ECONOMICS

Paper 0455/11
Multiple Choice

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

Key messages

Candidates who performed well on this paper demonstrated a broad and thorough understanding of the full range of topics outlined in the syllabus. This was particularly evident in questions that required the interpretation or manipulation of graphical, numerical, or diagrammatic data, especially where the topic itself may have been familiar, but the specific context presented was unfamiliar.

Strong performance in this paper relied on the effective application of economic knowledge in combination with numeracy and analytical skills. Careful reading of each question was also essential, with attention to instructions and any text highlighted in bold proving particularly important. Candidates who overlooked these details frequently made errors that could have been avoided, underscoring the need for precision and focus throughout.

General comments

The questions for which most candidates selected the correct answer were **Questions 1**, **9**, **11**, **17**, and **25**. These questions covered different parts of the syllabus and were set to test a wide range of skills.

The questions for which the fewest candidates selected the correct answer were **Questions 7**, **12**, **20**, **28**, and **29**. These were answered correctly by the fewest candidates.

Comments on specific questions

Question 7

Question 7 was answered correctly by 45% of the candidates who chose option **A**. 26% chose option **B**, 20% chose option **D** and 9% chose option **C**. 45% of candidates correctly identified that an increase in price would cause demand to fall while total revenue remains constant, selecting **A** the correct answer. 26% selected option **B**, incorrectly believing that a higher price must increase total revenue. 20% chose option **C**, showing confusion about the inverse relationship between price and demand. 9% selected option **D**, suggesting a misunderstanding of both elasticity and the law of demand.

Question 12

Question 12 was answered correctly by 46% of the candidates who chose option **A**. 21% chose option **B**, 17% chose option **C** and 16% chose option **D**. This question was answered correctly by 46% of candidates, who chose option **A** recognising a decrease in teaching trade union membership reduces teachers' bargaining power, making higher wages less likely rather than more likely. 21% selected option **B**, believing that greater parental awareness directly increases wages rather than operating through demand for education. 17% chose option **D**, not recognising that the opening of new schools increases demand for teachers and is likely to raise wages. 16% selected option **C**, failing to appreciate that tighter immigration restrictions reduce the supply of teachers and can increase wages.

Question 20

Question 20 was answered correctly by 29% of the candidates who chose option **C**. 32% chose option **D**, 22% chose option **A** and 17% chose option **B**. The 29% of candidates who chose option **C** realised that raising tariffs on international trade is not part of a supply-side policy because it doesn't improving the economy's productive capacity. 32% selected option **D**, incorrectly thinking that reducing state benefits is not a supply-side measure, despite its role in increasing labour incentives. 22% chose option **A**, failing to recognise that privatisation improves efficiency. 17% selected option B, not appreciating that lowering minimum wage rates is a labour market reform.

Question 28

Question 28 was answered correctly by 45% of the candidates who chose option **C**. 26% chose option **A**, 19% chose option **D** and 10% chose option **B**. The 45% who selected **C** recognised the abolition of domestic subsidies for declining industries encourages greater international trade by making domestic markets more competitive. 26% selected option **A**, not recognising that an increase in domestic regulation tends to limit trade. 19% chose option **D**, incorrectly thinking that ending free trade agreements would encourage trade, when it restricts it. 10% selected option **B**, failing to appreciate that higher tariffs on imports act as a barrier to international trade rather than a stimulus.

Question 29

Question 29 was answered correctly by 40% of the candidates who chose option **B**. 40% also chose option **C**, 11% chose option **D** and 9% chose option **A**. The 40% who selected **B** realised there would be a decrease in the supply of the US$ and an increase in the demand. 40% also selected option **C** without realising the decrease in imports would not lead to an increase in the supply of US$. The 11% who thought there would also be a decrease in demand for the US$ chose option **D**. The 9% who chose option **A** realised that the decrease in imports would decrease the supply of the US$ but incorrectly thought that the increase in exports would decrease the demand for the US$.

ECONOMICS

Paper 0455/12
Multiple Choice

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

Key messages

Candidates who performed well on this paper demonstrated a broad and thorough understanding of the full range of topics outlined in the syllabus. This was particularly evident in questions that required the interpretation or manipulation of graphical, numerical, or diagrammatic data, especially where the topic itself may have been familiar, but the specific context presented was unfamiliar.

Strong performance in this paper relied on the effective application of economic knowledge in combination with numeracy and analytical skills. Careful reading of each question was also essential, with attention to instructions and any text highlighted in bold proving particularly important. Candidates who overlooked these details frequently made errors that could have been avoided, underscoring the need for precision and focus throughout.

General comments

The questions for which most candidates selected the correct answer were **Questions 2**, **4**, **12**, **19**, **21**, and **27**. These questions covered different parts of the syllabus and were set to test a wide range of skills.

The questions for which the fewest candidates selected the correct answer were **Questions 5**, **13**, **14**, **24**, and **25**. These were answered correctly by the fewest candidates.

Comments on specific questions

Question 5

Question 5 was answered correctly by 56% of the candidates who chose option **C**. 21% chose option **B**, 16% chose option **D** and 7% chose option **A**. 56% of candidates correctly identified that an increase in the price of a substitute good would lead to an increase in demand and price of this good and an extension in supply. 21% incorrectly thought that a decrease in raw material prices would lead to an extension in supply and 16% thought that an increase in raw material prices would lead to an extension in supply. 7% seemed confused about the effect of decrease in price of a substitute good thinking it would increase demand for this good.

Question 13

Question 13 was answered correctly by 25% of the candidates who chose option **C**. 39% chose option **D**, 24% chose option **A** and 12% chose option **B**. 25% of candidates understood that restricting the entry of workers into an industry reduced the labour supply and increased a trade union's bargaining power. 39% selected option **D**, incorrectly believing that supporting wage claims in other industries would directly strengthen a union's own bargaining power. 24% chose option **A**, not recognising that expanding the market for the product affects demand rather than labour supply. 12% selected option **B**, failing to appreciate that increasing the cost of union membership would reduce membership and weaken bargaining power.

Question 14

Question 14 was answered correctly by 63% of the candidates who chose option **D**. 19% chose option **B**, 11% chose option **A** and 6% chose option **C**. 63% of candidates realised that a merger between a car tyre manufacturer and a supplier of rubber is a vertical merger because it involves firms operating at different stages of the production process. 19% selected option **B**, incorrectly identifying the merger as horizontal, which applies only to firms at the same stage of production. 11% chose option **A**, confusing vertical mergers with conglomerate mergers between unrelated industries. 6% selected option **C**, that would occur within one single firm.

Question 24

Question 24 was answered correctly by 42% of the candidates who chose option **D**. 39% chose option **C**, 12% chose option **A** and 6% chose option **B**. Deflation occurs when there is a decrease in the price level. This occurs between years 4 and 5, which 42% of candidates recognised. 39% chose option **C** in which the price level was mainly increasing at a decreasing rate. 12% chose the option where the price level was also increasing at a decreasing rate in its early phase. 6% selected **B** in which the price level was entirely increasing at a decreasing rate.

Question 25

Question 25 was answered correctly by 57% of the candidates who chose option **C**. 19% chose option **A**, 17% chose option **B** and 7% chose option **D**. Increasing inheritance tax and raising the national minimum wage both aim to reduce income inequality by redistributing income and increasing the earnings of lower-paid workers. This was correctly identified by 57% of candidates. 19% selected option **A**, incorrectly believing that decreasing corporation tax would reduce inequality, despite lower corporation tax tending to benefit higher-income groups. 17% chose option **B**, not recognising that reducing the power of trade unions is more likely to widen income inequality rather than reduce it. 7% selected option **D**, failing to appreciate that increasing sales tax is regressive and likely to increase income inequality.

ECONOMICS

Paper 0455/13
Multiple Choice

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

Key messages

Candidates who performed well on this paper demonstrated a broad and thorough understanding of the full range of topics outlined in the syllabus. This was particularly evident in questions that required the interpretation or manipulation of graphical, numerical, or diagrammatic data, especially where the topic itself may have been familiar, but the specific context presented was unfamiliar.

Strong performance in this paper relied on the effective application of economic knowledge in combination with numeracy and analytical skills. Careful reading of each question was also essential, with attention to instructions and any text highlighted in bold proving particularly important. Candidates who overlooked these details frequently made errors that could have been avoided, underscoring the need for precision and focus throughout.

General comments

The questions for which most candidates selected the correct answer were **2**, **8**, **11**, **17**, and **25**. These questions covered different parts of the syllabus and were set to test a wide range of skills.

The questions for which the fewest candidates selected the correct answer were **3**, **10**, **24**, **27** and **30**. These were answered correctly by the fewest candidates.

Comments on specific questions

Question 3

Question 3 was answered correctly by 34 per cent of the candidates who chose option **D**. 43 per cent chose option **B**, 20 per cent chose option **C** and 3 per cent chose option **A**. Producing a higher quantity of capital goods leads to greater output potential, which increases an economy's productive capacity over time and is therefore most likely to cause the greatest outward shift of the PPC, 34 per cent of candidates recognised this. 43 per cent selected option **B**, incorrectly believing that producing more consumer goods would maximise future growth of the PPC. 20 per cent chose option **C** and 3 per cent selected option **A**, failing to recognise that a lower output of capital goods would not lead to as great an outward shift of the PPC.

Question 10

Question 10 was answered correctly by 54 per cent of the candidates who chose option **C**. 30 per cent chose option **D**, 12 per cent chose option **B** and 4 per cent chose option **A**. Banknotes function as money because they are generally accepted as a means of exchange for goods and services, over half of candidates, 54 per cent, realised this. 30 per cent selected option **D**, incorrectly believing that banknotes have intrinsic value, when in fact their value comes from their acceptability. 12 per cent chose option **B**, not recognising that durability alone does not make an item function as money. 4 per cent selected option **A**, mistakenly thinking that banknotes are still backed by gold.

Question 24

Question 24 was answered correctly by 30 per cent of the candidates who chose option **D**. 34 per cent chose option **A**, 20 per cent chose option **B** and 15 per cent chose option **C**. A fall in the Consumer Prices Index (CPI) indicates deflation, which increases the real value of debt as the purchasing power of money rises. The correct option was selected by 30 per cent of the candidates who chose option **D**. 34 per cent selected option **A**, incorrectly believing that incomes would fall in real terms, not recognising that deflation increases purchasing power. 20 per cent chose option **B**, failing to appreciate that savings gain value in real terms during deflation. 15 per cent selected option **C**, mistakenly thinking that interest rates would rise when they are more likely to fall to stimulate total demand.

Question 27

Question 27 was answered correctly by 19 per cent of the candidates who chose option **D**. 38 per cent chose option **A**, 36 per cent chose option **C**, and 7 per cent chose option **B**. Increased national specialisation reduces the cost of living by allowing countries to produce goods and services more efficiently, lowering production costs and consumer prices. 19 per cent of the candidates realised this. 38 per cent chose option **A**, mistakenly thinking that it guarantees a trade surplus, when specialisation does not guarantee any (trade) effects. 36 per cent selected option **C**, incorrectly believing that specialisation primarily lengthens international supply chains. 7 per cent selected option **B**, not recognising that increased dependency on other economies is a potential risk, not a benefit, of specialisation.

Question 30

Question 30 was answered correctly by 61 per cent of the candidates who chose option **B**. 20 per cent chose option **A**, 10 per cent chose option **D**, and 9 per cent chose option **C**. Increasing training for workers in export industries can improve productivity and the competitiveness of a country's exports, helping to reduce a current account deficit. 61 per cent of the candidates recognised this. 20 per cent chose option **A**, incorrectly thinking that increasing the value of the foreign exchange rate would reduce a deficit, when in fact it tends to make exports more expensive and imports cheaper. 10 per cent selected option **D**, mistakenly believing that reducing tariffs on imported goods would help, when it would increase imports and worsen the deficit. 9 per cent chose option **C**, not realising that reducing subsidies to export industries would likely reduce exports, counteracting the goal of improving the current account.

ECONOMICS

Paper 0455/21
Structured Questions

Key messages

Candidates in this examination generally demonstrated a sound understanding of core economic concepts and were able to apply their knowledge to a range of contexts. Many responses showed clear structure and logical reasoning. Some candidates, however, struggled with questions requiring analysis and evaluation, often providing descriptive rather than analytical answers. This was most noticeable in answers to **part (d)** questions, where answers containing only a couple of short paragraphs were unlikely to provide sufficient reasoned discussion for evaluation of the question. In contrast, however, answers to **parts 1(g)** and **1(h)** were often much longer, despite having fewer marks available than for the **part (d)** optional questions.

Time management is therefore another key message from this examination. The most successful candidates examine the number of marks available for each question carefully and allocate their time appropriately. It is not only on the long questions where this technique is important, but also on short questions where long answers are not required. For example, **Question 2(a)** simply required identification of two primary sector industries and only two words, such as farming and fishing, were needed for a complete response. Further explanations of the primary sector were unnecessary and, having answered such 'identify' questions successfully, the candidate should then quickly move on to answer the longer questions.

Finally, it is very important that candidates read the words in the question very carefully before beginning their answer. It is often easy to look at the topic and start to answer without fully understanding the implications of the question. This was noticeable in candidate responses to several questions, but particularly **Question 5(b)**, where large numbers of candidates interpreted the question as one which asked why population might rise, rather than the effects of growth upon the population, i.e. the people of the country.

General comments

There continues to be a noticeable number of candidates who do not follow the rubric (examination instructions) that can be found on the first page of the question paper. These instructions are to answer **four** questions in total: **all** of **Question 1** and **three** questions from ***Section B***. There is no advantage in choosing to answer all of the questions on the paper, or a random selection of questions, because time spent on an unnecessary extra question is time that could have been spent improving answers elsewhere.

There was a minority of candidates who answered their chosen questions in a seemingly random order, or who just picked the parts of questions that they preferred to answer from all of those available, rather than answering all of the parts of just four questions. These 'scattergun' approaches are unlikely to be successful because each optional question has a theme that is signalled in the stem material. This stem material is designed to help candidates focus on the economic concepts that will be found in that particular question. Moving backwards and forwards between various question parts in different questions is unlikely to produce a successful outcome. Those candidates who answer the questions in the assigned part order tend to be the most successful because they have a clear focus on each question.

Finally, clear labelling of answers is a great help to both candidate and Examiner. If the candidate labels the answer incorrectly, every effort is made to match the answer to the context of the question but checking that the answer is labelled correctly in the first place would avoid such problems. It will also then be clear to candidates which question they were meant to be answering when they check back their responses.

Comments on specific questions

Section A

Question 1

(a) A majority of candidates were able to multiply $808 bn (Switzerland's GDP) by 9 per cent in order to calculate its financial sector contribution as $72.7 billion. It is important to note however, that the third bullet point instruction on the first page of the question paper states that 'you may use a calculator'. It was clear from a considerable number of responses that candidates were attempting this calculation without a calculator, often making basic mistakes in their working out. In addition, there were candidates who converted the Swiss GDP into $808,000,000,000. This complication was unnecessary and made the calculation much harder than it should have been if simply working in billions of dollars. i.e. 808 bn × 0.09 = 72.7 bn. Candidates who worked in logarithms (8.08×10^{11}) made the calculation even more unnecessarily complicated and even more vulnerable to error.

(b) This question was correctly answered by almost every candidate. The only two possible correct policies (maximum prices and subsidies) could be identified from the source material. A third policy (contractionary monetary policy) was identified by a very small number of candidates, but this is a macroeconomic, rather than a microeconomic policy.

(c) As with the previous question, candidates were required to use the source material to explain why overdependence on foreign markets is a disadvantage. Most candidates could identify exposure to external shocks as a reason but not all of them were then able to explain this overdependence in terms of exports or imports.

(d) There was a clear divide in responses to this question between those who carefully labelled diagrams and those who were careless with their labelling, or who neglected to label them at all. Many candidates demonstrated good understanding of the shift in supply that results from a subsidy but then omitted to label the axes, all three curves, or the equilibrium points. In some cases, correct lines were drawn without any labels at all and no marks can be awarded for such diagrams. The best answers labelled the axes P and Q correctly, the original curves S1 and D1, the new supply curve shifted to the right S2, with the two equilibriums labelled p1, q1 and p2, q2. This question asks the candidate to draw a diagram only and no further written explanation was required.

(e) Most candidates could use the source material to identify two reasons why Switzerland has a current account surplus from the three available: low inflation, high quality products, and a strong currency. This question however, discriminated clearly between those who only identified reasons and those who then went on to explain these reasons by applying economic theory. The best answers considered the effects of the reasons identified on exports and/or imports and therefore on the balance of payments surplus.

(f) The following response achieves maximum marks by providing a clear and comprehensive analysis of the data in the source material. The relationship is identified as negative and this is developed by explaining that as one increases the other decreases. Reference to the data from two time periods is then made in order to support this assertion. Finally, an explanation for this relationship is suggested by noting that the Swiss franc is demanded for its stability and safety during times of economic uncertainty:

'The GDP growth rate and change in value of the Swiss franc have a negative relationship. When one increases, the other decreases and vice versa. For instance, in 2020 the global growth rate reached its lowest at around –3 per cent, yet the value of the Swiss franc rose significant. Moreover, in 2021 the global growth rate increased, whereas the value of the Swiss franc decreased to its all-time lowest. This might be due to the Swiss franc being one of the most stable currencies in the world, making it safer for investors to demand it in times of low confidence and economic uncertainty'.

Good answers analysed the data provided in this way but weaker responses merely described the data, rather than interpreting it, i.e. they simply took numbers from the graph and put them into their answers, rather than using these numbers to analyse the data. Other candidates just ignored the graph completely in their responses.

(g) This question was generally well-answered. It asked for a discussion of whether or not an increase in interest rates would harm the Swiss economy. Good responses explained this in the form of a chain of reasoning that started with the impact of a rise in interest rates on the incentive to save or borrow. This was then logically developed to discuss the impact on consumption, investment, total demand and then on economic growth/GDP. This approach was an effective form of answer. A number of candidates only discussed one side of the argument however, (how increased interest rates will harm the economy) without examining the alternative view.

(h) As with the previous discussion question, better answers adopted a chain of reasoning approach. With any question that deals with the size of firms, the concept of economies and diseconomies of scale is almost always relevant and good answers made reference to this idea. Mergers, such as the Swiss bank merger in this question, should lead to a reduction in average costs and therefore prices. On the other hand, the merger could lead to diseconomies of scale and a subsequent reduction in efficiency. Weaker answers however lost focus on the question and discussed the benefits or disbenefits to the firms themselves, such as higher profits, rather than the effects on the consumers and workers cited in the question.

Section B

Question 2

(a) Most candidates were able to identify two primary sector industries, such as mining and agriculture. It is important to note that paired answers such as copper and coal, or wheat and cotton, could only be rewarded once. This is because copper and coal are both part of the mining sector, whilst wheat and cotton are both part of the agricultural sector.

(b) There were good answers to this question that concentrated on two causes of rising GDP, such as increased consumption, investment or government spending (C+I+G) but a substantial number of candidates misinterpreted the question. These candidates read the question as 'consequences' rather than 'causes' of rising GDP, thus incorrectly identifying higher standards of living or lower unemployment as causes.

(c) The best answers to this question focused on increase in demand and reduction in supply for houses and were therefore able to analyse in a clear and straightforward manner. A large number of candidates however, ignored demand and supply altogether, and their responses were subsequently much more vague and they were unable to answer the question satisfactorily.

(d) The following answer is a strong Level 3 response because it develops the discussion on both sides of the question. There is good use of economic concepts, with clear and logical analysis throughout. Most importantly, the candidate bases a clear structure on the question asked and concludes each section by focusing the evaluation on economic development, as required by the question.

Increased government spending on education will lead to economic development because government spending increases total demand. This leads to more economic growth, which leads to development. Moreover, having more/better education systems allows for more people to be employable and have more skilled jobs. This increases the individual's income, which increases their purchasing power. This means that they will be able to afford a higher standard of living, leading to more economic development. Furthermore, an increase in government spending on education will lead to individuals becoming more skilled, and moving out of the primary sector and into the tertiary sector. This change in economic sector industries will lead to economic development.

On the other hand, government spending on education will not lead to economic development because the government spending has an opportunity cost. This means that the government may now not be able to spend on investing in infrastructure, which limits economic development. Lastly, an increase in government spending on education may raise total demand, leading to demand-pull inflation. This would mean that the general price levels would increase, and so purchasing power will decrease too. This increases poverty, reduces living standards, and limits economic development.

Question 3

(a) There was a clear divide here between those candidates who had a good understanding of what fiscal policy means and those who were confused by the concept. The two main fiscal policy measures are government spending and taxation, although answers that referenced expansionary or contractionary measures were also acceptable here. The main weakness in answers was to confuse fiscal policy with monetary policy, especially interest rates.

(b) This question attracted a variety of responses, but the better answers focused on ideas that were linked to worker motivation and the quality of the factors of production. The question asks for two influences to be explained but some candidates either identified influences but did not explain them or only covered one point, limiting their potential marks to two rather than the maximum of four.

(c) Only a minority of candidates concentrated on the specific focus of this question – the importance of central banks for an economy. Many answers focused heavily on identifying and explaining the functions of a central bank but this was not required by the question: it asked instead for an analysis of why these functions are important. The best answers analysed points such as the responsibility for monetary policy and why, for example, that is important for managing inflation.

(d) The following answer is a clear Level 1 answer because, although it is two-sided, there is insufficient depth for the reasoned discussion required by a Level 2 response. The candidate identifies falling GDP as a possible problem of deflation and then identifies falling prices as a potential benefit and so there is a simple attempt at using economic terminology but no more than that.

Deflation can lead to a decrease in GDP which could also be a decrease in investment and an inefficient allocation of resources.

Deflation can also encourage economic growth, decrease prices, therefore increasing housing and general capital.

Question 4

(a) There were large numbers of potential non-wage factors that candidates could identify and most candidates were able to identify two, such as nearness to family and working hours.

(b) Good answers to this question showed both knowledge and understanding of absolute and relative poverty, linking these to loss of income and government support. Most candidates were able to explain how loss of income leads to the inability to provide basic needs and absolute poverty. On the other hand, many candidates were then unable to offer another, separate point or repeated the same point.

(c) Those candidates who divided this question into two parts, analysing occupational and then geographical mobility, tended to provide the best answers. These concepts were well-explained with links to family ties being the most popular for geographical mobility and the development of skills for occupational mobility. Use of economic concepts lead to a better answer but, on the other hand, many candidates merely discussed why people might want (or not want) to travel to jobs without using economic analysis.

(d) The following is a Level 2 response because it has a reasoned discussion of the benefits and disbenefits of low taxes for an economy. The first side of the answer uses economic concepts in order to draw conclusions but it lacks the depth required for a Level 3 response. The second side is more limited and there is identification rather than analysis for the most part. As was the case with many responses to this question, the candidate does not distinguish between the various types taxes: for example, this answer has an assumption that prices will be lower as a result of lower taxes but does not specify that lower indirect taxation would be required. Candidates who discussed the effects of the different types of tax (income, corporate, indirect, and import taxes) were the ones who tended to produce the best answers to this question.

Low taxes may be beneficial for an economy as there would be more consumption because products' prices are lower and people would have more disposable income, as not so much goes towards other taxes. Besides, new businesses would be easier to set up as everything would cost less. Low taxes may also produce more employment as it is less expensive to hire.

However, it may not be efficient as the government would have less revenue and there would be a lot of opportunity costs. Besides, it could lead to inflation as there would be a lot of demand and consumption.

Question 5

(a) Not all candidates appeared to understand the concept of the formal economy, with some confusing it with the informal economy. Most candidates were able to identify reasons for working in the formal economy however, with the most popular answers being higher incomes and the availability of government protection.

(b) This question did not require candidates to focus their attention on population size but many thought that this was the purpose of the question. As a result, they were very limited in both their accuracy and explanations, with speculation about the availability birth control being a common misunderstanding. Better answers focused on the benefits of growth and the impacts on incomes, job opportunities, output of goods and services, total demand and inflation.

(c) This question was not well-answered on the whole and many candidates demonstrated a lack of understanding of market failure as an economic concept, often confusing it with business failure (e.g. firms becoming bankrupt). Market failure occurs when there is an inefficient allocation of resources in a market but it was rare to see this explained in answers.

Regulation is only one part of government intervention and specifically relates to laws and rules that governments can impose to reduce consumption of demerit goods or encourage consumption of merit goods. There were large numbers of answers however, where the candidate focused on the imposition of taxes and subsidies. These answers could not be rewarded however, because taxes and subsidies are not rules or laws that address market failures. Good answers gave examples, such as laws banning smoking, to reduce the consumption of demerit goods or maximum price laws that prevent the abuse of monopoly powers by firms.

(d) The following response is a reasoned discussion that examines both sides of the economic argument. It makes good use of economic analysis, especially for the first part of the answer, where it is strong. The second side of the discussion is more limited however, with vague assertions about standardisation and demand for foreign goods that do not really contribute to the discussion, and therefore it is categorised as a lower Level 3 response.

An increase in the number of firms may benefit an economy for various reasons. For instance, since there would be more competition among firms and firms tend to profit maximise. They may aim to produce the best quality for the lowest price. Lower prices would allow more consumers to afford more goods and services, increasing consumption, which increases total demand, which may increase economic growth. Also as there might be more demand for labour, wages may increase in order for firms to attract more workers and unemployment would decrease. Since wages may be higher, workers may feel more motivated, increasing their productivity and thus output of firm. Possibly causing economic growth. Furthermore, more firms may mean more tax revenue for the government. Allowing them to increase their spending on education and healthcare possibly increasing living standards.

On the other hand, an increase in the number of firms may not benefit an economy for other reasons. For example, since firms may want to lower their cost of production as much as possible, they may begin to standardise their products. Which may lead to less variety or innovation for consumers, possible encouraging them to begin to demand more foreign goods. Increasing imports and thus worsening current account position. Additionally, more firms may lead to increased pollution, causing health issues to people. Possibly decreasing life expectancy and productivity, decreasing economic growth.

ECONOMICS

Paper 0455/22
Structured Questions

Key messages

- In ***Section A*** the instruction above **Question 1** informs candidates that they should read carefully the source material provided and refer to it in their answers. Stronger responses did this, correctly identifying relevant material in the extract and using their knowledge and understanding and analytical skills as appropriate to good effect in answering the questions. Weaker responses either made limited use of the source material or made use of knowledge and information not provided in the extract.
- In analysis and discussion questions candidates will perform better and be more likely to provide the depth of analysis and evaluation to achieve marks at the top of Level 2 and into the Level 3 band if they build up their arguments in stages with clear logical chains of reasoning rather than jumping stages. For example, when discussing whether a high savings rate will benefit Japan a strong answer will not simply state that higher savins may keep inflation low, but rather explain that high savings mean that consumer spending will not be high which will reduce total demand in the economy leading to a fall in demand-pull inflation.

General comments

Most candidates managed to answer the required three optional questions. There was a relatively even spread across the optional questions although **Question 3** was slightly less popular than the other three.

There were some candidates who provided excellent answers to all sections of the question paper. These responses were well organised demonstrating sound knowledge and understanding of relevant economic terminology, concepts and principles which were effectively applied in the context of the question.

Comments on specific questions

Section A

Question 1

(a) Most candidates answered this question correctly. A minority omitted the per cent sign.

(b) Most candidates correctly identified two reasons with the fact that Japan had a low birth rate and high life expectancy being the most common reasons identified.

(c) Most candidates identified the fact that some young Japanese people emigrated to gain higher wages, but not all went on to explain that this would enable them to enjoy higher living standards/greater purchasing power.

(d) Responses here were mixed. Many candidates were able to identify from the text two ways Japan could attract foreign workers (removing the Japanese language test/allow foreign workers to bring their families with them/allow unskilled workers to stay more than five years) but did not go on to explain how these changes might attract more foreign workers. The weakest responses discussed ways that were not mentioned in the text.

(e) Many candidates obtained full marks by providing an accurate diagram with the axes and original demand and supply curves correctly labelled, the correct shift(s) of the demand and/or supply curves and the original and new equilibrium price and quantity. A small number of candidates drew the demand and supply curves the wrong way round.

(f) Responses to this question were mixed. The strongest answers correctly identified and analysed the expected direct relationship providing appropriate supporting together with an explanation and went on to note and explain the exception. Weaker responses either misunderstood the relationship or simply provided a trawl through the data with no attempt at explanation or analysis.

(g) There were some very good answers to this question which developed the comments in the source material and explored other ways in which high rates of saving might impact on Japan. In terms of how Japan might benefit from high savings, most candidates focused on how inflation might be kept low because of low total demand caused by consumer spending not being high and the fact that the balance of payments on current account might improve because of less spending on imports. Other possible benefits mentioned included the fact that high savings could provide banks with funds to lend for investment and would also enable individuals to finance future expenditure or provide for their retirement. On the other side of the argument discussions tended to be briefer, but there were relevant issues raised particularly in relation to the way in which lower total demand might lead to reduced GDP and increased unemployment and that less consumer spending might mean less indirect tax collected with consequent implications for government spending. Weaker responses tended to identify issue but not explain them or were one sided. A minority of candidates provided confused responses which argued that high savings rates would lead to higher consumer spending and higher inflation.

An example of a good answer in which the candidate considered both sides in a clear, concise and coherent manner.

Advantages

Provides capital for investment, leading to long-term growth. Gives households financial security. Helps fund the needs of an ageing population.

Disadvantages

Lower consumer spending reduces aggregate demand and slows short-term growth. Firms may face lower demand for goods and services discouraging investment. In conclusion, high savings can support long-term stability but may limit short-term growth unless savings are effectively invested.

(h) Here the quality of answers varied. There were some strong answers which identified a range of factors which might affect labour mobility in Japan in the future. In looking at why mobility might increase these responses identified possible improvements in education and training and improvements in transport and explained how these factors could improve occupational and geographical mobility of labour. On the other side discussion mainly concentrated on how an ageing population and possible increases in house prices might reduce mobility. Weaker responses tended either to simply identify factors that might influence mobility with no explanation of how mobility might be affected or provided an incorrect explanation of the effect on mobility, e.g. ‘rising house prices will increase geographical mobility’. Some candidates misinterpreted the question and instead of focusing on factors that might affect mobility of labour within Japan in the future discussed factors which might affect migration into and out of Japan, therefore, essentially answering a different question.

An example of a strong answer which considered both sides in a clear and coherent manner.

It might because if the government increases spending on education and training then labour would be able to develop more skills thus making them more occupationally mobile in the future. If the house prices are low, then that would increase labour mobility as the costs of living are low thus making it seem more affordable for labour. However, it might not because as the labour force ages then it might make labour less mobile because they may not be able to work for a long period of time which can reduce labour productivity. If the quality of transport is poor and the prices are high, then that could discourage labour as it may seem uncomfortable and expensive for labour. I think that it might not increase in the future as the mobility of labour is affected by family ties so labour may choose not to be geographically mobile if they want to stay near their friends and family.

Section B

Question 2

(a) Most candidates scored full marks for identifying that market equilibrium occurred at the price and quantity at which the quantity demanded and supplied of a product were equal.

(b) Many responses showed a clear understanding of Production Possibility Curves with some good explanations with improved education and training and the introduction of new advanced technology being the most frequently cited ways an economy could reach a point outside its current PPC. A minority of candidates discussed why an economy might be at a position inside its PPC rather than how it could achieve a point outside it.

(c) Here the strongest responses clearly understood the nature of price elasticity of demand, were able to explain what was meant by the demand for a product being price elastic or inelastic and why this might be the case and went on to explain that if the demand for a firm's product was price elastic reducing the price would increase revenue and if it were inelastic raising the price would increase revenue. However, in some cases definitions were rather vague and imprecise, for example, stating that if demand for a product was price elastic the change in demand would be greater than the change in price rather than the proportionate/per cent change in quantity demanded would be greater than the proportionate/per cent change in price. There were also several weak responses that focused on factors affecting demand with little reference to price elasticity.

(d) Most candidates were able to address both sides of the argument as to whether firms would benefit from their workers undertaking training. What distinguished between the quality of answers was the range of issues explored on each side and the depth of analysis and evaluation.

An example of a Level 2 answer.

Firms benefit from their workers undertaking training as they will gain more skills and knowledge and they can implement the new techniques into the business therefore increased output. If workers get trained, they are less chance of errors therefore firm becomes more productive increasing efficiency. However, training may add costs to the business as they have to pay therefore increasing cost of production lowering their revenue. Also trained workers may leave the firm after being trained therefore the business loses skilled labour force lowering efficiency of the business which may lead to reduced profits. In conclusion firms benefit from their workers undertaking training as production is still being done during training therefore more output leading to increased profits.

Although there are some unsubstantiated statements this is a sound Level 2 response. A range of relevant issues are raised on both sides of the argument concisely with some development. However, more benefits and drawbacks could have been considered. For example, when considering the benefits the impact of workers being able to use advanced machinery and when looking at the possible drawbacks the fact that training might not be appropriate or successful.

Question 3

(a) Many candidates found this question challenging with a variety of incorrect definitions presented. Only the strongest responses explained that Average Cost = Total Cost/Output

(b) There were mixed responses to this question. There were some strong answers which explained that renewable resources may be more expensive which will increase firms' costs of production leading to reduced profits on the one hand and on the other that use of renewable resources might improve the image of a firm increasing sales and profits. Weaker responses simply stated that renewable resources were cheaper or that profits would rise or fall without explaining why.

(c) Candidates generally performed well on this question. Many were able to identify and explain a number of internal economies of scale that the cosmetics firms could experience with purchasing, managerial, technical and financial being the most common.

(d) Responses to this question were mixed. The stronger answers were able to address both sides of the argument. When looking at why perfume should be taxed at a higher rate than food these answers recognised that perfume could be considered a luxury while food was a necessity and so

higher taxes could be considered more equitable as perfume could still be affordable for those on high incomes and high taxes on food might increase poverty as the poor spend a higher proportion of their income on food. The main argument discussed on the other side was the fact that high taxes on perfume might reduce demand forcing the closure of firms leading to increased unemployment. The strongest answers also considered the importance of the relative price elasticities of demand for perfume and food in determining how much revenue might be obtained from taxing them as well as the fact that some types of food e.g. those with a high sugar content might be considered a demerit good and so high taxes on these products might be beneficial.

An example of a Level 3 response

Perfume should be taxed at a higher rate than food as perfume may be considered a luxury. This means it is likely to be consumed by individuals with a high income and thus is likely to have an inelastic demand. This means the government can maximise tax revenue as an increase in price will have little effect on the change in demand, which helps fund government spending. Moreover, food is a necessity and thus people can not live without. This means if a high tax were placed on food, it would increase its price, and individuals would be unable to afford it. This leads to an increase in the death rate and a lower life expectancy which reduces the standard of living. Additionally, food is a merit good while perfume may be considered a demerit good. This means if a higher tax were placed on food it would result in the underconsumption of food leading to a famine which leads to a loss of output. It would also lead to an overconsumption of perfume leading to an inefficiency in the allocation of resources leading to market failure.

However, perfume should not be taxed higher than food as this would increase costs of production to firms leading to lower profits. This could also cause some firms to lay off workers due to rising production costs which leads to a decrease in GDP. The perfume industry may also be a large exporter and thus imposing a tax will lead to a reduction in net exports leading to a balance deficit.

Question 4

(a) Many candidates were able to identify two policy measures a central bank could use to maintain price stability with control of interest rates and the money supply being the most common responses. A significant number of candidates, however, referred to government policy measures such as fiscal policy.

(b) This question was well answered with most candidates effectively explaining two benefits with increasing incomes enabling individuals to have higher living standards and a high GDP resulting from the maximum use of labour resources being the most common benefits discussed.

(c) Although there were some strong answers analysing how an increase in government spending on building houses could reduce unemployment many candidates found this question challenging. The strong responses provided effective analysis of how increasing spending on housing would directly increase the demand for workers to build the houses, understood the nature of the derived demand for labour and recognised that the increased spending would have knock on effects in reducing unemployment in associated areas such as those supplying building materials and the marketing and sales of houses. These responses also recognised that this government spending would increase total demand in the economy reducing cyclical unemployment and that the increased supply of housing and possibly more affordable housing could improve the geographical mobility of labour, further reducing unemployment. However, there were many weaker responses which tended to be brief which got little further than identifying one or two types of workers associated with the building industry who might see an improvement in their employment prospects.

(d) Candidates generally performed well in this question. Stronger responses provided a sufficient range of ideas and depth of analysis to achieve marks in the Level 3 band. The strongest responses identified the three components of the HDI and went on to show how an increase in economic growth could lead to an increase in GDP/head which would enable individuals to improve their standard of living and spend more on education and healthcare as well as providing governments with higher tax revenue to spend in these areas. On the other side of the argument these responses recognised that higher GDP might be associated with a more uneven distribution of income, lead to high inflation or lead to increased external costs such as pollution which might reduce a nation's HDI index. Weaker responses tended to concentrate on the consequences of increased GDP in general. Whilst some relevant issues were raised these responses lacked clear focus on a nation's HDI.

An example of a strong Level 3 response

An increase in a country's economic growth rate will increase the HDI value as this creates more job opportunities. This leads to a lower rate of unemployment which alleviates poverty and also raises the average incomes of individuals. As a result, GDP per capita increases leading to a higher HDI value. Moreover, an increase in a countries economic growth rate will increase investment into healthcare. This increases the quality of healthcare and lowers its costs. As a result, healthcare becomes more accessible leading to less sick days which means productivity and rises GDP. It also reduces the death rate and increases life expectancy leading to a higher HDI value. Furthermore, an increase in economic growth will increase investment into education leading to a higher quality education. This increases the average years of schooling and also enables individuals to become more skilled leading to a low unemployment rate and a high HDI value.

However, an increase in a country's economic growth rate may not lead to a higher HDI value, as the increase in production may lead to the depletion of scarce resources. This prevents future production from taking place leading to high unemployment which decreases average incomes leading to a lower GDP per capita and thus a lower HDI value. Additionally, an increase in production may lead to external costs such as pollution. This may lead to problems such as respiratory issues which decreases the well being and health of the people. As a result, life expectancy decreases leading to a lower HDI value. A high economic growth rate also leads to higher incomes. This means people have more money to spend on demerit goods which creates negative spillover effects, reducing people's welfare which lowers life expectancy.

Question 5

(a) Most candidates identified two motives with the most common being getting rid of surplus stock and gaining market share.

(b) This was well answered with many strong answers which clearly explained two differences. The most differences given were the fact that monetary policy is implemented by the central bank whereas supply side policies are implemented by the government and that monetary policy focuses on total demand whereas supply side policy focuses on total supply.

(c) Here again there were some very strong answers which gave accurate coherent analysis of the way a government subsidy could help protect an infant industry These responses clearly explained the nature of a subsidy and the way in which it could enable a firm to expand, achieve economies of scale and lower average costs enabling it to lower prices. They went on to point out that this would make its products more internationally competitive resulting in an increase in the demand for them. Many responses achieved full marks.

(d) Responses here were of mixed quality. A number of candidates made unexplained statements and built their arguments around them. For example, some candidates simply stated that reduced taxes would reduce firms' costs of production, reduce domestic prices and increase exports without explaining why this might be the case. Stronger responses referred explicitly to specific individual taxes, discussing the impact of reductions in each of these on exports and imports. For example, explaining that reduced corporation tax might increase the willingness to invest leading to reductions in costs and prices which might increase exports, that reductions in indirect taxes might reduce domestic prices encouraging consumers to by domestic goods rather than imports and the other side of the argument that reductions in income tax would increase individuals' disposable income which might lead to increased spending on imports.

An example of a Level 3 response

Cut in corporation tax would allow high retained profits to firm and increase funds available. This will encourage higher investment on new technology capital goods making them more productive and will lower cost of production. This will raise their international competitiveness and encourage demand and revenue of exports eliminating any deficit on current account of Balance of Payments. Cut in indirect tax would also lower cost of production as it will reduce prices of raw materials. Increasing international competitiveness of exports and increasing revenue received. However, lower taxes on import tariffs make imported goods cheaper, so increase expenditure on imports, raising the deficit on current a/c. Lower taxes would also lower revenue for Government which may reduce spending on education and training, lowering productivity of workers and raising cost of

production for firms. Making exports less competitive and reducing export revenue. Lower income tax will also increase disposable income of people encouraging higher spending on imports and raising the deficit on current account. Lower income taxes may also increase spending in the economy raising AD, so it may encourage firms to divert goods and services to domestic market, reducing export revenue.

ECONOMICS

Paper 0455/23
Structured Questions

Key messages

It was pleasing to see that once again this year there were a number of excellent scripts. These candidates performed well across all questions, answering them in a logical order. They showed a sound understanding of key concepts and were able to apply them to the specific questions. Answers were well structured and often showed a logical chain of reasoning particularly with **part (d)** questions in ***Section B*.**

However, there was also quite a few weak scripts characterised by a lack of depth in their answers especially in **part (d)** questions in ***Section B***. They did not always answer all the questions and there were quite a few cases where work was crossed out and a new answer written. Often some of their answers did not directly address the question asked. There was also some evidence of poor time management with answers not completed.

In ***Section A***, the stronger answers were based on correctly identifying relevant information in the extract material and then using their knowledge and understanding to provide the analysis and evaluation required to answer the question. Weaker answers were those that selected incorrect information or used information that was not contained in the extract. The instruction above **Question 1** informs candidates that they should refer to the source material in their answers and candidates should therefore always look for the evidence in the extract material before attempting their answer.

General comments

One area of concern was the increase in the number of candidates not attempting to answer one or more of the **part (d)** questions in ***Section B*.** These questions account for more than a quarter of all the marks for the paper. All candidates should be able to at least write a sentence or two which demonstrates knowledge and understanding of the economic concepts and terms linked with the question.

There were three questions where many candidates showed limited or no understanding of a key term. These were 'primary income' in **Question 4(a),** population pyramid in **Question 4 (b)** and import quotas in **Question 4 (d).** This meant that answers were weak.

Comments on specific questions

Section A

Question 1

(a) Nearly all candidates correctly calculated the answer. The data was set out in the Malawi fact file. Fifteen percent of 22 million resulted in 3.3 million or 3,300,000 with access to electricity supply. A few answers left off a nought. Several produced another figure but did not show how they made that calculation.

(b) Most answers correctly identified two capital goods mentioned in the source material. The most common were factories and power stations. Quite a few also mentioned solar panels and fertilisers. The most common error was to identify tea and sugar. However, they are not capital goods but consumer goods. A few candidates identified other capital goods which were not mentioned in the source material and therefore did not get any credit for them.

(c) This question was well answered. A common answer was to state that the PPC moved to the left/inwards because the storm damaged resources. A few drew a leftward shift in the PPC which was acceptable. Sometimes the wrong data was extracted. For example:

'Malawi's production possibility curve (PPC) would have decreased as there was a deficit on the balance of payments.'

(d) The source material provided four reasons for why tea supply may increase – good weather conditions, government subsidies, fall in price of fertiliser and a fall in the exchange rate. Strong answers identified two of these and also explained the impact e.g. lowered cost of production or enabled the yield to rise. A common response for one reason was:

'Government subsidies for tea production would reduce the cost of production leading to an increase in supply of tea.'

Only a few explained that a fall in the exchange rate would lead to higher demand for tea causing price to rise. However, quite a few candidates gave an incorrect explanation based on an argument that the fall in demand for sugar meant that farmers shifted supply to tea. A typical answer was:

'*Sugar and tea are in competitive supply so when demand for sugar fell due to health reports, the producers chose to grow tea instead so supply increased.'*

(e) Most candidates correctly drew and labelled a demand and supply diagram showing a shift to the left of the demand curve giving a lower equilibrium price and quantity. The few errors made were mainly due to shifting the supply curve to the left which meant that both the equilibrium price and quantity were wrong.

(f) Most candidates recognised that there was a positive relationship where a higher GDP per head resulted in a higher percentage of children completing their primary education. Strong answers were able to select data to support this, e.g. comparing two countries such as South Africa and Namibia. These answers also explained that countries with a higher GDP per head could afford better education or conversely that better longer years of education would improve prospects of better jobs which would rise GDP per head. Some candidates identified that there was an exception with Malawi and Uganda. Weak answers were those that often did identify the relationship but then only gave a description of the data for individual countries without reference to them being higher or lower than another country. The weakest answers were those that simply described data without any analysis. For example:

'*It can be seen from South Africa whose GDP per head is $7060 and percentage is 99 per cent.'*

The explanation lacked clarity that South Africa had the highest GDP per head and the highest percentage of children completing primary education.

(g) A high proportion of answers were strong on this question. Many were able to argue that developing solar energy would reduce deforestation and improve air quality improving health for Malawians. Others identified creating jobs, raising the proportion of Malawians having access to renewable energy. Reasons why solar energy should not be developed were often shorter. Common reasons given was the cost of installing creating an opportunity cost for the government e.g. reduced spending on education and the visual pollution of large areas covered in solar panels. Weak answers tended to focus in depth on one or two factors such as the impact on the balance of payments and foreign exchange rate from less imports of fuel and the effect of a higher exchange rate. In doing so they missed the key advantages and disadvantages for the Malawian people.

(h) This question was poorly answered overall. There were three main reasons for this. Firstly, quite a few candidates did not attempt the question at all, although they did well on the paper as a whole. Secondly, quite a few of the answers explained the impact of a falling exchange rate but did not discuss whether or not the government should or should not try to stop it. Thirdly, some candidates wrongly explained the impact as the opposite to what it was. Strong answers stated that it should stop it as it made imports more expensive and if a country relied on importing raw materials it would cause cost push inflation and slow economic growth. They also stated that that the government should not stop it because it led to lower exports prices, a rise in exports (including tourists) and more employment and economic growth. Weak answers often reversed this argument

stating it would lead to lower import prices and higher export prices. A typical succinct and accurate answer was:

'The government should not try to stop its foreign exchange rate falling in value. Allowing it to fall decreases the price of exports. Assuming PED is greater than one, the quantity demanded of exports will rise more than proportionately and the balance of trade will improve. The government should try to stop the foreign exchange rate falling in value as countries like Malawi rely heavily on imports of fuel. If the currency depreciates the price of imports will be more expensive resulting in imported inflation lowering the standard of living for many.'

This was a reasonably good answer as it showed both sound understanding of economic concepts and used information in the extract in the analysis given.

Section B

Question 2

(a) This question required a simple definition that a multinational company operated in more than one country. Other additional information relating to having its headquarters in just one country was also acceptable. However, answers that referred simply to selling goods and services or giving an example of a MNC were not. Most candidates gave at least a partially correct answer that such a company would be found in several countries or globally.

(b) Many candidates were able to identify and explain two reasons. There were many reasons that would be appropriate. Most common were differences in the level of competition and the cost of production in the different countries. The latter also included distance from where goods were produced and differences in any import tariffs. However, some answers lacked a clear explanation or gave an incorrect reason. For example, the level of inflation or changes in exchange rates would not in themselves cause difference in prices.

(c) Opportunity cost was understood by most candidates, with many giving a correct definition. However, many of the answers given tended to write about a choice being made by consumers, workers and producers but did not explain why a choice had to be made. For example, a typical response was that a consumer could choose between buying a radio or an iPad; but did not state that the choice had to be made as income was limited and the consumer could not afford both. Similarly, the limitation for workers was the time available and for producers it was limited resources. The weakest answers were unclear what opportunity cost meant.

(d) There were some strong answers on how consumers would benefit from an increase in the number of small firms in an industry. Typical benefits explained were greater competition led to lower prices and better quality as well as innovation and a greater range of products to choose from. Reasons why consumers would not benefit were less developed. The most common answer was that firms were too small to benefit from economies of scale, and too many small firms would make it more difficult for consumers to choose a product. Weaker answers were those with fewer identified benefits and less depth. The following answer gave some sound analysis on both sides but lacked evaluation:

'Consumers would benefit from an increase in the number of small firms as they would enjoy a larger variety of products and more choices. More competition between firms may also encourage innovation and productive efficiency. Firms aim to operate as efficiently as possible in order to lower costs and attract consumers with lower prices and maximise profits. Consumers benefit from the lower prices and higher quality.

However, consumers may also not benefit from an increase in the number of small firms as small firms typically do not produce large enough outputs to take advantage of economies of scale. Because of this, prices may not be as low as compared to larger firms. Small firms may also not have the funding to invest in capital or research and development thus limiting ability to improve quality. Consumers may also waste time searching for products if there are a lot of small firms to choose from.'

Question 3

(a) This question was poorly answered by many candidates. The typical answer given was to state characteristics of a central bank and simply add that it did not apply to a commercial bank e.g. a central bank operates monetary policy, a commercial bank does not. A correct answer would have been to state that a central bank manages the foreign exchange rate whereas a commercial bank buys and sell foreign currency for households and firms. A typical correct statement was:

'Central banks control the inflation rate while commercial banks commonly lend money to households which central banks do not.'

(b) Quite a few candidates mistook the question and wrote about the functions of money. The question was about identifying a characteristic of money with some development of that characteristic or explaining how it enabled it to function as money. For example, one characteristic of money would be that it is durable. The development would be that it lasts for some time which allowed it to function as a store of wealth. Weak answers were simply those that wrote about a function of money.

(c) Most candidates were able to analyse at least two services provided by commercial banks to households. Many stated that households could save with a bank for a reason e.g. buy a house and earn interest and also borrow from the bank e.g. for a car and repay with interest. Other services mentioned included financial advice, insurance and make and receive payments. There were few weak answers. These tended to analyse only one service or identified several services without any development.

(d) The term division of labour was understood by most candidates. However, quite a few wrote about how division of labour benefited firms rather than workers. Stronger answers discussed some of the benefits e.g. better training and qualifications often meant higher income, skills, and confidence in the work they performed. Why they might not benefit was less well developed with discussion usually concentrated upon work could be boring if highly repetitive and that occupational mobility was often more limited. The following is a good example of a candidate who showed evidence of a logical chain of reasoning with a judgement. To limit the length, only the argument for why there may not be a benefit is shown below:

'*It is not a benefit as when a worker specialises in their task, they might get bored of repeatedly doing it and may make mistakes due to being complacent resulting in reduced productivity and therefore less wages. It is also not a benefit as when a worker's skill is highly developed for a particular task, the worker may find it difficult to find other jobs if they lose their current job. They would be occupationally immobile and unemployed, therefore having little income and a decreased standard of living.'*

Question 4

(a) Most candidates did not understand or know of the term primary income. The term only applies to the current account of the balance of payments and refers to where profit, interest, dividends, or wages are earnt abroad. Very few made this clear. Most answers were probably informed guesses e.g. income earnt in the primary sector or the main source of income for a person were common answers.

(b) Quite a few candidates lacked understanding on what was meant by a country's population pyramid. Some thought it related to level of income or sectors in the economy. However, many were able to recognise that birth rate, death rate or gender would influence it. Weaker answers were unable to explain clearly how these factors affected the shape of the pyramid.

(c) There are many potential causes of poverty. It is therefore not surprising that most candidates were able to identify two or three causes. Common causes identified included level of education, unemployment status, old age, and natural disasters. Strong answers also explained the difference between absolute and relative poverty. Weak answers often were those that did not explain clearly enough the link between the cause identified and poverty. A typical answer for one cause of poverty with sufficient development was:

'Poverty could be due to the lack of income to pay for basic essential such as food and water.'

(d) The majority of answers showed an understanding of what was a trade in goods deficit. However, some candidates were confused between quotas and imports. Those that were confused tended to write about how quotas resulted in higher import prices which drove down demand rather than that quotas reduced supply and that this could result in higher prices to restore equilibrium in the market. Generally, most answers were balanced in covering why quotas might or might not improve the balance pf trade figures. A typical weak answer which showed some knowledge and understanding but very limited correct analysis was:

'Import quotas are limited to the weight of goods that can be traded between countries. Imposing quotas on imports would decrease the number of imports. Goods would come in at a slower rate and help reduce the deficit. A country will always seek for higher exports and lower imports.'

Question 5

(a) Nearly all candidates were able to identify at least one cause of an increase in life expectancy. The most popular causes given were better healthcare, better education, better living standards, and higher incomes. A few also wrote about wars ending and an improvement in the environment. Those that did not identify a cause generally missed the point that there had to be a change in the cause. For example, better healthcare would bring about an improvement, but healthcare alone would not.

(b) There was a good understanding of what would attract skilled workers from other countries. Something had to be better than what was available in their home country. Common attractions were higher wages, better working conditions, better fringe benefits e.g. pensions and accommodation. Training, advertising, and reputation were also mentioned. Weaker answers were either those that could only explain one way or were unable to explain how the way identified would attract workers to leave their country. A typical good answer was:

'A firm could provide higher wages for skilled workers as this would increase their purchasing power and their material standard of living. A firm could also provide better working conditions as skilled workers would benefit from less stress and this would improve their non-material standard of living.'

(c) Overall, there was a good understanding of how an increase in consumer spending would increase economic growth. A common chain of reasoning was that an increase in consumer spending would raise total demand leading to higher revenue/profits for firms. This would lead to them increasing output and employing more workers which in turn lead to higher incomes and a further increase in consumption. Other chains of reasoning related to firms investing in capital goods to increase capacity and new firms starting up, both raising GDP. There were few weak answers which often did not get beyond stating that an increase in consumption would raise demand for goods and services and lead to higher employment.

(d) This was an open-ended question. Strong answers examined what factors affected wages in the car industry which could result in an increase or decrease in wages in the future. Acceptable answers could cover firms that manufactured cars as well as those who sold them or provided accessories. Common factors include changing demand for cars, changes in taxation, changes in disposable incomes and concerns for the environment. Other factors related to the labour market e.g. the strength of the trade unions and the supply of labour. Quite a few answers relied heavily on immigration of workers and the skills they might have. Weaker answers were those that were one-sided, gave few relevant factors or were limited in their explanation of how they affect wages in the future. An answer that explained a range of factors that could affect wages and an overall judgement showing evaluation was:

'Wages of workers employed by car firms will increase as cars will be more of a necessity in the future. This is because cars allow people to arrive at their destination in a short time and especially in large countries it would be a necessity. Hence demand is inelastic leading to higher profits as price of cars is increased. Moreover, cars can also be a luxury hence car firms may gain more profits leading to an increase in wages of workers employed by car firms in the future. Other than that, workers in the car industry require high qualifications and skill. Hence this causes a limit to supply increasing the power of trade unions. Expansion of demand for cars could lead to higher demand and therefore wages for car workers.

However, cars may cause external negativities such as air pollution. Governments may increase indirect taxes on car firms reducing demand for cars and hence lower profits. Firms may therefore lower wages in the future to maintain profits. Other than that people may switch to using public transport to reach their destinations instead of using cars. Lower demand for cars and therefore lower profits could lead to lower wages for workers in the car industry. Moreover, if there is an increase in immigrant workers this may lead to lower wages as immigrant workers may accept lower wages. Other than that, technology becomes more advanced in the future the car industry may switch to a capital-intensive method which are more productive requiring with fewer workers and less wages.'