates who did well, tended to be stronger on the why the fall in unemployment may cause inflation. An example of a strong response:

*On the one hand, a fall in unemployment will lead to increased incomes. The increased incomes will lead to increased consumer expenditure and aggregate demand will increase, Firms will be encouraged to increase their prices as a result and that will lead to demand-pull inflation. Additionally, the greater difficulty of finding new workers may increase wages. This will increase firms' costs of production and there may also be cost-push inflation.*

*On the other hand, a fall in unemployment may be caused by the emigration of unemployed workers as aggregate demand may not increase. Also, if the rate of interest is high, aggregate demand may not increase as the workers may prefer to save rather than expand.*



## Section B

### Question 2

This optional question was selected by a slightly smaller percentage of candidates than the other optional questions. Some of those who selected this question struggled somewhat with the **(b)** question, but a relatively high number did well on the **(d)** part.

- (a)** Most candidates were able to give a relevant example but not all were able to give a relevant definition and some confusion was shown between a capital and a consumer good.
- (b)** As in some previous sessions, several candidates showed a confusion between a low inflation rate and a fall in prices. These candidates tended to run into difficulties. There were, however, some strong answers which examined, most commonly, the possible effects on international competitiveness and the willingness to invest.
- (c)** Most candidates were able to describe some methods of protection. The strongest answers directly addressed the question by analysing how, for example, the removal or reduction of a tariff, could reduce the price of imports which could result in a rise in the exchange of imports and exports.
- (d)** There were some pleasingly strong answers to this question. These explored a range of possible effects on macroeconomic performance and on working conditions, pollution and on the ability to mine diamonds over time. An example of a Level 3 answer:

*An increase in diamond mining is likely to increase output and so result in economic growth. Higher output will increase tax revenue and this can be spent to improve the quality of people's lives by improving education and healthcare. Some of the diamonds mined could be exported. A rise in export revenue will help to correct a deficit on the balance of payments.*

*Increased jobs in the primary sector (diamond mining), secondary sector (manufacturing diamond products) and tertiary sector (selling the products) would decrease unemployment due to the creation of jobs. Higher employment can increase incomes and living standards.*

*However, workers in the diamond mining industry may be exposed to harsh working conditions. This would decrease the quality of their health and cause the government to spend more on healthcare provision.*

*In order to maximise profits, diamond firms may pay workers low wages and decrease their working conditions. As a result, their standards of living may be low. Furthermore, mining diamonds now may deplete the diamonds, so that they cannot be mined in the future.*

### Question 3

This was the most popular optional question. Candidates did particularly well on **Question 3(b)**. There were also strong answers to **Question 3(c)**. Candidates tended to find **Question 3(d)** relatively challenging and there was a wide spread of quality of answers on this question.

- (a)** As with **Question 2(a)** most candidates were able to give a relevant example. In this case, it was usually rent. Some candidates, however, provided an imprecise definition of a fixed cost. A number of these stated it is a cost which does not change without recognising that it does not change with output (in the short run).
- (b)** This was extremely well answered. Most candidates showed a strong awareness of different types of unemployment. There were only a small proportion who either confused the different types or who seemed to be unaware of the different types. The most common confusion shown was that cyclical unemployment is caused by a fall in demand for one product rather than a fall in total demand.
- (c)** A few candidates showed confusion over the meaning of supply-side policy measures. However, most candidates did analyse some relevant policy measures. These candidates tended to be strongest on education, training, lower personal income tax and subsidies where some good analytical links were provided.



- (d) There was a full range of responses to this question. A proportion of candidates just made unsupported statements. Others provided some relevant explanation but did not go into any depth. Some candidates produced a rather narrow answer, concentrating just on, for example, prices. A small number of candidates did not consider the impact of fewer firms on consumers. These examined the effects on the firms themselves but did not go on to consider how, for example, the greater opportunity for the firms to take advantage of economies of scale might benefit consumers. An example of a Level 3 answer:

*Having fewer firms may not benefit consumers as there may be lower competition due to which firms charge higher prices as there may be less substitutes which may lead to higher prices and reduce the living standards of consumers.*

*Moreover, the firms may end up being complacent and produce a low quality product with little or no innovation which may lead to deteriorating consumer satisfaction which may lead to higher imports.*

*However, as the firms would not have to worry about competition, they may be able to expand and benefit from economies of scale, getting bulk buying discounts. Furthermore, the higher revenue gained may be used for research to improve the quality of retraining staff. This may lead to increased production costs with less wastage of resources. Allowing firms to sell the product at lower costs adding to consumer benefit while still maintaining their revenue.*

*Therefore, as long as firms may be under supervision of governments to stop exploitation, they may benefit the consumer.*

#### Question 4

This was quite a popular question. Candidates were able to answer all the question parts but some of the answers lacked precision.

- (a) Several candidates provided an accurate definition. However, some did not recognise that it is not just the change in supply which is greater than the change in price but the percentage change in supply which is greater. A small proportion of candidates sought to define elastic demand.
- (b) The strongest answers here tended to be focused on lowering the price of food and reducing imports of food. A proportion of candidates only explained one of the reasons they identified.
- (c) There were some good answers to this question. A number of these explained well the derived demand nature of a farmer's demand for labour and a number of other influences, including the relative cost of labour and the impact of subsidies. Some candidates, however, produced rather confused answers with a number writing about why someone would want to become a farmer.
- (d) Most of those candidates who answered this question were able to identify several reasons why living standards may differ in cities and rural areas. Most were also able to provide some explanation of the points they made but the analysis tended to be rather limited and some answers were over descriptive.

An example of an L2 answer:

*When looking at who has the better living standards between people living in the city and people living in rural areas you have to look at a number of things. People living in cities have better access to healthcare and emergency services. Their better jobs give people more freedom. The costs of living is high because in a city there is expensive housing. But living in rural areas means that you have poor healthcare, more physically demanding jobs and do not access to things like running water and power. In the end, I think people living in cities have better living standards as they have access to more even though it may be more expensive.*

### Question 5

This was not as popular a question as **Question 3** and **Question 4**. There were some strong answers but also some that seemed rather uncertain as to what to include particularly in terms of **Question 5b** and **Question 5b**.

- (a) The two most popular benefits identified were less pollution and a reduction in the amount the government might have to spend on education. There were also a pleasing number that stated it might move the population towards the optimum level. However, some candidates thought that a decrease in a country's population would result in more resources in total rather than less pressure on resources or more resources per head.
- (b) There were some excellent answers. These gave a precise and accurate explanation of how a market may move from equilibrium to disequilibrium. Some candidates, however, appeared confused as to how to answer this question and wrote about, for example, a government setting a maximum and minimum price.
- (c) Over time, the quality of production possibility curves drawn by candidates has improved. The diagrams drawn in response to this question were generally good. Most were labelled accurately although a few candidates labelled them as price and quantity or labour and capital. The written analysis tended not to be as strong. A relatively high proportion of candidates showed a confusion between a decrease in the amount that could be produced with a decrease in actual output.
- (d) There were some rather brief answers to this question. A relatively high proportion either did not explain the points they made or only explained the points in a limited way. There were, however, some perceptive answers which explained points in depth.

An example of a Level 1 answer:

*Exports are the selling of goods made in the country to another country. An increase in exports may benefit a country. They will bring income to improve the current account. It can also lead to the creation of jobs.*

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| <p>Paper 2281/23<br/>Structured Questions 23</p> |
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## Key messages

Overall, many candidates were able to show a sound knowledge, understanding and ability to analyse. However, **Questions 1(g), 1(h), 2(d), 3(d), 4(d) and 5(d)** in **Section B** also require candidates to evaluate both sides of the discussion to gain the highest marks.

Candidates need to take into account the context of the question in determining the content of their answer. For example, **Question 1(g)** relates to consumers in Montenegro and whether or not they benefitted from privatisation. This required candidates to only look at privatisation from the point of view of the consumer, not the firm or the economy. Most candidates did this but there was a small minority that only wrote about the impact of privatisation of firms on the economy which did not answer the question. A second example relates to **Question 3(c)** which asks candidates to analyse the advantages of a young population. Again, most candidates provided a good answer to this question, but some also raised points which were about disadvantages of a young population. For example, a rising dependency ratio and where the birth rate was high, the significant demand on the government for provision of extra schools which had an opportunity cost of not spending on other areas e.g. healthcare and infrastructure. This meant candidates did not develop their answer on the advantages as fully as they could, as well as using valuable time that could have been spent on other questions.

## General comments

Once again, most candidates have shown good time management and answered questions in sequence. For this exam, many candidate answers in **Section A** showed high level skills in extracting source material to form the basis of answers. Candidates need to be careful when answering the question based on a table or figure. The data is chosen to test the skill of recognising the relationship using knowledge and understanding of the syllabus. There will always be a relationship and candidates need to provide the evidence that supports this as well as an explanation as to why there would be such a relationship. Some candidates spent a large proportion of their answer giving several examples of the relationship but then did not give an explanation for it. The data analysis is important but so too is the explanation, even for any identified exception.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) This was a simple calculation and most candidates correctly divided – \$0.6bn by \$4.8bn to get the answer of 12.5%.
- (b) The source material gave two examples of capital goods relating to the banking sector, which were computers and office buildings. Most candidates selected at least one of these. Some candidates selected telecommunications and aluminium production from the source material which was incorrect as these are industries. Examples of capital goods within those two industries e.g. phones and factories were accepted, even though they were not named in the source material. This is because they showed evidence of understanding of a relevant capital good for these two industries.

- (c) Few answered this correctly. The example in the source material was elastic demand within the tourist industry. If the product is elastic in demand, firms would lower the price to increase revenue. Higher demand is not sufficient. A common answer of higher profits is incorrect as without knowing the change in costs, it would not be possible to calculate profits. A typical answer which did not answer the question was 'an increase in price for a good with an elastic demand would result in less demand.'
- (d) There were two ways in which the pattern of employment changed in Montenegro. Firstly, more workers within the tourist industry (tertiary sector) due to an increase in tourism. Secondly, more workers employed in the private sector, with many firms being privatised. The question was about change in employment, rather than the level of employment, so an answer which stated, 'In 2020 75% of Montenegro's labour force were employed in the tertiary sector', taken from the source material, was incorrect as it did not explain what the change was or what caused it.
- (e) The key point to understand here is that applying a minimum price creates disequilibrium in the market. Many candidates drew a correct diagram showing a minimum price above the original equilibrium price and showed the surplus supply over demand at that higher price. A common error was to add either a shift in the demand curve to the right or a shift of the supply curve to the left to get a higher price, but this simply creates a new equilibrium price. Another common error was not labelling the minimum price and just showing a second price e.g. P<sub>2</sub>, which is insufficient. Some candidates explained that P<sub>2</sub> was the minimum price in additional text. This could not be accepted as the question only required a diagram.
- (f) Table 1 was in a slightly different format than usual. There was a wide variation in how well candidates answered this question. There were two approaches candidates could take. Firstly, to show a direct relationship between the trade in goods and services and the current account e.g. both positive or both negative. Secondly, that the current account balance was normally higher than the trade in goods and services balance. Strong answers were able to explain one of these relationships and identify an exception e.g. Croatia in the first case and Slovenia in the second case. Weaker responses often did not identify either relationship or tended to rank countries, for example, highlighting countries where their rank changed, but then not providing an explanation.
- (g) Many candidates found this a straightforward question to answer and there was usually a good balance in identifying the benefits and drawbacks of privatisation for consumers. Typically, the benefits included lower prices, better quality, and a greater choice. The drawbacks often identified the creation of monopolies charging higher prices for goods of lower quality and private firms not considering external costs such as pollution. A few candidates seemed to misunderstand the question as, instead of relating privatisation to consumers, they wrote about the impact upon the economy e.g. level of employment and inflation.
- (h) Most candidates understood what deflation in an economy meant. Strong answers tended to be better at explaining the drawbacks e.g. the greater uncertainty about prices, firms cutting output due to less profits and an increase in unemployment. Some correctly identified that lower prices made goods cheaper to export and more expensive to import and could improve the balance of payments. Weaker answers asserted that lower prices meant an increase in consumer purchasing power which led to an increase in total demand which led to economic growth, which is incorrect. The strongest answers recognised that if lower prices were caused by improved productivity, this could lead to economic growth and a higher standard of living. A typical acceptable comment was that 'deflation, if left unchecked, could lead to a recession.'

## Section B

### Question 2

- (a) The key word in the question was 'absolute'. Some answers would have been acceptable as a reason for poverty e.g. low income/minimum wage but were not a clear reason for absolute poverty, where income was too low even for basic necessities of life like food, water and shelter. Common correct answers given included unemployment, old age, war, and famine. Some weak answers attempted to explain what absolute poverty was rather than what caused it.
- (b) This question proved difficult for candidates, with most responses explaining short-term causes of a change e.g. lower government taxation leading to higher incomes. Essentially, economic development arises from improvements in any of the four factors of production. An example of a

strong answer would be where the discovery of new resources enables greater production and the government spending on better infrastructure e.g. trunk roads which raises labour mobility and assists exports.

- (c) Many candidates drew an accurate PPC diagram showing a shift to the left in the PPC. Many also were able to explain that the serious storm would have reduced the level of resources available and reduced the capacity of the economy. Common errors were to not draw the curves to the axes, making them look more like demand curves, and to refer to lower output rather than lower capacity. Lower output would simply mean a movement to a point within the existing PPC. Weak answers tended to write out the text from the source material without explaining the impact on resources e.g. 'the serious storm destroyed bridges, factories, roads and electricity lines'.
- (d) This question was generally answered well. Most candidates were able to explain how imposing tariffs led to an increase in the price of imports and fewer imports with domestic firms, increasing output as consumers switched demand. They also included comments such as domestic goods were now cheaper, especially if using imported raw materials. Strong answers also made reference to governments using tax revenue from tariffs to subsidise domestic goods, further improving output. Retaliation by other countries was a common theme on why output might not increase, as exports would be negatively affected. Weaker answers had less depth to the reasons why imposing tariffs might not increase output. A few were confused with other trade restrictions such as quotas.

### Question 3

- (a) Mixed and market economic systems should be understood by most candidates. Planned or command economies was an acceptable alternative. A few responses included incorrect terms such as free market or controlled market systems. A very small number of candidates referred to microeconomics and macroeconomics which are terms that relate to studying part or all of the economy.
- (b) The majority of candidates provided strong answers by identifying and then explaining two functions of a central bank. Most correct answers made reference to the control of inflation or the issuing of notes and coins. Weaker responses only correctly identified and explained one function or only identified functions. Common errors related to being unclear what was meant by 'lender of last resort', the reason for holding foreign currency, or in some cases, the ability of the central bank to raise taxes.
- (c) Candidates did well on this question. Stronger responses recognised that the young person would be physically fitter, more productive, more innovative and work well with technology. With a larger workforce, this would mean higher output and more government tax revenue which could then be used to increase expenditure on healthcare or infrastructure. Weaker answers tended to focus on the impact on the dependency ratio and birth rates rather than the impact on the effectiveness of the younger workforce.
- (d) The effect of a ban on cars in a city was understood, to different degrees, by most candidates. Answers were stronger on the benefits of a ban e.g. reduced air pollution and improvement in quality of life in a city with car free zones. Stronger responses discussed more complex issues such as the quality and availability of public transport and other forms of transport e.g. bicycles. On issues where a ban would not be beneficial, a common theme was the inconvenience on social life and extra time taken to get to work and delivery of products to a city centre, although it was only a ban on cars and not on commercial vans and lorries. It was important that candidates recognised that this was about a ban in a city. A few wrote about the impact on employment if car production reduced but this was unlikely to have much impact on the city itself. Weak answers tended to give one-sided answers or not relate their answer specifically to a city.

### Question 4

- (a) Generally, candidates correctly identified two characteristics of money. A typical answer was 'durable and easy to recognise.' Divisible and portable were also common answers. A few confused characteristics with functions and wrote about it being a medium of exchange. Some gave an example of a characteristic and an example of a function, suggesting a lack of understanding of the term characteristics.



- (b) This question was not well answered by some candidates and one reason maybe a lack of understanding of the difference between the nature of jobs in the public sector and private sectors. Strong answers explained the benefits of working fewer hours in terms of less stress and more time for leisure and family life. Another common response was to explain that working conditions and fringe benefits might be better in the public sector. For example, 'workers would stay in the public sector despite a pay cut because fringe benefits were more attractive to them.' Weak answers were simply critical of working in the private sector or suggested that public servants would not have the skills to work in the private sector, making almost subjective judgements.
- (c) There were a wide range of answers to this question. Weak answers tended to interpret technology as being capital and therefore answers related to the benefits or otherwise of becoming more capital intensive. Strong responses focused on how advances in technology led to greater productivity and output and providing new products, both contributing to greater sales and to higher profits. The strongest answers were also able to highlight that profits could fall; in the short run, if implementing new technology was expensive or in the long run, if new technology meant your product became out of date and/or too expensive to make. Weak responses often only gave one example of how advances in technology affected profits.
- (d) This question required a discussion on the link between government spending and employment. Most candidates were able to explain how a reduction in government spending in general would reduce total demand and, therefore, employment levels in an economy. Stronger answers examined how different types of government spending e.g. education and training and subsidies to firms had an impact on different types of unemployment. The majority of candidates were able to give the counter argument that a decrease in government spending e.g. on welfare benefits would incentivise the unemployed to seek work. Stronger responses also explained that lower government expenditure could mean lower taxes, also encouraging work over unemployment. Most candidates only referred to unemployment in general terms rather than how specific changes in government expenditure could affect types of unemployment e.g. frictional, structural and cyclical.

#### Question 5

- (a) Some candidates were unclear about what a consumer price index (CPI) was, with some weak answers comparing it to a list of prices in a supermarket. Some knew an aspect of CPI e.g. it was a basket of goods or that it measures prices, but few were able to give a full answer. A typical response was 'the proportion of income that consumers spend on a good' which hints at the basket element of the CPI but lacks accuracy.
- (b) Market failure is well understood by most candidates. Where it is not, it is usually confused with the failure of firms to make profits. Weak answers lacked specifics in the action taken by the government e.g. referring to placing a tax on goods but not stating an indirect tax on a demerit good. In other cases, candidates stated this successfully but did not then mention that the impact was to reduce demand. Most answers related to overproduction and overconsumption of demerit goods, but a few also explained ways in which the government could encourage production and consumption of merit and public goods. For example, 'the government could increase education to reduce imperfect information so that more merit goods and fewer demerit goods are consumed.' Strong answers were able to identify two ways and explain how this would reduce market failure.
- (c) Most candidates knew what a foreign exchange rate was and how its appreciation affected import and export prices. Fewer were able to explain how this reduced demand-pull and cost-push inflation through reducing demand for exports and increasing imports of lower priced goods. Weaker answers only referred to lower inflation in general or stated that appreciation would increase import prices and lower exports. Some incorrectly stated that increased demand for the lower priced exports would increase total demand in the economy, causing demand-pull inflation.
- (d) Most candidates were able to explain how economic growth would lead to less emigration. Reasons given included a higher standard of living and more job opportunities, reducing the push factor. Fewer candidates could explain why people would still emigrate even if there was economic growth in the country. Strong answers commented that growth might be higher in other countries and people might leave to go and live with relatives abroad. A few referred to the fact that economic growth could bring external costs like greater pollution and increased stress at work. Weak answers were often able to explain economic growth but could not make a link to emigration. In some cases, they confused immigration with emigration.